Royal Mail plc

Connecting Customers, Companies and Countries

Annual Report and Financial Statements
2021-22


Royal Mail


GLS.

Introduction

2021-22 has been another challenging year. Despite this, in line with our purpose, we have continued to connect customers, companies and countries. We have also made some strategic progress, however more needs to be done.

We need to accelerate and broaden the transformation of Royal Mail to meet the demands of our customers, deliver financial benefits at a faster pace and support sustainable growth. Given the rapid pace of change in our market, enhancements in technology and the backdrop of economic uncertainty, this is more important than ever. We also need to continue to harness GLS' growth opportunities in a profitable way and ensure that GLS leverages its business model to become more global, digital and diverse.

Demonstrating leadership in our environmental, social and governance (ESG) agenda is also a core priority – not only for our business, but for all our stakeholders. We are continuously reviewing everything we do through this lens, so that we can grow our contribution to society, operate responsibly and provide the sustainable products and services our customers increasingly want.

Contents

Who We Are

We are an international business that provides postal and delivery services across our extensive networks.

Our purpose

To connect customers, companies and countries.

Our values

Our values, which shape our culture, underpin everything we do. We focus on our customers and on providing reliable and convenient value-for-money services. We want our people to be proud to work for our businesses.

Royal Mail

Be positive – about what we can achieve.

Be brilliant – for our customers.

Be part of it – each one of us is responsible.

GLS

Reliability

Security

Transparency

Flexibility

Sustainability

Our ambition

To build a more balanced and diverse parcels-led, international business.

Our business

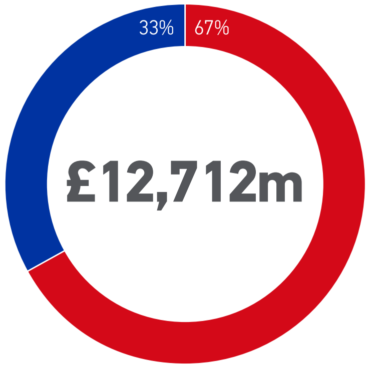
The Group consists of two principal operations. Our UK-based operation, which includes Royal Mail and Parcelforce Worldwide (Royal Mail), and our international operation, General Logistics Systems (GLS).

Where we operate

Royal Mail operates throughout the UK and offers letter and parcel delivery services internationally. GLS has a growing international footprint which currently includes around 40 countries and nation states.

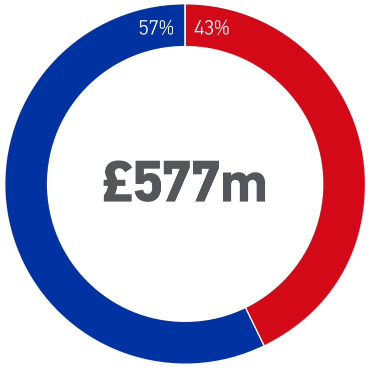
2021-22 Performance Highlights

Group revenue split[1]



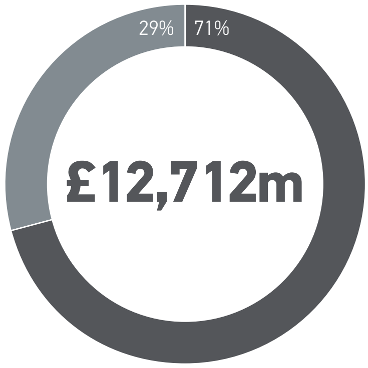
Royal Mail	£8,514m
GLS	£4,219m

Group operating profit split



Royal Mail	£250m
GLS	£327m

Group revenue split (parcels and letters)[2]



Parcels	£8,998m
Letters	£3,714m

1. 2021-22 Group revenue includes £21 million which relates to intragroup trading between Royal Mail and GLS.
2.. Parcel revenue includes GLS freight revenue.

Why Invest

A compelling business combination focused on fulfilling our purpose and long-term value creation.

Two geographically diverse and cash generative businesses

- Extensive market presence spanning around 40 countries and nation states.
- Dual CEO structure ensures greater strategic focus and effective execution.
- Good cash generation to support growth opportunities across both businesses.

Read more about our business model on page 12 and 13.

Well positioned to capture future growth

- Unparalleled capability to deliver to every address in the UK as the sole designated Universal Service Provider[1].
- Strong international network, local expertise and an agile business model.
- Well-recognised brands.

Read more about the trends driving growth in our markets on page 10 and 11.

Continuously evolving

- Transforming Royal Mail into a parcels-led business with increased automation and improved operational efficiency.
- Strengthening GLS' position in cross-border and 2C, securing its leading position in 2B markets and implementing innovative and sustainable solutions centred around customer needs.

Read more about our strategic progress on pages 14 to 23.

Sustainability and responsibility embedded in our strategies

- Offering environmentally sustainable solutions for our customers and playing our part in the transition to a low-carbon future.
- Providing a safe, healthy and fair working environment for our people.
- Operating with integrity and transparency.

Read more about our ESG approach on pages 30 to 45.

Clear capital allocation policy supports shareholder value

Invest in the business	Maintain investment grade credit rating[2]	Pay progressive ordinary dividend	M&A activity	Excess cash returned to shareholders
£2.0bn	**BBB**	**£884m**	**£463m**	**£400m**
over last five years		over last five years	over last five years	over last five years

Read more about our capital allocation policy on page 73.

1. Under the Postal Services Act 2011, 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.
2. S&P rating as at May 2022.

Chair's Statement

Keith Williams
Non-Executive Chair

2021-22 Group Financial Highlights

Revenue[1]

£12,712m

2020-21: £12,638m

Reported operating profit[1]

£577m

2020-21: £611m

Adjusted operating profit[2]

£758m

2020-21: £702m

Adjusted basic earnings per share[2]

60.0p

2020-21: 52.1p

FY dividend

20p

2020-21: 10p

Net debt[2]

£985m

2020-21: £457m

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3. GLS Accelerate free cash flow is calculated as pre-IFRS 16 in-year trading cash flow plus disposal proceeds. Includes four months of Rosenau Transport.

Overview

The past year has presented many challenges as the countries in which we operate emerged from COVID-19 pandemic restrictions and consumer behaviour continued to change. The pandemic has resulted in a step up in the level of parcel volumes compared to pre-pandemic levels. However, some of the tailwinds we experienced last year have subsided, and while we have seen a recovery in letter volumes in Royal Mail, parcel volumes and shifts in mix continue to be volatile.

The Board would like to thank again all of our colleagues across Royal Mail and GLS who have continued to work relentlessly to play a key role and for their unstinting efforts to keep people, businesses and countries connected.

In GLS we saw continued revenue growth, with a recovery in B2B volumes and freight revenues, albeit operating profit was flat in Euro terms, as expected given the absence of certain COVID-related one-off benefits this year and escalating inflationary pressures. At Royal Mail, our primary focus has been to provide our customers with essential services whilst providing a safe environment for our people. Whilst we made good progress in some areas, notably Processing, we need to accelerate the pace of change elsewhere to adapt our business to a post pandemic world, meet the ever-changing demands of our customers, and restore quality.

Inflation rose throughout the second half of the year. Wage inflation in tight labour markets, sharp increases in energy and fuel costs exacerbated by the war in Ukraine and a cost of living squeeze in many countries are resulting in an uncertain outlook for GDP and consumer spending, creating significant headwinds as we enter 2022-23.

Given this environment it is more important than ever that we accelerate the transformation of Royal Mail to improve efficiency and continue to harness GLS' growth opportunities in a profitable way.

Financial performance

Group revenue grew by 0.6%, driven by GLS. Group operating profit was £577 million on a reported basis (2020-21: £611 million). Group adjusted operating profit was £758 million (2020-21: £702 million), driven by improved profitability at Royal Mail. GLS operating profit in Euros was flat year-on-year, although lower in Sterling terms due to adverse foreign exchange movements. Adjusted basic earnings per share was 60.0 pence (2020-21: 52.1 pence).

Strategy

Royal Mail's strategy is focused on transforming the business into a more efficient parcels-focused operation that meets our customers' changing needs. We are making progress in some areas, but more needs to be done in other areas to accelerate the transformation of Royal Mail.

During the year we continued to improve and simplify our customer offering, and launched a number of new products and services. We also retained the top spot for recipient customer net promoter score and have increased the gap between us and our second-place competitor. However, our quality of service was impacted by high levels of COVID-related absence.

"It is more important than ever that we accelerate the transformation of Royal Mail and continue to harness GLS' growth opportunities."

We made progress in our transformation programme, achieving the major milestone of 50% automation in parcel sortation and our first Hub in the North West is about to launch. We also delivered the planned savings in non-people costs. However, delivery of savings from our Pathway to Change agreement was below our initial target, and we will take the learnings from this year into next to improve execution.

We are now at a crossroads. We need to deliver the benefits from change more quickly to deliver sustainable growth. We have made significant operational change already, but this needs to translate into real efficiency savings which deliver a financial benefit next year and beyond. Delivery of our existing agreements and the successful transition into the next agreements, as part of the current negotiations with the CWU, will be key to future profitable growth. We have made a substantial pay offer to our people which will enable the change we need to remain competitive, grow and secure their jobs for the future. Our market is changing quickly, and agility in our response is key.

GLS continued to execute its Accelerate strategy successfully during the year cementing the gains achieved during 2020-21, generating c.€500 million of pre-IFRS 16 free cash flow[3] in the first two years against our target of €1 billion by 2024-25.

GLS further strengthened its international capabilities with the acquisition of Mid-Nite Sun Transportation Ltd (operating as Rosenau Transport), a freight business operating in Western Canada. Rosenau Transport complements our existing business and the combination gives us full national coverage, as well as connecting our US and Canadian networks. GLS will continue to look for selective bolt-on acquisitions to extend its current footprint, enhance its portfolio and exploit network synergies.

There are also signs of positive revenue progress in previously underperforming markets, France and US. However financial results in the US have been impacted by higher unit operational costs and strong inflationary pressures. As with Royal Mail, GLS has more to do particularly to combat competitive and inflationary pressures which we see ahead.

Responsible business

Being a responsible business and operating in a sustainable way is fundamental to our Purpose. This is the right thing to do and demonstrating leadership in our ESG (Environment, Social and Governance) agenda is also essential if we are to achieve competitive advantage, create value and deliver our strategy. During the year we introduced new Group-wide ESG Principles which are aligned with the UN Sustainable Development Goals, and which encapsulate our commitment to operate in a sustainable way.

In addition, Royal Mail has updated its environment strategy to target Net Zero by 2040, and GLS has launched its own strategy, tailored to its business of working with transport partners, to reduce its emissions to zero by 2045. Both plans include switching to renewable electricity, significantly increasing the use of low/zero emission transport vehicles, and offering customers sustainable delivery solutions.

Cash return to shareholders

In line with our capital allocation policy and the decision to reduce the Group's cash holdings, in November 2021, we announced a £400 million return of capital to shareholders, via a share buyback, and the payment of a special dividend. The special dividend was paid alongside the interim dividend in January 2022 and the share buyback completed in March 2022.

As announced in November 2021, provided our economic, commercial and industrial relations environment remains stable, over the next two years we would look to return to our historic position of a broadly net nil cash position (pre-IFRS 16). We will however keep this under review, taking into account any capital requirements for M&A.

Ordinary dividend

The Board is proposing a final dividend of 13.3 pence per share. Combined with the interim dividend of 6.7 pence per share paid in January 2022, this gives an ordinary dividend for FY 2021-22 of 20 pence per share, and is in line with our sustainable progressive dividend policy.

Board changes

Shashi Verma joined the Board as a Non-Executive Director on 29 September 2021 and became a member of the Nomination Committee and the ESG Committee at the same time. As announced on 1 February 2022, Rita Griffin will step down from the Board at the end of our forthcoming AGM. Rita, who has been a Non-Executive Director since December 2016, will also step down as Chair of the ESG Committee and a member of the Nomination Committee at the same time. On behalf of the Board, I would like to thank Rita for her valued contribution and wish her well for the future.

Lynne Peacock joined the ESG Committee on 1 February 2022. She will succeed Rita as Chair of the ESG Committee at the conclusion of our AGM and at the same time step down as Chair of the Remuneration Committee. Maria da Cunha, who is an existing member of the Remuneration Committee, will take over from Lynne Peacock as Chair of this Committee. Maria will continue in her role as Designated Non-Executive Director for engagement with the workforce.

Outlook

Our detailed Outlook statement is included on pages 74 and 75.

Keith Williams
Non-Executive Chair
18 May 2022

CEO Royal Mail Operating Review

Simon Thompson
CEO Royal Mail

2021-22 Performance Highlights

Revenue[1]

£8,514m

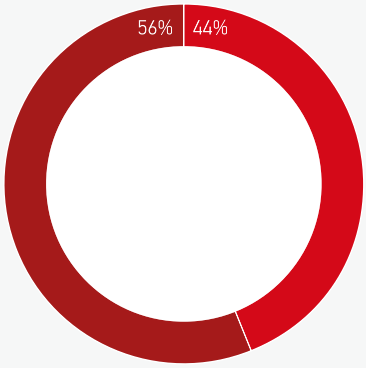
2020-21: £8,649m

Adjusted operating profit[2]

£416m

2020-21: £344m

Royal Mail parcel/letter revenue split %



2020-21 split: 59%/41%

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Overview

We are focused on transforming Royal Mail into a more efficient parcels-focused business to reflect the changing needs of our customers. We will continue to own trust at the doorstep, compete on quality and cost whilst differentiating with our people and our low CO_2/parcel. Whilst 2021-22 presented operational challenges, with Omicron and elevated levels of absence, we continued to benefit from pandemic tailwinds, which are now dissipating. During the year, we made progress on many of the six priorities we set ourselves. We have made many changes to our management capability and structures. We are laying the ground for the future of Royal Mail's network with our new state of the art North West hub, which will launch in June 2022, and with our strategy to be Net Zero by 2040.

However, whilst we delivered benefits from Pathway to Change in Processing, overall we did not make sufficient progress with our change programme. Performance in Delivery was disappointing. With growing inflationary pressures and a deteriorating macro-economic outlook, we must change how we work today, accelerate the pace of delivery and make sure we reflect the needs of the customers and align our workload with our labour.

We continue to work with Unite/CMA through our joint transformation agreement as we implement structural change. Whilst there was a recent threat of industrial action both parties in mid-May have reached agreement on some key principles and an agreed way forward.

We have entered into pay discussions with CWU, and as part of these we have been informed CWU are making preparations for possible ballots for industrial action. This does not necessarily mean there will be industrial action. We want to reach agreement with CWU, but industrial action, or the threat of it, is damaging for our business and undermines the trust of our customers. It also makes delivery of our change programme more difficult and puts at risk our targets for 2022-23.

We remain committed to working closely with both our unions to deliver the change we need to grow our business sustainably, and ensure long-term job security for our great team.

Operating Review

In 2021-22 Royal Mail revenue decreased 1.6% to £8,514 million. This was driven by a 6.5% decline in parcel revenue as a result of the strong comparative period which included several months of national and local lockdowns. This was partially offset by a 5.6% increase in letter revenue which had declined sharply during the pandemic. Revenue from parcels accounted for 56% of total Royal Mail revenue (2020-21: 59%). Adjusted operating profit was £416 million (2020-21: £344 million). Adjusted operating profit margin[2] was 4.9%, up 90 basis points.

In-year trading cash inflow[2] pre-IFRS 16 decreased by £164 million to £178 million. Gross capital expenditure increased by £231 million to £441 million largely driven by investment in our two new parcel hubs, increased parcel automation across our network, vehicles, including electric vehicles, and PDAs to support our frontline colleagues. Further detail is included in the Financial Review.

Parcels

Domestic parcel volumes (ex. international) decreased by 7% reflecting the lower levels of lockdown restrictions compared to the prior year. Domestic parcel revenue (ex. international) decreased by 2.4%, reflecting positive product/channel mix. Domestic parcel volumes (ex. international) increased by 31% compared to pre-pandemic levels, reinforcing our view that the pandemic has resulted in a step up in domestic parcel volumes driven by increased e-commerce activity. Volumes for our premium products, Tracked 24® / 48® and Tracked Returns®, continued to grow by 17% in 2021-22 (2020-21: 79%). Excluding the effect of test kits, Tracked 24® / 48® and Tracked Returns®, volume growth was flat (2020-21: 74% growth).

Royal Mail continued to support the Government's COVID-19 testing programme. We expanded capacity and prioritised delivery and collection of test kits in response to increased demand around Christmas due to Omicron. Over the year, test kits accounted for around 7% of total parcel volume. Q4 2021-22 saw the highest quarterly volume of tests kits; however there was a significant step down in the final weeks of the year, as expected, following the announcement of the withdrawal of free testing in England from 1 April 2022.

We believe that in 2021-22 we grew our revenue share of the domestic parcels market, based on our internal models.

International parcel volumes, including import and export parcels for Royal Mail and Parcelforce Worldwide, were down 42% year-on-year, impacted by increased customs processing requirements into the EU, reduced air freight capacity and persistently higher conveyance costs compared to pre-pandemic. International parcel revenue decreased 23.3% reflecting management of price and mix – export volumes showed smaller declines than import volumes over the year, and we saw increases in average unit revenue for both import and export parcels.

Letters

Addressed letter volumes (excluding elections) were up 3%, partially recovering the significant decline in the prior year, but were down 18% compared to pre-pandemic, reflecting the continued structural decline in the letters market.

Advertising Mail recovered strongly, with volumes up 30% year-on-year. Business Mail volumes experienced a 1% decline due to continued e-substitution of more transactional mailings and tougher prior year comparators as the year progressed.

Total letter revenue, up 5.6%, benefitted from a positive price mix.

Supporting the COVID-19 testing programme

Since April 2020 Royal Mail has been a key partner for the Government's COVID-19 testing programme and played a crucial role in the movement of test kits. During the year the business serviced up to 1.1 million test kits a day and effectively expanded capacity and prioritised delivery and collection in response to increased demand. As part of this programme, Royal Mail has operated a unique network of 35,000 priority postboxes for the rapid return of test kits to laboratories.

Costs

Total adjusted operating costs decreased 2.5% to £8,098 million (2020-21: £8,305 million).

Adjusted people costs were down 0.6%. The management restructure programme, which led to a £93 million one off restructuring charge in 2020-21, delivered a sustainable £115 million benefit year-on-year, as expected. The Pathway to Change agreement enabled us to implement the largest amount of change to our operation in a single year, with 87% of planned activities completed and around 1,800 revisions implemented (including 1,270 in Delivery). However, we delivered savings of £59 million, at the lower end of our revised guidance range and below our initial target of over £100 million. Whilst performance in our processing sites was good, in our delivery units performance was disappointing. We must do better. Going forward, the learnings – which include ensuring operational stability before implementing change, that we have the right leadership which involves our postmen and women, and that everyone is committed to making it work – will enable us to improve implementation in the future. We are committed to making up the shortfall in our performance in 2022-23.

COVID-19 people costs were down £18 million, a lower reduction than we had originally envisaged, due to an extended period of social distancing requirements and absence rates remaining elevated for longer than expected. The overall level of absence was 8.0% in 2021-22 (2020-21: 8.5%), and a peak of 12.1% on 5 January 2022 driven by the Omicron wave (2020-21 peak absence of 18.9%). This compares to pre-pandemic levels of 5-6%. This had a significant impact on our quality of service.

Pay costs increased by £122 million driven largely by the 1% pay award for frontline staff, costs for the 1-hour reduction associated with the shorter working week, along with costs related to working time regulation holiday pay and managerial pay awards.

Productivity in the year was down 0.2% year-on-year as the business was slower to take out costs in Delivery due to lower-than-expected volumes following a faster-than-expected reopening of the UK High Street and lower than anticipated benefits from Pathway to Change.

In January 2022 we announced a further restructuring programme to streamline operational management and improve focus on performance at a local level. This resulted in a one-off voluntary redundancy charge of £70 million in the fourth quarter. This programme is expected to deliver annualised benefits of £40 million, with £30 million in 2022-23.

Non-people costs decreased 6.4%. Our £200 million two-year non-people cost saving plan was delivered, with £112 million achieved in 2021-22. Distribution and conveyance costs decreased as a result of lower terminal dues. However, there were increased costs of vehicle hires and fuel as part of maintaining social distancing measures. Infrastructure costs decreased driven by lower depreciation and amortisation. Other operating costs decreased due to a reduction in COVID-19 related costs by £35 million and volume related savings.

Simon Thompson
CEO Royal Mail
18 May 2022

CEO GLS Operating Review

Martin Seidenberg
CEO GLS

2021-22 Financial Highlights

Revenue[1]

£4,219m

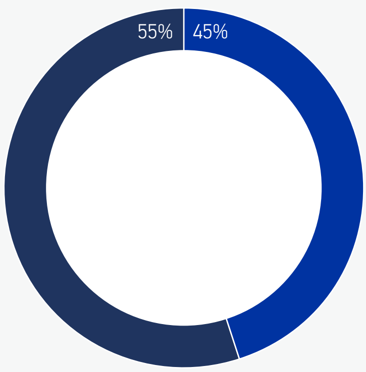
2020-21: £4,040m

Adjusted operating profit[2]

£342m

2020-21: £358m

GLS B2C/B2B volume split %



2020-21 split: **57%/43%**

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Overview

The demand for parcel services continued to grow in 2021-22, with the structural shift in demand for B2C services brought about by a change in consumer behaviour accelerated by the COVID-19 pandemic being confirmed. GLS continued to take advantage of these trends, although due to a recovery in B2B volumes during the year, the share of B2C volumes (55%) was marginally lower compared with the unusually high level of the prior year (57%). Nevertheless, this was still significantly higher than the pre-pandemic B2C share of 48% in 2019-20. We are continuing to pursue our Accelerate strategy, also targeting the B2C segment and further building on our already strong presence in the International and B2B segments. The war in Ukraine has brought about some short-term uncertainty. However, assuming there is an economic rebound in 2023-24, delivery of the Accelerate operating profit of €500 million in 2024-5 and €1 billion cumulative pre-IFRS 16 free cash flow[3] (over the five-year period from 2020-21 to 2024-25) can still be achieved.

Operating Review

GLS performed well during the year with revenue growth of 4.4% to £4,219 million, driven by a combination of higher volumes, better pricing and the contribution from the Rosenau Transport business acquired in Canada. Adjusted operating margin declined by 80 basis points. Operating margin in the prior year benefited from some temporary positive effects related to the COVID-19 pandemic. During the year, the impact of foreign exchange movements adversely impacted revenue by £207 million and favourably impacted costs by £191 million, resulting in a reduction in operating profit of £16 million.

We continue to invest in growth, with capital expenditure of £162 million (2020-21: £136 million). In-year trading cash flow remained strong, at £239 million, compared with £330 million in the prior period. Further detail is included in the Financial Review.

Market performance

Similar to Royal Mail, there has been a structural shift in consumer behaviour driven by the COVID-19 pandemic, with parcel volume growth of 30% compared to pre-pandemic levels in 2019-20, and revenue growth of 33.5% (37.2% in Euro terms, of which 35.0% is organic) compared to the same period.

We saw revenue growth in almost all markets, driven by volume and price/mix, but with inflationary cost pressures which resulted in a decline in margin. GLS adjusted operating profit margin was 8.1% compared to 8.9% in the prior period, in line with expectations and reflecting temporary positive effects in the prior year which benefited margins, such as scale effects and pricing initiatives in certain markets.

Performance in our key markets is highlighted below, with revenue growth and cost development detailed in Euro terms.

Germany revenues grew by 8.1% driven by a combination of volume growth and better pricing, but due to inflationary impact on costs, operating profit year-on-year was lower. In Italy revenues grew by 8.8%, benefitting from a recovery in B2B volumes and better pricing, and with the resulting operating profit ahead of the prior year.

"We are committed to maximising GLS' potential and we are already delivering the benefits of our 'Accelerate GLS' growth strategy."

We are pleased with our performance in France where revenues grew by 8.8%, driven by a recovery in B2B volumes and building on customer wins achieved during the COVID-19 pandemic. Operating losses narrowed further during 2021-22 in France, building on the strong improvement delivered in the prior year, which showed a significant reduction in losses compared with 2019-20.

Spain continued to perform well, with revenue growth of 7.7%. Operating profit was slightly below the prior year, with some margin compression resulting from higher operational costs.

The US reported revenue growth of 11.1%, driven by higher B2C volumes and increasing freight revenues. However, higher unit operational costs, driven by a shortage of drivers, which impacted final mile and line-haul costs, and strong inflationary pressures impacting the general cost base, resulted in a deterioration in profit versus the prior year and an overall loss. Measures focussing on improving unit costs and increasing the scale and quality of revenues are underway.

Organic revenue growth in Canada was 16.7%, benefitting from good growth in parcel volumes and a recovery in freight revenues, as well as improved pricing. The business continues to perform well, delivering margins above the group average. The acquisition of Rosenau Transport which was completed on 1 December 2021 is performing in line with expectations. Initiatives to integrate Rosenau Transport with the pre-existing business in Canada to secure synergies are underway.

In our businesses in Eastern Europe we saw continued strong growth in revenues driven by higher B2C volumes, with particularly good performance in Hungary, Czech Republic and Croatia.

Martin Seidenberg
CEO GLS
18 May 2022

Enhancing operational efficiency

GLS is making active use of technology to improve operations. In Germany, proactive performance management in the last mile is enabled through a dispatch app making it easier for dispatchers to track performance metrics and take quick and necessary actions. Additionally, a digital tool for depot yard management, a line haul app for drivers, GPS tracking and a transport partner portal for easier communication have been introduced for better visibility and increased efficiency.

Our Marketplace

A number of trends have been driving structural change within our letters and parcel markets. Since the pandemic parcel volume has increased while letter volume has declined. In addition, customer demand for convenient and sustainable services has continued to grow.

Key trends driving structural change

Trend | **Our response**

Digitalisation

E-commerce penetration continues to grow as retail stores invest in digital platforms over physical presence. As businesses increasingly rely on digital forms of advertising and customer communications, UK letter volume decline continues.

57%
growth in UK e-commerce sales 2019-2021[1].

43%
of UK retail sales (excl. food & fuel) now digital[1].

As the UK's sole Universal Service Provider, we are well placed to capitalise on technological advancements in our market. We are investing in data and technology to maximise the parcel market growth opportunity including increasing automation across our businesses, developing innovative customer apps and enhancing our logistical and customs procedures to ease international shipping.

Letter delivery will continue to be an important part of Royal Mail's offering. We have launched unique barcoded stamps which will enable the introduction of added security features and pave the way for innovative services for our customers.

Read more on pages 14 to 23.

Savvy customers

Customers want fast and convenient delivery and pick-up as well as great quality of service, all at an affordable price.

87%
of UK customers prefer home delivery[2].

44%
of e-shoppers in Denmark prefer to use either a parcel shop or locker[3].

At Royal Mail, improving and simplifying our customer offering is a strategic priority. We now have three product ranges to make it easier for customers to choose the products that best meet their needs. We are also continuing to enhance our same-day, next-day and Sunday delivery services through improved products and features, and making our doorstep parcel collection service, Parcel Collect, more accessible and convenient. The Royal Mail App has also been relaunched to make it simpler and more intuitive.

At GLS, we are introducing more customer service points and expanding our parcel locker footprint.

In response to growing demand for consistent high-quality service, we are enhancing our tracking services across both businesses, including more accurate delivery slots and in-flight delivery options through a simple text message or email.

Sustainability

People of all ages are now seeking to engage with responsible businesses who provide more sustainable products and services.

70%
UK consumers would prefer a carbon-free delivery over a traditional delivery[4].

Recognising the impact our operations have on society and the continuing growth in demand for sustainable products and services provided by trusted and responsible businesses, we are increasing our focus on sustainability. During the year the Board approved new Group ESG Principles (see page 28) and Royal Mail and GLS both updated their environmental strategies, including setting new ambitions to reduce GHG emissions to zero by 2045. (see pages 32 and 33).

As a large-scale employer in the UK and Europe, we play an essential role in the communities where we operate, providing a safe, fair and equal opportunity environment to our people.

Read more on pages 30 to 45.

Other factors affecting the Group
In the UK, Ofcom regulates Royal Mail's Universal Service obligations and is currently undertaking a review of the existing framework. Further information about this review and our response is included on page 90. In addition, there is extensive trade union membership across our UK workforce, and it is important that we work closely with our unions, CWU and Unite/CMA. Further information is included on page 19.

The Group is exposed to an anticipated fiscal tightening across operating countries via possible changes to business rates, employment taxes, minimum wage legislation, tax policies including subcontractors and a potential online UK sales tax.

1. Office for National Statistics Retail Sales, 2019-2021.
2. IMRG Consumer Home Delivery Review, 2021.
3. PostNord E-commerce in Europe, 2020.
4. IMRG Consumer Home Delivery Review, 2021.
5. Based on competitors' 2020 and 2021 published reports.

In response, we are focused on building a parcels-led sustainable business that meets customers' needs.

Expanding GLS' PUDO network

In response to increased customer demand, GLS is continuing to invest in its pick-up and drop-off (PUDO) network of parcel shops and parcel lockers. Its extensive omni-channel mix of last mile delivery solutions covers most of Europe including Spain, the Netherlands, Belgium, Germany, Austria, Denmark, Hungary and Poland. In the coming year, new parcel shops and parcel lockers will be added to GLS' European network.

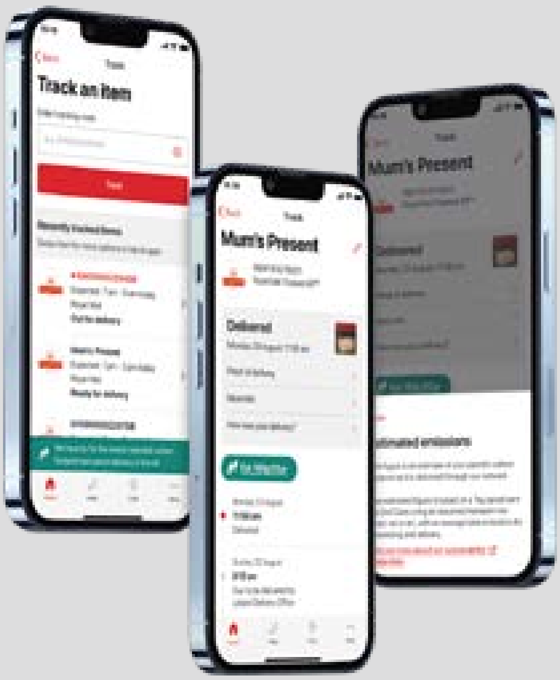
Offering sustainable services

With its unparalleled network of over 90,000 postmen and women and the largest electric fleet of around 1,600 vehicles across UK delivery companies, Royal Mail offers customers the lowest reported emission delivery option of any major UK parcel operator[5], with CO_2e per parcel averaging 205 grams(g) compared with the reported emissions of industry competitors between c.300-500g per parcel. We have set ourselves a stretching long-term ambition to reduce our emissions to 50g per parcel.

Launching innovative apps

In January 2022, the Royal Mail App was upgraded to include a number of new and improved features, including options to change delivery details while parcels are in transit, the ability to buy postage online and access information about the environmental impact of the item being delivered. Using the app customers can also contact dedicated customer experience agents. The Royal Mail App has been downloaded by millions of users and has had an iOS rating of 4.7 on the App Store and a top three ranking within the 'Lifestyle' category.

GLS is continuing to launch new apps in various countries, including an app in Denmark with live tracking. It was instantly number 1 in the App Store's 'Lifestyle' category and downloads reached half a million within a few months. In Spain, the consignee app was upgraded to incorporate a number of new features, including a more convenient returns service and information about emission-free deliveries.



Our Business Model

How we create value

Customer centricity

We provide reliable, convenient and value-for-money services that customers want. See pages 15 to 17.

Transformation

In response to structural market changes, we are building a more balanced, international, parcels-led Group.

Underpinned by

Our people

Our people play a key role in our business. Fostering a fair, rewarding and values-based culture and rebuilding trust with our people and unions is essential to transforming our business.

Our brands

Royal Mail and GLS are strong and renowned brands.

Sustainability and responsibility are embedded in how we operate

We seek to operate in a sustainable and responsible way. See pages 30 to 45. Our stakeholders are integral to our success and we engage with them to understand their issues and concerns. See pages 26 to 29.

Value delivered

Our customers

We connect customers, companies and countries.

c.31m
UK addresses

>240,000
European customers

Our people

We offer secure, fairly-paid employment with long-term prospects and career development.

1 in 175 people
employed by Royal Mail in the UK[1]

1. The Centre for Economics and Business Research (Cebr) research, conducted for Royal Mail in 2022, comprising direct and indirect contributions.

Growth

We are harnessing market trends to capture growth opportunities. See pages 10 and 11.

Quality of Service

We invest to improve service levels and maintain customer trust.

Our extensive network

Royal Mail has an unparalleled network, including c.1,200 customer service points able to deliver to every address in the UK six days a week. GLS is one of the largest ground-based deferred parcel operators in Europe. With over 1,600 depots, it has a growing presence in North America and a wide network of partners across the world.

Our financial position

Our strong balance sheet, good cash generation and clear capital allocation policy enable us to invest in our business to transform and grow in sustainable ways.

Our technology

We provide a range of convenient delivery, tracking and redirection options through our apps. Automation levels across Royal Mail are increasing. Parcel automation is now at 50%, up from 12% in 2018-19. GLS' automated operations contribute to the efficient and fast processing of parcels.

Effective governance and risk management underpin everything we do

Effective governance contributes to the Group's long-term success while risk management processes and controls protect the value we create. See pages 78 to 141 and pages 52 to 61.

Our suppliers and business partners

We provide employment across our supply chain.

73,000 jobs

indirectly supported by Royal Mail in the wider economy[1]

Our communities and society

We play an essential role in the communities where we operate.

£11.8bn

gross value added by Royal Mail (direct and indirect contribution)[1]

Our shareholders

We generate returns.

20p per share

full year dividend recommended for the year ended 27 March 2022

Our Strategy and Progress

To generate value for stakeholders, we are focused on building a more balanced and diverse parcels-led, international business. Recognising that Royal Mail and GLS have different market positions, strengths and opportunities, we have developed separate strategies to drive sustainable growth in each business and at all times meet changing customer needs.

Royal Mail

Objectives

Improve and simplify our customer offering through great quality of service, and easy to understand and simple to use products.

Rebuild trust through a positive step change in our relationships with our people and our unions.

Grow our business, our share and the market through greater capacity and new innovative products and services.

KPIs

- Group revenue
- Group adjusted operating profit
- Royal Mail adjusted operating profit margin
- Lost time accident frequency rate

Read more on page 24 and 25.

Principal risks

1 2 3 4 5 6 7 8 9 10 11

Read more on pages 56 to 61.

GLS

Objectives

Strengthen GLS' top position in the cross-border deferred parcel segment.

Strongly position GLS in the 2C parcel market, whilst securing its leading position in the 2B segment.

Implement innovative digital and sustainable solutions that are centred around customer needs.

KPIs

- Group revenue
- Group adjusted operating profit
- GLS adjusted operating profit
- GLS Accelerate free cash flow

Read more on page 24 and 25.

Principal risks

1 2 3 4 5 6 7 8 9 10 11

Read more on pages 56 to 61.

Focus on customer trust and growth

Making our services more convenient

In November 2021, Royal Mail enhanced its popular Parcel Collect service with posties delivering pre-printed postage labels to customers who need them. This makes Parcel Collect even more convenient and accessible, and supports customers without a printer. Since its launch in October 2020, the service has gained momentum and has processed over five million parcels.

Our Strategy and Progress continued

Our mission is to own trust at the doorstep.
We believe that trust in our people, our brand, and our nationwide hyper-local network is a platform for profitable growth. We are focused on transforming our network as quickly as possible to ensure we are operating efficiently and profitably, to make the most of the opportunity we have in front of us. At the same time as improving our efficiency, we are becoming a more agile, customer-focused business. We will compete on quality and cost, win with people and CO_2, and once we have transformed and completed our new pay deal with the union, our ambition over the medium term is to deliver a sustainable 5%+ adjusted operating profit margin.

Performance in 2021-22 has highlighted the need for more wide-ranging change and to accelerate the pace of our transformation to adapt our business to a post pandemic world and deliver significant benefits to all our stakeholders. Our change agenda is now even more urgent and important than it was a year ago – this forms the basis of our pay discussions with CWU and we want to work together to deliver this change which will secure growth and jobs for the future.

Our strategy has three key pillars:

- **Customer:** Improve and simplify our customer offering through great quality of service and easy to understand and simple to use products.
- **Trust:** Rebuilding trust with our people and unions.
- **Growth:** Grow our business, our share, and the market through greater capacity and new innovative products and services.

Productivity is also important and our "ticket to play", delivering the change that we need such as our new parcel delivery model and increasing our parcel automation, so we can compete on cost and quality.

Progress against strategic priorities this year
In May 2021 we outlined the following six strategic priorities for FY 2021-22:

- Achieve our quality of service targets and being number one on NPS (Net Promoter Score).
- Deliver the CWU agreement on time and realise £100+ million benefits.
- Continue to increase our own internal Trust score.
- Rapidly reduce managers' daily activities and policies.
- Achieve 50%+ parcel automation by the end of the financial year.
- Deliver £110 million of non-people cost savings.

Despite the operational challenges of the past year, we have achieved the majority of the targets we set ourselves. Royal Mail is number one in the industry for Net Promoter Scores. Our internal Trust Score has seen a significant increase from 62 to 68 in a year, with participation in the survey growing from 48% to 69%. Through our 'Day in the Life of' programme we have significantly reduced the number of policies for managers and repurposed 1.6 million hours of operational management time from daily administrative tasks, allowing them to focus on their teams and their customers. We reached 50% parcel automation as at end of March 2022, up from 33% a year earlier. And we have delivered £112 million of non-people cost savings, in line with our target of c. £110 million in 2021-22 and £200 million over two years.

I would like to thank our people for their continued hard work and dedication as we reinvent Royal Mail for the next generations. This was never going to be easy, but we can already see the benefits of many of the changes we have made.

However, there is much more to do and there were some areas where our performance last year was not as we would have wished, namely in delivering Pathway to Change efficiencies, and service quality.

Customer
The first pillar of our strategy is all about the Customer: simplifying and improving our customer offering, listening and adapting to what our customers need, and delivering a great service every day.

At the start of the year we set out plans to get back to consistently achieving our regulatory quality of service targets, which had been suspended for part of the pandemic in recognition of the challenges Royal Mail had to face with COVID-related absence, and the introduction of more social distancing across our operation. I am disappointed to say we have not achieved this. COVID-19 had a more prolonged impact on our business than we had expected, with high levels of absence during the 'pingdemic' in July and the rise of Omicron in particular later in the year. Further, we have faced challenges in recruitment due to a buoyant job market as well as coping with the change of traffic mix in our operation, with more parcels and fewer letters versus pre-pandemic.

"We are focused on transforming our network as quickly as possible to ensure we are operating efficiently and profitably, to make the most of the opportunity we have in front of us."

At the peak of Omicron, absence levels were double what we would expect to see at that time of the year pre-pandemic, with over 15,000 people off sick in January 2022. Although we took immediate steps to restore a comprehensive service, which involved recruiting additional temporary staff and establishing a specialised dedicated Delivery task force to provide targeted support to the most impacted offices, our Full Year Quality of Service results were disappointing, at 81.8% for First Class mail and 95.4% for Second Class mail.

We are delivering a good service in most delivery offices, but there are a small number where the quality performance is disproportionately impacting overall numbers. We have over 1,200 delivery offices, and around 4% are responsible for around 23% of delayed items.

The experience of the past 12 months has shown that we need to change our model in Delivery. In recent months, we have reduced the leadership layers from eight to five to push decision making close to the customer so we can act with speed. This has reduced the maximum team size from 56 to 44, with two thirds of delivery offices having average team sizes under 35.

During the year we launched or improved a number of new products and services and scaled some of our existing ones:

- **Parcel Collect:** Demand for our doorstep collection service, Parcel Collect, continues to grow. We have collected around 5 million parcels since its launch in October 2020. During the year we launched enhancements including offering customers pre-printed labels and improving the booking process through the new and improved Royal Mail App to eight steps and less than 60 seconds.
- **Improved Royal Mail App:** On the upgraded app, customers can now easily track, send and collect items, and check the estimated carbon emissions from their deliveries. Products have been categorised into three tiers, making it easier for customers to find the right postage for their needs online. The number of users has grown from 4 million users to nearly 7 million (end of March 2021 to end of March 2022), and with an iOS rating of 4.7 on the app store, it ranked in the top three within the “Lifestyle” category.
- **Sunday services:** Demand from our major commercial retail customers for Sunday deliveries continues to grow. Around 75 of our major commercial retail customers now use this service, including Moonpig and Bloom & Wild, compared to 45 customers in November 2021, with an exit rate in 2021-22 of around 12 million items. We have set out plans to scale up our Sunday services so that all customers – including businesses large and small – can benefit from the e-commerce revolution.
- **Barcoded stamps:** As part of our modernisation drive, we are rolling out unique barcodes on stamps to facilitate operational efficiencies, enable the introduction of added security features and pave the way for innovative services for customers. The new barcoded stamps have a digital twin and the two are connected by the Royal Mail App. Barcoded stamps currently give customers the ability to watch and share exclusive videos by scanning the barcode in the Royal Mail App, and further developments are planned.

Accelerating our sustainability initiatives: We know when speaking with our customers that they are increasingly looking for less environmentally impacting delivery options. Thanks to our ‘feet on the street’ delivery model, powered by over 90,000 postwomen and men, Royal Mail already has the lowest reported CO_2e grams per parcel amongst major UK parcel operators[1]. But there is much more to do and reflecting our sustainability commitment we have set an ambitious target for Royal Mail to reduce average emissions per parcel from 205g CO_2e in 2021-22 to 50g CO_2e on our journey to net zero. We now aim to be a net zero business by 2040, ten years earlier than our previous target date. In the past year we have announced plans to introduce around 3,000 additional electric vans, have introduced low emission gas powered trucks and trialled micro-electric vehicles in our network, and announced that all our employee company cars will be electric by 2030. We are also planning to significantly increase rail transportation and reduce our use of domestic flights to reduce our environmental impact further.

1. Based on competitors’ 2020 and 2021 published reports.

Our Strategy and Progress continued

Changing our culture and working practices

Initiatives to improve working practices are being embedded across Royal Mail. To allow delivery office managers to spend more time with their teams, our 'Day in the Life Of' (DILO) programme is now operating in all delivery offices. To date, this programme has removed significant amounts of reporting requirements and administration, reducing the number of policies from over 200 to 16. 1.6 million hours of managers' time has been repurposed and is now being spent focusing on more effective team management and customer service.

Consumer workshops on the future of post and the Universal Service (USO): We are proud to deliver the Universal Service and remain committed to providing an affordable and sustainable 'one price goes anywhere' service to all households across the UK. But as customer needs change, so must we. The demand for parcels continues to increase, while letter volumes are down by more than 60% since their peak in 2004-05. Given these significant changes we continue to believe the best way to ensure that the Universal Service remains relevant and meets customers' needs is to rebalance more towards parcels. To inform our thinking, we ran a series of 15 consumer roadshows and a series of stakeholder roundtables throughout February and March to explore what people want from postal services in future. This showed that there is support for Royal Mail to deliver parcels seven days and – similarly to Ofcom's User Needs research in 2020 – that a five day a week letter service would meet the needs of most people. It also highlighted the importance of tracking, safeplaces and reducing the need for people to go to a Customer Service Point to pick up undelivered parcels. We are currently considering these findings, and look forward to working constructively with all our stakeholders to ensure the Universal Service remains relevant and sustainable for us all, now and in the future.

Trust

Our people are pivotal to the delivery of our mission to own trust at the doorstep. They are the people our customers see every day. Rebuilding their trust to work together to meet ever-changing customer needs in an efficient way is our big unlock.

- **Delivering a positive step change in our relationship with our people:** We operate a monthly listening programme that enables us to measure sentiment across our employee base. Feedback through the year showed we are making progress and we have seen trust scores improve across all our operational areas. In total, trust scores have improved by 6 points, from 62 in April 2021 to 68 in April 2022, with 69% now taking part in the survey compared with 48% a year ago. But there is still too much variation unit to unit and we are actively working on levelling performance up across our organisation.
- **Enable direct conversations between all our people:** Building a genuine two-way dialogue with our people is a key part of rebuilding trust. Over 45,000 colleagues are now on Workplace and are using it to recognise great work, share ideas and best practice, access information and problem solve issues. My Executive Board and I host a weekly Q&A and regular Live events, where we engage with employees directly on issues that really matter to them.
- **Putting in place the next generation of apprentices:** During the year we launched our Postal Apprenticeship programme. This is one of the largest programmes of its kind in the UK.
- **Royal Mail Academy:** A Royal Mail Academy has been set up to train and invest in managers, starting with frontline operational managers, by equipping them with the right suite of skills to do the job effectively.
- **Driver Academy:** Earlier this year we launched a new Driver Academy, in partnership with CWU, to train and develop future LGV and MGV drivers. The Driver Academy is comprised of four training pathways, including an apprenticeship scheme with an initial cohort of around 20 people, who will train to become road ready category C+E qualified drivers within 13 months.
- **Strengthening our operational leadership team:** In March 2022 Grant McPherson joined as Chief Operating Officer from Jaguar Land Rover where he was Executive Director of Global Manufacturing. At the same time Angela Noon was appointed as our new Chief Financial Officer, having joined from Siemens UK & Ireland where she was the CFO and Executive Director of Siemens plc and Siemens Holdings Group companies. Mark Briers joined earlier this year as Chief Analytics and Data Officer, a newly created role that underlines the importance of turning data into insight which can be used to improve our performance and drive growth in our business. Mark previously worked at the Alan Turing Institute, the UK's national institute for data science and artificial intelligence. Zareena Brown joined in October 2021 as our new Chief People Officer. Her prior role was at Britvic where she was Chief Human Resources Officer. Zareena's role focuses on scaling our trust agenda, engagement with our trade unions, championing diversity and inclusion, and training and support.

Industrial relations

We have entered into pay discussions with CWU and have tabled what we believe is a fair pay offer that recognises current inflationary pressures whilst enabling the transformational change which will secure growth and jobs for the future. Our total pay offer is worth up to 5.5% for CWU grade colleagues:

- 2% would be paid to all CWU grade colleagues as soon as an agreement is reached, and this would be backdated to April 2022;
- A further 1.5% would be paid from the date upon which we implement the changes agreed;
- In addition, a new 'above and beyond' bonus – worth up to 2% of salary.

This is the biggest pay offer we have made for many years. However, we need to ensure that any deal sets us up for tomorrow, and not just today. So as part of our negotiations we want to agree a series of changes to our delivery model and ways of working to ensure we can compete and adapt more quickly to changing customer needs.

CWU has rejected our offer, and has informed Royal Mail it is making preparations for a possible ballot for industrial action. We believe this is premature and have entered into our formal Dispute Resolution Procedures to try to secure agreement. This process was put in place to help deal with this kind of situation. We are going into it in good faith to try and reach an agreement and give our people a pay increase as soon as possible.

In January 2022, as part of our transformation programme we entered into a formal consultation with Unite/CMA to reorganise our operational management and reduce management layers from eight down to five. The proposals we put forward were designed to simplify and streamline our operational structures to ensure an improved focus on local performance and devolve more accountability and flexibility to frontline operational managers. Whilst there was a recent threat of industrial action both parties in mid-May have reached agreement on some key principles and an agreed way forward. Managers have now been informed of their new roles and the new structure will be in place by the end of May 2022.

We want to reach agreement with CWU and to continue to work with Unite/CMA as we implement structural change. Any industrial action, or the threat of it, would be damaging for our business and undermines the trust of our customers.

Delivering the Pathway to Change agreement

We implemented around 1,800 revisions across our operations; defined and rolled out a new productivity standard with a three-year flightpath to achieve in all units; introduced new Scan-in, Scan-Out technology at 43 sites, including all Mail Centres and Regional Distribution Centres to improve operational efficiency; rolled out our new delivery to specification technology, an algorithm to deliver mail as per the product specification and therefore reduce costs; and agreed a new dispute resolution process which has reduced the number of disagreements from 595 in November 2019, with an average resolution time of 80 days, to 151 disagreements as of the end of March, with an average resolution time of 36 days.

However, it was disappointing that we only delivered £59 million of benefits, at the low end of our revised guidance range and less than the £100+ million we had originally targeted. Following a pilot, the delivery resourcing technology was not as user friendly as expected so we are working to improve it. We plan to recommence trials of an enhanced tool in the second half of 2022-23. And on revisions, whilst we made good progress in Processing, in Delivery we fell short of our target. Whilst 886 table top revisions delivered 2.1% productivity, and 166 structural or major change revisions delivered 5.8% productivity, 203 structural revisions did not go well and had a negative productivity impact of 7.2%.

We have been working closely with CWU to understand lessons learnt into next year and beyond. There are three things that need to be in place to ensure revisions go well; the operation must be stable before deployment; leaders must be skilled at a revision and must involve the frontline in all of the change; and it is important that everyone is embracing the change and is committed to making it work from day one. Going forwards the learnings from last year will enable us to improve implementation.

Our Strategy and Progress continued

Growth

Transforming our network

Transforming our network and working practices to adapt to parcels is key to our growth. We need to do this as quickly as possible to ensure we are operating efficiently, and profitably, to make the most of the opportunity we have in the market.

- **Two new hubs on their way:** We are making great strides in transforming our network into a more modern, efficient and technology-enabled operation capable of handling larger parcels more efficiently. Our state-of-the-art North West Hub is on track to open in June 2022. The size of 4.5 football pitches, the new Warrington-based plant will have the capacity to sort over 800,000 parcels a day. Our Midlands Hub, based in Daventry, is on track to open in Summer 2023.
- **A step change in parcel automation:** In addition to the new hub, this year we have also installed five parcel sorting machines in mail centres across the country, including in Nottingham, Chester and Cardiff. As at 31 March 2022, the total number of machines in operation was 25. This number will increase to around 39 by the end of 2022-23. As a result of these initiatives we have achieved the major milestone of 50% automation in parcel sortation – the target we set last year. Furthermore, we are well on track to reach 70% automation in parcels sortation by 2022-23 and 90% by 2023-24.
- **Expanding our healthcare offering:** Royal Mail has played a key role during the pandemic supporting the delivery of test kits and Personal Protective Equipment (PPE) for the nation and already deliver the majority of prescriptions ordered online. We scaled our operation rapidly during the pandemic, and have built the expertise and capability to play a leading role in the growing market for online prescriptions and healthcare deliveries. We will capitalise on the growth in this market through a new dedicated healthcare offering, Royal Mail Health.

The future

As we enter 2022-23, the financial tailwinds from COVID have receded. Wage inflation in tight labour markets, sharp increases in energy and fuel cost exacerbated by the war in Ukraine, and the cost of living squeeze are resulting in an uncertain outlook for GDP and consumer spending and creating significant headwinds. Against that backdrop, our focus is on delivering cost savings of over £350 million and continued investment in the business.

Ongoing investment in our network will be around £350 million, on hubs, technology advancements and best in class parcel processing.

In the medium term, we still see potential for a 5%+ adjusted operating profit margin if we can complete our new pay deal with the union and successfully deliver our change agenda.

But we must change how we work. Our change agenda is now urgent and important and it cannot happen fast enough.

Transforming our operations to drive growth

In June 2022, we will open our first super hub in Warrington. The size of 4.5 football pitches, the North West hub has the capacity to sort over 800,000 parcels a day. Parcel sortation is 100% automated at the hub, with parcels being processed at a rate of around 40,000 an hour. During the year, new parcel sorting machines were installed at five sites. Automated processes sort parcels up to four times more quickly than manual sorting and these developments put us well on track to achieve our target of 70% automation in our UK parcels business by 2022-23 and 90% by 2023-24.

Accelerating GLS

Strengthening our top position in the cross-border deferred parcel segment

We have continued to expand our ShopReturnService. Online retailers are now able to offer this easy and convenient return service to their consignees in Sweden and the Baltic countries. As a result of our strong European PUDO infrastructure, as of March 2022, return shipments can be dropped off at parcel shops in 24 countries.

Our Strategy and Progress continued

Strengthening our international capabilities

During the year, we have upscaled our network capacity and footprint. We have invested in over 100 hubs and depots to expand capacity and upgrade technology, including a new depot in Granada, Spain and an extended hub in Jihlava, Czech Republic. Both facilities became operational in October 2021 and were critical in dealing with high volumes during the busy December peak season.

Strategic update: Accelerating GLS
Our 'Accelerate GLS' strategy, which builds on our distinctive and proven business model is focused on:

- Strengthening GLS' top position in the cross border deferred parcel segment.
- Strongly positioning GLS in the 2C parcel market, whilst securing its leading position in the 2B segment.
- Inspiring the market through innovative digital and sustainable customer-focused solutions.

We have made good progress executing this strategy at the same time as delivering a good set of financial results, despite the challenging market conditions described in the Operating Review.

Strengthening our top position in the cross border deferred parcel segment
During the year we have further strengthened our international capabilities. Our network capacity and footprint has been significantly upscaled. This fiscal year we have been investing in building, extending and upgrading over 100 hub and depots. We are increasing capacity as well as investing in new sorters, dim-weight scanners and other equipment to increase efficiency. These investments will help us to unlock further growth and maintain our high-quality levels.

We have also expanded our offering to include more convenient services and products that enhance our customers' experience. With our growing fine meshed network of alternative pick-up points (parcel shops and parcel lockers), we provide a good omni-channel mix of last mile delivery solutions to our customers.

In December 2021 we completed the acquisition of Rosenau Transport, a freight business operating in Western Canada. Rosenau Transport complements our existing business in Canada and the combination gives us full national coverage, as well as connecting our US and Canadian networks.

Our scalable and flexible business model, together with our proven track record of successfully integrating our network in new markets, positions us well to further grow our international footprint. We continue to consider a number of opportunities capable of delivering long term sustainable value.

Strongly positioning in 2C market and securing position in 2B segment

To increase brand awareness in the fast changing parcel delivery market, GLS has refreshed its brand identity. Building on GLS' successful heritage, the new branding reflects the business' fresh, dynamic and flexible approach and its increasing digital and technological capabilities. GLS' enhanced marketing activities have also increased market visibility.

In February 2022, Saadi Al-Soudani, our Group Area Managing Director for North America, Iberia and Nordics and Managing Director International, also took on the role of Chief International Officer. This newly created role reflects the strategic importance of our international network expansion strategy. Saadi joined GLS in 1993 and has held a number of senior management positions across the business.

Strongly positioning in 2C market and securing position in 2B segment/Inspiring the market
Innovation drives positive customer experiences and is essential if we are to enhance our competitive advantage, win in our growth markets and achieve our strategic ambitions.

We are continuing to strengthen our connection with our customers through expansion of our digital offering. During the year we launched new customer apps in a number of markets including Spain and Denmark. These digital solutions make parcel delivery more convenient, for example through real time tracking, and enable us to engage directly with our customers and gather valuable immediate feedback about their delivery experience.

We have also strengthened our market positioning through our rebranding initiatives which helped to increase brand awareness and position GLS as a new, modern and fresh brand.

2C 2B

Launching more convenient customer solutions

GLS is working on a number of digital solutions to increase customer convenience. Recently GLS Germany launched a live tracking app that significantly enhances the customer's delivery experience. Using the technology, customers can now track the status of their parcel delivery in real-time, and make changes to delivery dates and shipping addresses while parcels are in transit. During January 2022, the app had over four million hits.

2C 2B

Responding to changing customer needs

We want to make it easy for people to send and receive parcels, whether across borders or within the same city, whilst protecting the environment for future generations. Our long-term goal is to become an emissions-free company and we have the ambition to reduce our emissions to zero by 2045. We have set up our carbon emission compensation programme to offset unavoidable emissions stemming from our European GLS-operated sites and the entire journey of GLS' parcels. We have teamed up with ClimatePartner to support projects that prevent CO_2 from being emitted or help to bring down emissions through natural CO_2 sinks.

In response to customer demand for more sustainable solutions we are intensifying our efforts to make all aspects of our business more sustainable. We have added over 1,200 low or zero emission vehicles to our existing fleet and as of January 2022, over 80% of GLS operated sites are using green electricity. We have also rolled out our Climate Protect programme across our European footprint now compensating all CO_2 emissions across our entire European logistics value chain through certified projects. Looking further ahead our ambition is to reduce our emissions to zero by 2045.

The future
Uncertainty brought about by the war in Ukraine is expected to have a negative impact on the macroeconomic environment, global GDP and parcel growth. Therefore the 2022-23 operating profit is forecasted to be in the range of €370 million to €410 million.

To remain on our long-term growth trajectory, we want to leverage our business model and logistics know-how beyond our current setup. We will push further to become more global, digital and diverse. To achieve this, we will expand the network and our sustainable delivery model and we will further digitalize and diversify the GLS portfolio.

Measuring Our Performance

During the year we revised the KPIs we use to assess the Group's performance. The revisions include the introduction of a new adjusted operating profit margin metric for Royal Mail and new GLS specific measures. These new metrics better demonstrate the deliverability of each business' strategy and, in particular, our progress against our efficiency and profitable growth objectives.

Group revenue[1]

£12,712m

2021-22	£12,712m
2020-21	£12,638m
2019-20	£10,840m

Relevance

Demonstrates revenue growth across Royal Mail and GLS.

How we calculate

Total reported Group revenue.

Performance in 2021-22

- Group revenue was £12,712 million, representing growth of 0.6% year-on-year, and 17.3% compared with 2019-20.
- As we emerged from COVID-19 restrictions, the percentage of group parcel revenue declined as non-essential retail reopened. However, parcel revenue is still significantly higher than prior to the pandemic.
- In Royal Mail, revenue fell year-on-year by 1.6%, with a decline in parcel revenue partially offset by growth in letter revenue, which recovered from the deterioration experienced during the pandemic.
- In GLS, revenue grew 4.4% year-on-year in Sterling terms, driven by both domestic and international parcel volumes and higher freight revenue. Parcel volume growth was driven by a recovery in B2B and continued growth in B2C volumes, albeit at a lower rate compared to the prior year.

Link to strategy

Group adjusted operating profit[2]

£758m

2021-22	£758m
2020-21	£702m
2019-20	£325m

Relevance

Our primary measure of business performance.

How we calculate

Reported operating profit excluding pension charge to cash difference adjustment and operating specific items (see page 231).

Performance in 2021-22

- Group adjusted operating profit grew by £56 million to £758 million.
- Profitability improved at Royal Mail, primarily due to the delivery of a number of cost saving initiatives which offset some of the headwinds experienced in the year.
- GLS adjusted operating profit was broadly flat in Euro terms, but declined by 4.5% in Sterling terms due to the strengthening of Sterling during the year. Despite good revenue growth, inflationary cost pressures resulted in margin dilution.

Link to strategy

Royal Mail adjusted operating profit margin[2]

4.9%

2021-22	4.9%
2020-21	4.0%
2019-20	1.5%

Relevance

Demonstrates efficiency and our focus on driving profitable growth.

How we calculate

Adjusted operating profit as a proportion of revenue in percentage terms.

Performance in 2021-22

- Royal Mail adjusted operating profit margin grew 90 basis points to 4.9%.
- Margin improvement was driven by the recovery in letter revenue, cost saving initiatives, including the Pathway to Change agreement, and cost reduction programmes initiated in the prior year. We also saw reductions in COVID-19 related costs and international volume-related costs.
- These were partially offset by increased pay and other operational costs.

Link to strategy

Royal Mail

- Customer
- Trust
- Growth

GLS

- Connect Europe
- Strengthen 2C parcel market position and lead in 2B
- Inspire the market

1. Reported result prepared in accordance with IFRS.
2. APM. APMs are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 228 to 232.
3. Refers to direct employees only.
4. GLS Accelerate free cash flow is calculated as pre-IFRS 16 in-year trading cash flow plus disposal proceeds. €213 million includes four months of Rosenau Transport.
5. Five year target set in 2020-21.

Lost time accident frequency rate (LTAFR) per 100,000 hours worked[3]

0.54

2021-22	0.54
2020-21	0.39
2019-20	0.38

Relevance

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

How we calculate

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

Performance in 2021-22

- LTAFR increased by 38.5% compared to the previous year.
- Whilst absence associated with accidents increased, the number of most severe incidents decreased by 10% and our total accident frequency rate reduced by 7.2%.

Link to strategy

GLS adjusted operating profit in Euros[2]

€402m

2021-22	€402m
2020-21	€401m
2019-20	€238m

Relevance

Demonstrates efficiency and profitable growth.

How we calculate

Adjusted operating profit before specific items, in Euros.

Performance in 2021-22

- Performance was in line with revised guidance given in January 2022.
- Adjusted operating was broadly flat year-on-year as revenue growth was offset by costs increases due to inflation and volume growth.

Link to strategy

GLS Accelerate free cash flow[4, 5]

€213m

2021-22	€213m
2020-21	€307m

Relevance

Accelerate strategy targets around €1 billion accumulated free cash flow generation over the five years 2020-21 to 2024-25.

How we calculate

Pre-IFRS 16 in-year trading cash flow plus disposal proceeds, in Euros.

Performance in 2021-22

- GLS Accelerate free cash flow of €213 million remained robust, but below the unusually high level of the prior year which benefited from a strong positive working capital movement.
- GLS Accelerate free cash flow included €190 million of capex and a step-up in tax payments as assessments from the prior year came through.

Link to strategy

Our Stakeholders

Our purpose – connecting customers, companies and countries – demonstrates the importance we place on our stakeholder relationships and our impact on wider society. Our stakeholders are integral to the Group's success and if we are to create sustainable long-term value, we must take account of their issues and concerns.

	Colleagues Our workforce who underpin the delivery of our strategy.	**Customers** People who rely on and buy the service we provide.	**Shareholders** Shareholders, including our employees, who provide capital to run our business.	**Unions** Organisations that represent the interests of our workforce.
Their key issues	Health, safety and wellbeing. Fair, diverse and inclusive working environment. Attractive pay and rewards. Development opportunities.	High-quality, value-for-money, convenient and sustainable service.	Long-term sustainable value. Strategy and execution. Strong ESG performance.	Protection of workers' interests.
How we engage across the Group	Two-way dialogue including weekly Q&A sessions with the CEO Royal Mail, or members of the Royal Mail Executive Board, and through the Workplace platform, which was introduced in 2021 to enhance the effectiveness of employee engagement. Listen and act on employee feedback through the annual Big Trust survey, regular pulse surveys, Employee Voice Forums and People Panels. Face-to-face programmes to enhance colleagues' understanding of our strategy. Sharing of information through internal communication channels including Courier magazine, Royal Mail TV and Workplace.	Direct customer engagement. Regular customer surveys. Net promoter score monitoring. Trustpilot reviews. Complaint management and resolution.	Active investor relations (IR) programme, including investor meetings, multi-day roadshows and participation in industry conferences. Quarterly results announcements.	Regular meetings with union representatives. Elected union representatives work with Royal Mail management. Engagement with GLS' local works councils.
How we engage at Board level	Designated Non-Executive Director workforce engagement programme and regular Board updates about the programme. Regular ESG Committee Board updates. Attendance at Employee Voice Forums. Review of employee feedback and Board discussion in relation to actions to address any issues arising. Site visits.	Regular Board updates on quality of service.	Chair and Executive Directors participation in shareholder meetings. Annual General Meeting (AGM). Remuneration Committee Chair engages with shareholders on remuneration matters as required. Participation in IR programme. Regular Board updates on investor landscape from corporate brokers and IR Director.	CEO Royal Mail and Group CFO meet regularly with senior union leaders.
Outcomes (see pages 28 and 29)	– Improving trust scores. See page 38.	– New and enhanced products and services that meet customers' needs. See pages 15 to 17. – Actions to address quality issues. See page 16.	– Capital return which takes account of shareholder feedback gathered during the investor perception study undertaken by Rothschild & Co Investor Advisory in April 2021 (the 2021 investor perception study). – Recognising the growing importance of ESG to investors, development of Group-wide ESG framework.	– Pathway to Change agreement. See page 19. – Continuing to make progress towards the implementation of the Royal Mail Collective Pension Plan, following a successful union and employee consultation.
Principal risks (see pages 56 to 61)	5 6 11	3 4 7 8	1 2 3 4 5 6 7 8 9 10 11	1 5 6 11

	Regulator	Governments	Suppliers	Local communities
	Ofcom, the body that oversees our provision of the Universal Service.	Administrations that levy taxes and determine legislation that affects our business.	Our commercial partners who support our business.	The people who our activities may impact.
Their key issues	Effective delivery of our Universal Service Provider obligations. Delivery of annual Quality of Service targets.	Effective delivery of our Universal Service Provider obligations. Provision of employment. Tax income. Transitioning to a low-carbon future.	Fair commercial terms. On-time payment. Long-term relationships.	Positive social and economic impact. Sustainable business operations.
How we engage across the Group	Royal Mail executive team meets regularly with Ofcom. Dedicated regulation team engages with Ofcom and participates in regular meetings.	Key partner for the Government's COVID-19 testing programme. Royal Mail executive team meets with key politicians and civil servants, including the Postal Affairs Minister. Public affairs engagement programme. Regular updates and briefings.	Regular commercial dialogue.	Execute UK community investment strategy. GLS supports numerous regional and national charitable initiatives. See pages 42 and 43.
How we engage at Board level	Group CFO updates Board on Ofcom engagement. Dedicated Ofcom team also provide regular Board updates.	Regular Board updates on matters of relevance including updates on relevant legislation. As appropriate, members of Public Affairs team attend Board meetings and participate in discussions. ESG Committee receives updates on ESG-related consultations and policies.	Contracts considered critical in terms of risk profile approved by Board prior to award. ARC considers reports on payment practices for relevant businesses.	Site visits. Regular ESG Committee updates to Board.
Outcomes	– Contribute to relevant consultations and the development of regulations that meet stakeholders' needs. – Annual regulatory Quality of Service targets. See page 16.	– £11.8 billion of gross value added by Royal Mail (direct and indirect contribution)[1]. – Delivered and collected COVID-19 test kits and delivered vaccination letters to households across the UK. – Ensured the effective movement of cross-border parcels post-Brexit. – Pensions Schemes Act passed, which will enable our Collective Defined Contribution Pension Scheme.	– 73,000 jobs indirectly supported by Royal Mail in the wider economy[1]. – Promote responsible business practices through supply chain compliance. See page 45. – Publish information on payment practices in line with the Duty to Report on Payment Practices and Performance.	– Provide 1 in 175 jobs provided by Royal Mail in the UK[1]. – £5.6 million community investment in 2021-22. See pages 42 and 43.
Principal risks (see pages 56 to 61)	1 5 7 9 10	2 3 5 7 8 10	2 3 4 10	5 7 8 10

1. Cebr research, conducted for Royal Mail in May 2022, comprising direct and indirect contributions.

Section 172 Statement

Our stakeholders are integral to the Group's success. Our engagement with our stakeholders helps us understand what matters to them. It builds trust, fosters stronger relationships and ensures that we provide the products and services customers need, which helps drive the Group's long-term success.

The outcomes of decisions are not always positive for all stakeholders. On occasions the Board has to make difficult choices and prioritise the interests of different stakeholders. In such circumstances, what matters to each stakeholder is carefully considered and, after taking account of all relevant factors, a decision is made based on the long-term interests of the Group.

In relation to the decisions taken during the year ended 27 March 2022, and up until 18 May 2022, 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.

Examples of principal decisions made by the Board during the year, and the stakeholder issues and section 172 matters considered as part of the decision-making process, are set out on this page and on the following page. We define 'principal decisions' as decisions which are material or strategic to the Group, and/or significant to any of our stakeholders. In each case, given the materiality and importance of these matters, the relevant management team made recommendations to the Board and, where relevant, its Committees for consideration.

Group ESG Principles

In November 2021, the Board approved new Group ESG Principles, having considered the following matters:

- The Group's purpose and its important societal role in creating economic and social value for its employees and customers and the communities where it operates.
- Updates from the ESG Committee in relation to the Principles confirming that they are built around the issues that are most relevant to the Group's stakeholders and its businesses.
- Growing customer demand for sustainable products and services provided by trusted and responsible businesses.
- Maintaining trust is fundamental to the Group's reputation and long-term success and operating responsibly is in the interests of all stakeholders.
- The need to clearly articulate the Group's ESG approach, particularly in light of the 2021 investor perception study that indicated that ESG factors are becoming increasingly important in shareholders' investment decision-making process.

Rosenau Transport acquisition

In October 2021, we announced that GLS had agreed to buy Rosenau Transport, one of the largest independent freight carriers in Western Canada. Following regulatory approval, the acquisition completed in December 2021. As part of the acquisition approval process, the Board considered the transaction and decided that the acquisition was in the best long-term interests of the Group and its stakeholders. In reaching this decision, the Board considered the following matters:

- The combination creates a network which will enable GLS to cover the vast majority of the Canadian population and also provides a link to GLS operations along the US West Coast. This strengthened international network complements GLS' Accelerate strategy and its position as a cross-border player.
- The significant opportunity to create long-term value through integration, harnessing new sales opportunities created by the enlarged footprint and insourcing existing GLS deliveries.
- GLS' and Rosenau Transport's close strategic and cultural fit, including a strong focus on quality, reliability and customer service.
- Rosenau Transport's commitment to its local communities and its established environmental strategy.
- The impact of funding the acquisition on Royal Mail's pension schemes and the schemes' obligations to existing and former employees.

Share buy-back programme and special dividend

The Group's plan to return £400 million of capital to shareholders was announced on 18 November 2021. In deciding to reduce the Group's cash holding via a share buyback and special dividend, the Board considered the following matters:

- Shareholder feedback gathered during the 2021 investor perception study.
- Alignment of the proposal with the Group's capital allocation policy.
- The need to create sustainable value over the medium to long term and the impact of the cash return on Royal Mail and GLS' growth strategies. Given the significant cash flow generation potential of each business, both are considered capable of investing in and supporting their own organic growth and innovation initiatives without constraint.
- The impact on shareholders and, in particular, the security of the ordinary dividend.
- As part of the decision-making process about the mechanism of the return, the Board took account of the Group's large retail shareholder base that includes many of the Group's employees. It was decided that a special dividend of £199 million should be paid alongside the interim dividend of 6.7 pence per share on 12 January 2022.
- The long-term consequences of the return including the economic, commercial and industrial relations environment over the next two years.
- The impact on Royal Mail's pension schemes and the schemes' obligations to existing and former employees.

Key

- Likely consequences of any decision in the long term.
- The interests of employees.
- The need to foster business relationships with suppliers, customers and others.
- The impact of operations on the community and the environment.
- The desirability of maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members.

Operational management reorganisation

In January 2022, the Board approved an operational management reorganisation, subject to formal consultation. In coming to its decision, the Board considered the following matters:

- The reorganisation aims to further streamline operations and improve local-level performance. It supports the Royal Mail transformation programme which is focused on creating long-term value for all stakeholders.
- The impact of the reorganisation on employees and, in particular, the likely resulting job losses were carefully considered. It was decided that in the longer-term interests of the Group, the reorganisation should be approved, however all steps should be taken to ensure that the process was conducted sensitively, working closely with impacted employees and their representatives.
- The need to enhance customer service levels and how implementation of the reorganisation is projected to improve operational performance.
- The cost of implementing the reorganisation and the resulting impact on shareholder value. The charge of around £70 million to be taken in the final quarter of 2021-22, was considered and balanced against the annualised cost savings of around £40 million the reorganisation is forecast to deliver.

ESG Review

We seek to be an integral, trusted and valued part of every community, operating in a responsible and sustainable way. Demonstrating leadership across the broad ESG agenda is also essential to achieving a competitive advantage, creating value and delivering on our strategy.

Our ESG approach
We recognise the impact that our operations have on society and the continuing growth in demand for sustainable products and services. We have, in response to this, developed new Group ESG Principles that are built around the issues that are most relevant to our stakeholders and our businesses. These Principles, which are set out on the adjacent page, encapsulate our commitment to operate in a sustainable way and support several United Nations Sustainable Development Goals (SDGs). More detailed information about Royal Mail's approach to ESG is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports. Information about GLS' ESG programme is available at www.gls-group.eu/GROUP/en/our-responsibility.

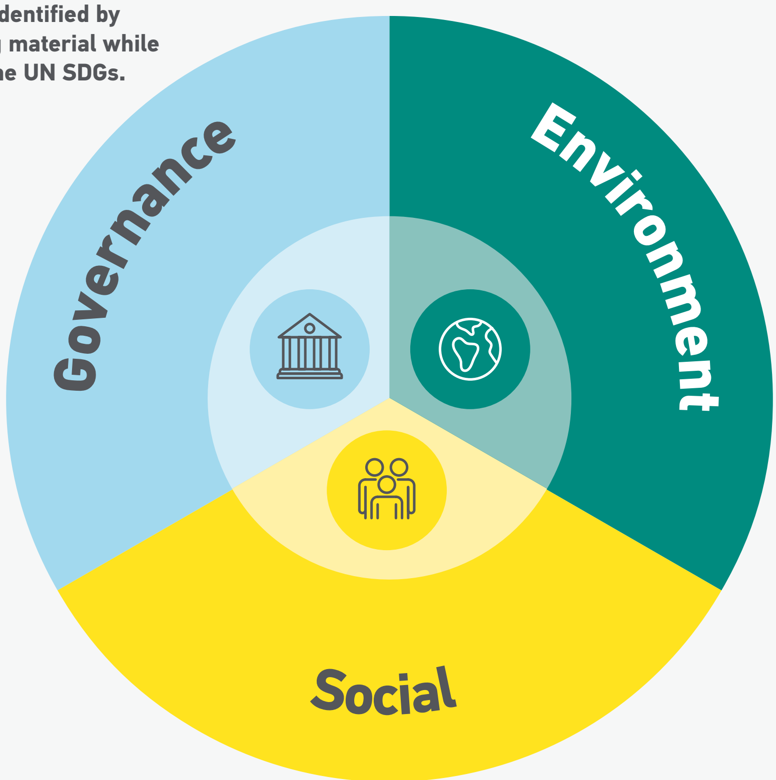
To ensure that our ESG programmes are relevant to our stakeholders, we take account of the priorities and areas they consider most important via regular materiality assessments. The materiality assessment and process we undertook during the year is described in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports. GLS is currently undertaking a full materiality assessment process involving its own stakeholders. Information about this assessment will be included in the GLS ESG Report 2022 which will be published later this year. Our ESG Principles will be regularly reviewed to ensure that they continue to align to the key ESG issues that are most material to the Group and its stakeholders.

We deliver our commitment to sustainability by implementing key policies and processes and executing Royal Mail and GLS' ESG strategies. Reflecting its long heritage, its significant societal role and predominantly UK focus, Royal Mail's ESG programme is well developed and is focused on delivering trust at the doorstep, delivering on environmental and social commitments, and ensuring we foster a culture where an engaged, healthy and diverse workforce can thrive.

Our GLS business operates across a diverse geographic footprint, in a multitude of legal and cultural settings, and with a variety of different business models. GLS is in the process of developing a company-wide ESG programme, while allowing countries to tailor their activities to local needs and expectations. GLS' corporate ESG activity focuses on areas where there are shared requirements, such as health and safety, compliance, and environmental commitments.

Our ESG Principles

Our ESG Principles are the foundation of our wider business strategy to create stakeholder value and achieve sustainable growth. They focus on the topics identified by our stakeholders as being material while supporting a number of the UN SDGs.



Environment

We aim to operate in an environmentally responsible way, focused on reducing the impacts associated with our operations, and playing our part in the transition to a low-carbon future.

Net zero | Circular economy | Collaboration

Sustainable Development Goals

See pages 32 to 35

Social

We aim to deliver economic and social benefits for our people, our customers and the communities we serve. As the UK's Universal Service Provider, we are in a unique position to play an active part in the UK economy.

Safety | Culture | Social contribution

Sustainable Development Goals

See pages 36 to 43

Governance

We endeavour to act with integrity and transparency in the interest of our stakeholders, ensuring we have effective mechanisms in place to deliver our business operations in a responsible manner. Our stakeholders trust us to deliver for them. Maintaining that trust, and operating with integrity, are fundamental to protecting our valued place in society.

Integrity | Ethics | Transparency

Sustainable Development Goals

See pages 44 to 45

ESG Review continued

Environment

Supporting the transition to a low-carbon future

During the year the environmental strategies of Royal Mail and GLS were comprehensively reviewed and updated. Both strategies now include pathways, targets and mitigating actions that will help us reduce our environmental footprint and achieve our ambition to become a low-carbon business, while offering a wide range of green solutions to our customers.

Decarbonising our business
We recognise the need to take decisive steps to help tackle the global climate emergency and prepare our business for a low-carbon future. We are aim to take a leadership role in our industry's transition and to support the implementation of the Paris Agreement.

In this context, Royal Mail and GLS have set new decarbonisation ambitions that focus on increasing the use of low- and zero-emission transport, decarbonising our operations and reducing the energy usage at our buildings. Our revised ambitions emphasise the need to look beyond our own operations and engage our stakeholders including our customers and suppliers.

Royal Mail
Building on its position as the UK's greenest delivery option for letters and parcels[1], Royal Mail is launching a new 'Steps to Zero' environment strategy that brings forward its net zero ambition to 2040. This ambition, which is aligned with the latest climate science and a 1.5°C decarbonisation pathway, will be achieved by reducing the business' scope 1, 2 and 3 emissions.

As part of this strategy, Royal Mail will leverage the environmental advantages of its final-mile foot delivery model, accelerate the pace of its transition to low- and zero-emission transportation, and reduce emissions from its network and estate. We also aim to transform our operations and behaviours to embrace circularity by enabling reuse models and reducing single-use items. Lastly, we will use our size, scale and reputation to lead and champion change.

Aside from its Net Zero by 2040 goal, Royal Mail aims to reach 50g CO_2e per parcel delivered, a reduction of c.75%. Royal Mail's average reported CO_2e per parcel through its domestic network is currently 205g, compared with the reported emissions of its industry competitors of between c.300-500g per parcel, which is largely as a result of its final-mile foot delivery model.

1. Based on reported CO_2e per parcel.

Carbon ambitions and targets

Royal Mail
Net zero by 2040 across scopes 1, 2 and 3 at UK operations aligned to 1.5°C, the latest climate science[1] and science-based target standards.

To 2040 our targets are:

GHG emissions	90% reduction in scope 1, 2, and 3 emissions
Renewable electricity	100% by 2022
Delivery vehicles	100% zero emission by 2035
Company cars	100% zero emission by 2030

We will achieve this target by increasing our use of low- and zero-emission transport alternatives, including rail, while minimising the use of domestic air freight. We will also decarbonise our network and buildings.

GLS
Zero emissions from scopes 1, 2 and 3[2] by 2045 across European operations.

Offsetting	100% European emissions from 2022
Renewable electricity	80% by 2022 (European locations operated by GLS)
Fleet	50% zero/low emission by 2030 100% of new vehicles will be low or zero emission by 2035 100% by 2045
Company cars	100% zero emission by 2030

1. 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, 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. We use the latest conversion factors from the UK Government (source: www.gov.uk/government/collections/government-conversion-factors-for-company-reporting).
2. Pathways will be developed to deliver this reduction, including the setting of interim targets. GLS scope 3 emissions currently include the categories parcel transport (Well-to-Wheel), water, waste, paper, business travel, Well-to-Tank (WTT) emissions for scopes 1 and 2 WTT emission from fuel consumption of company cars and shunters, franchises and subcontracted depots.

GLS

As part of its updated Climate Protect environmental strategy GLS has the ambition to reduce its Scope 1, 2 and 3 emissions to zero by 2045, as well as a compensation of 100% European emissions from 2022.

GLS will reduce and avoid emissions by ensuring that new buildings conform to its requirements for low-emission operations, which have been trialled at the GLS EuropeanEcoHub in Essen, Germany, and by working to increase the number of zero- and low-emission vehicles, by piloting a variety of alternatives including e-vans and light vehicles such as e-scooters.

While emission reduction and avoidance are key, GLS recognises that compensation has an important role to play in helping to tackle climate change. GLS therefore compensates the emissions of all sold parcels and shipments of the GLS european subsidiaries, as well as emissions from sites and business travel.

Our environmental performance

In 2021-22, our total UK carbon footprint decreased by 2% compared with the previous year, due mainly to a reduction in Royal Mail vehicle fuel use. This reduction is a result of lower volumes during the peak period than the previous year and the deployment of almost 1,300 additional electric delivery vans. Normalised per £m revenue emissions also remained the same when compared like-for-like. In the year, Royal Mail and GLS also expanded the scope of their emissions reporting.

GLS now calculates parcel transport emissions for all European subsidiaries, from pick-up to delivery, using methodology and data certified according to EN 16258.

Royal Mail has increased its value chain scope 3 emissions reporting to cover 100% of emissions across all relevant categories. As a result of this expanded reporting scope, the calculated total emissions of Royal Mail and Parcelforce have increased by 626 $KtCO_2e$, which accounts for a considerable portion of the total 1,229.6 $KtCO_2e$ reported in the year.

Over a billion steps a day

Our posties make a huge contribution to keeping emissions low, taking over a billion steps a day. By enhancing this unique 'on foot' delivery network and increasing the electrification of our fleet, we will reduce emissions generated during our final-mile deliveries, which currently represent 13% of Royal Mail's emission profile.

Carbon emissions performance CO_2e ('000 tonnes)[1]

	FY2021/22			FY2020/21[2]		
	Total	**Royal Mail**	**GLS[3]**	Total	Royal Mail	GLS[3]
Scope 1	**488.9**	**468.5†**	**20.4**	488.6	473.2	15.4
Scope 2 (location-based)	**82.0**	**59.1†**	**22.9**	86.7	64.1	22.6
Scope 3	**702.0**	**702.0†5**	**–**	76.0	76.0	
Total	**1,272.9**	**1,229.6**	**43.3**	651.3	613.3	38.0
Tonnes CO_2e per £1m revenue[4]	**44.9**	**62.0**	**10.3**	45.5	62.1	9.4
Scope 2 (market-based)	**13.0**	**8.2**	**4.8**	20.9	9.1	11.8[7]
Energy Consumption kWh ('000)[6]	**2,534,134**	**2,345,913**	**188,221**	2,503,149	2,352,822	150,327

1. We report our carbon emissions to the GHG Protocol Corporate Standard, which classifies a company's emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Royal Mail, including the combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity, heat, steam and cooling for own use. Scope 3 emissions are all other indirect emissions that occur in a company's value chain and are voluntary to report. Royal Mail reports all its scope 3 emissions including purchased goods and services, capital goods, fuel and energy related activities, upstream and downstream transportation and distribution, employee commute, business travel, waste disposal, end-of-life treatment of sold products and investments.
2. 2020-21 data for Royal Mail has been restated following the provision of data which was previously estimated.
3. GLS emission data reflects the calendar year rather than the financial year. GLS does not report scope 3 emissions.
4. The tonnes CO_2e per £1M revenue ratio comprises scope 1 and scope 2 (location-based) emissions only. This ratio provides an overview of our carbon efficiency as we continue to grow.
5. Royal Mail has increased its scope 3 emissions reporting to cover 100% of GHG emissions across all value chain categories. This has increased scope 3 emissions reported by 626$KtCO_2e$ from 76.1$KtCO_2e$ to 702.0$KtCO_2e$. This increase is not reflective of operational changes and is entirely down to increase reporting scope.
6. The data for Royal Mail relates to emissions and energy consumed in the United Kingdom and its offshore area.
7. This number was misreported in the 2020-21 Annual Report as 30.8.

† Included within PwC's limited assurance scope. See page 45 for further details.

ESG Review continued

Environment

Compensation of emissions

In 2022, GLS will provide carbon neutral parcel delivery to all European customers by offsetting emissions via the climate protection programme Climate Protect.

One of the projects supported through the programme is the protection of 100,000 hectares of rainforest in the Peruvian Amazon. The area, which is home to some of the richest biodiversity on the planet, is under threat from the Transamazonica road project and agricultural deforestation. The project supports the protection of the area by working with the local population to help manage the land sustainably. The preservation of the rainforest's valuable carbon sink helps to save some 660,000 tonnes of carbon from the atmosphere each year.

As outlined within our 2020-21 Annual Report, energy efficiency is aligned with our ambition to decarbonise, focusing on optimisation and the deployment of more efficient technology. Initiatives to reduce energy are detailed below.

For information on the metrics and targets associated with the implementation of Royal Mail and GLS' environment strategies, see page 32.

Buildings
Energy used by buildings accounted for 13% of Royal Mail's carbon footprint in 2021-22. Meanwhile, electricity and gas use decreased 2%, making it broadly similar to the prior year's consumption.

As parcel automation across the business increases and more electric vehicle charging is introduced, energy management across Royal Mail's large property portfolio is an increasing priority area.

Last year, energy optimisation trials and energy audits identified several opportunities for energy savings across our estate. As a result, Royal Mail entered into a five-year energy performance contract which aims to reduce energy consumption by 180 GWh through the optimisation of existing building services, changing workforce behaviours around energy use and improvements to energy controls.

In April 2022 Royal Mail switched to a 100% renewable (no nuclear) tariff with EDF Energy. Furthermore, solar panels are installed at seven Royal Mail sites and a solar feasibility study undertaken in 2021 identified around 230 additional sites that have the potential to supply around 20% of Royal Mail's current energy use. These findings will be further investigated in the coming year, including identifying funding and leaseholder solutions to secure solar panel installations.

GLS total electricity consumption increased by 16.4%. This is due to increasing parcel volumes, as well as consideration of subcontracted eastern european sites, which were not included in the previous year's eco-footprint. However, efficiency for heating increases, as our emissions per kWh decreased by 11%.

GLS has rolled out a number of carbon reduction and energy efficiency measures to future-proof its buildings. These include the use of regenerative heating systems and LED lighting, installation of solar panels and purchasing green electricity whenever possible. More than 80% of GLS-operated sites in Europe will use renewable electricity from 2022 on. All new GLS-operated buildings will have the space and charging infrastructure for electric vehicles. Existing buildings will be upgraded as far as possible to reduce their carbon emissions.

Building on the success of the GLS EcoHub in Essen, Germany, GLS' EcoHub in Jihlava in the Czech Republic has been expanded. Originally constructed in 2012, including additional insulation and LED lighting, the Jihlava hub is now equipped with a photovoltaic system with an installed capacity of 300 kWp. The expandable battery storage of 200 kWh enables the lighting of the exterior area and the charging of e-vehicles at night at newly installed charging stations.

Transport
Royal Mail's domestic and international transport networks represent two-thirds of our emission profile. Our carbon reduction initiatives for transport are critically important if we are to meet our net zero ambitions.

In 2021-22, we saw a 1% reduction in emissions relating to a reduction in fuel usage from vehicle electrification and lower peak volumes compared with last year.

Other key developments included:

- We have continued to add more electric vans to our fleet, and expect to have around 5,500 in operation by spring 2023, compared to around 1,600 in operation at year end 2021-22.
- Our first all-electric delivery office, which is in Bristol, has reported a 37% reduction in maintenance costs and 73% reduction in fuel costs (diesel versus electric), which is estimated will reduce fleet emissions by c.29t CO_2 per annum. Including Bristol, 17 of our new and planned electric delivery offices will be 'all-electric' by August 2022 as diesel vehicles are removed from service. These 17 sites include Glasgow, Oxford, Newport, Watford and Stevenage.

Working towards mass deployment of low- or zero-emission HGVs is an essential part of Royal Mail's plans to decarbonise its business.

Rail currently accounts for around 3-4% of Royal Mail's distribution network and the business is exploring ways to significantly increase rail transportation and reduce its use of domestic flights. The new Daventry-based Midlands Parcel Hub, which is due to open in June 2023, has its own rail terminal, which will enable increasing volumes of mail to be transported efficiently and sustainably.

Collaborating with strategic partners to unlock innovation

We collaborate and partner with external organisations that can help us to accelerate and deliver on our sustainability ambitions. In the year Royal Mail joined the Steering Committee of the UK Electric Fleet Coalition, a group of more than 30 leading businesses advocating a switch to electric vehicles. We have also joined the EV Fleet Accelerator group, which aims to use electric fleets as a catalyst to help accelerate the transition to electric vehicles across the UK.

With 95% of GLS emissions coming from its transport fleet, reduction of vehicle emissions is a key factor to achieving its decarbonisation goals. Measures include fleet conversion, reducing first and last miles emissions and converting depots.

Between 2019-21 GLS' zero- and low-emission fleet has tripled in size. Trials to add more e-vans, e-scooters and alternative-fuel vehicles to the delivery network are continuing and, to facilitate alternative delivery options, GLS is targeting to have at least one depot with a minimum of six e-vans and adequate charging infrastructure in each country where it operates.

GLS is also implementing a range of initiatives to reduce final-mile emissions aligned to local requirements. For example, in Spain we are using a new app that was launched in December 2021, through which GLS customers are informed whether their delivery was made via electric vehicle or e-bikes. Within two weeks of launching the app, more than 80,000 deliveries were communicated to consumers as zero final-mile emissions.

Responsible consumption

Royal Mail is committed to reducing waste and driving behaviours to a circular economy approach and is targeting:

- A 25% reduction in the volume of waste generated by 2030.
- To undertake a complete review of packaging and single-use resources by 2023.

Throughout the year, Royal Mail has been reviewing the packaging it provides to its customers. Parcelforce will trial a plastic bag made from 84% recycled content. The bag can be fully recycled and will include guidance to help the recipient. This product significantly reduces the volume of new plastic required in its manufacture.

In 2021-22, Royal Mail generated 40,046 tonnes of waste†, which is virtually unchanged from the previous year.

Further information about our Royal Mail business' waste and water consumption is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

Providing sustainable solutions for customers and communities

To strengthen our competitive advantage and support our customers' ambitions to reduce their own carbon footprint, Royal Mail aims to reduce the emissions associated with parcel delivery to 50g CO_2e per item (a reduction of 75% on our current emissions per parcel of 205g CO_2e). Our average per parcel emissions is currently around half the reported emissions of our key competitors.

During the year, the Royal Mail App was enhanced to include an innovative feature that enables customers to see the estimated CO_2e emissions footprint associated with the delivery of their parcel.

† Included within PwC's limited assurance scope. See page 45 for further details.

ESG Review continued

Social

Delivering economic and social benefits

We positively impact society by connecting customers, countries and companies, and aim to be an integral, valued and trusted part of every community that our service reaches. Social issues are also important to our stakeholders, including our approach to health, safety and wellbeing, engagement, diversity and inclusion.

Creating a safe and healthy work environment

We want to create a safe and healthy working environment for our people. Our goal is to ensure a workplace where everyone is free from injury and enjoys good physical and mental health.

We recognise the impact of the pandemic on our people and have provided ongoing and evolving support. Throughout 2021-22, we kept our policies and COVID-19 risk controls under constant review to ensure that we maintained compliance with government guidance and minimised the risk to colleagues, particularly during the peak period of December 2021.

Royal Mail

A strong health and safety culture is key to safeguarding our people. Our Health and Safety policy outlines our commitment to our people and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports. We implement the policy through our integrated Safety, Health and Environment (SHE) management system. This provides the framework for managing risk, improving performance and maintaining a safe, healthy and environmentally responsible workplace.

Empowering our managers to manage their health and safety risks is also a focus. For example, in the year we launched a new managerial upskilling programme within our delivery function in which 155 of our delivery managers participated. The programme included training on key safety topics such as risk management, culture, inspections and accident investigations.

Following a successful trial in November 2021, we have invested in a new off-site risk assessment system that enables hazard information to be displayed on our posties' handheld scanners. As we execute our strategy to transform Royal Mail, the deployment of technology throughout the business will play an increasingly important role.

Royal Mail currently operates three core health, safety and wellbeing programmes:

- 'Feeling First Class' encourages greater proactive ownership around health issues. We now operate on-site flu clinics at 110 of our larger facilities.
- 'Stamp Out Aches and Pains' helps our people improve their awareness of musculoskeletal health.
- 'Because Healthy Minds Matter' aims to reduce stigma and normalise conversations around mental health. In October 2021, we added a stress risk assessment tool to our 'Stress toolkit' and launched a second mental health e-learning product to help managers better support their teams.

At the beginning of 2022, we launched our 'Let's Talk Menopause' programme, which is designed to improve access to support, help share experiences and normalise menopause conversations. In March 2022 we also signed the Menopause Workplace pledge. For further information on how we are supporting the pledge, please see the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

GLS

In March 2021, GLS launched an extensive Occupational Health and Safety (OHS) Programme with 10 key projects covering management, operational and office employees, as well as transport partners and their drivers. Key to the success of the programme is the need to create widespread awareness around the importance of health and safety. To this end, GLS launched a 36-month awareness communication plan with the distribution of posters and other materials to promote safe behaviours in the workplace. In addition, training materials were created for all GLS managers, as well as for transport partners and their drivers, the latter with a specific focus on road safety.

Health and safety performance

We strive to continuously improve our health and safety performance, and monitor and report our key safety metrics regularly to the Board and the ESG Committee.

Our safety performance is set out in the table below. In 2021-22, our Lost Time Accident Frequency Rate (LTAFR) increased by 38.5% when compared with the previous year. Whilst absence associated with accidents increased, the number of most severe incidents decreased by 10% and our total accident frequency rate reduced by 7.2%. GLS' employee LTAFR for the same period decreased to 2.28 compared with the previous year (2020-21: 2.44).

Royal Mail also monitors and reports its road traffic collisions frequency rate (RTCFR) as a key safety performance metric. This year, we reduced our RTCFR by 2.7% compared with 2020-21. In the year, we ran 16 comprehensive road safety campaigns for our drivers and developed the 'Drive 360' driver behaviour programme, which focuses on the use of telemetry and driver coaching to encourage safer and more fuel-efficient driving styles.

Group health and safety performance

		2021-22		2020-21		2019-20	
		Royal Mail†	**GLS†**	Royal Mail	GLS	Royal Mail	GLS
Fatalities[1]	Employees	**1**	**1**	2	0	0	–
	Third parties[2]	**2**	**18**	5	24	7	–
LTAFR (per 100,000 hours worked)[3]		**0.54**	**2.28**	0.39	2.44	0.38	2.46
Sickness absence (%)[4]		**7.98**	**4.98**	8.48	4.79	5.87	–

1. The total number of fatalities due to accidents that have occurred as a result of Royal Mail or GLS undertakings. In GLS all fatal accidents are traffic accidents.
2. Third parties include contractors, third-party drivers and members of the public.
3. Refers to direct employees only.
4. GLS publicly reported this data for the first time in 2020-21.

† Included within PwC's limited assurance scope. See page 45 for further details.

ESG Review continued

Social

We regret to report that three people tragically lost their lives in accidents involving Royal Mail vehicles over the last year. An employee died in a road traffic collision and two third parties died in two other incidents. All accidents are thoroughly investigated to determine root causes and identify the lessons learnt. All investigations and findings are shared with relevant Board members.

During the year a GLS employee tragically lost their life as a result of an accident during a business trip. The total number of fatalities related to activities of GLS' partner companies fell from 24 to 18. When excluding fatalities attributable to external third-party acts or acts beyond our control, the number fell by more than 50% compared with the preceding year, with nine fatalities in 2022 (2021: 19 fatalities). All fatal accidents in 2021-22, either related to activities of partner companies or GLS itself, were roadside accidents; as indeed have been all fatal accidents in recent years. No fatal accidents have occurred on GLS premises.

As part of its OHS Programme (see above), GLS is working with its partner companies to help prevent roadside accidents. Findings in relation to accident root causes are also integrated into relevant training materials.

This year Royal Mail's level of sickness absence was 8.0% compared to 8.5% in the prior year. While this slight reduction was due to a lower level of COVID-related absences, very high absence levels as a result of the pandemic continued through the year, particularly in January 2022 due to the rise in Omicron cases. In GLS, the sickness absence level increased from 4.79 to 4.98, due to absences related to COVID-19.

Promoting a fair, inclusive and diverse workplace

We want to own 'Trust at the Doorstep' by being brilliant for customers, having trusted relationships everywhere and by growing our business. Our values – 'Be Positive, Be Brilliant, Be Part Of It' – represent the way we do things at Royal Mail and help share our engagement strategy. Culture and engagement are key focus areas for the Board and are standing items on the agenda for each ESG Committee.

The last 12 months has seen us continue to build on our agenda of Trust. Owning trust at the doorstep is our mission and to achieve this we must continue to build better relationships with our people. We want to create an environment where:

- More of our employees feel valued and respected.
- Employees feel listened to and their feedback is actioned.
- There are direct lines of communication between managers and employees.
- Processes are simpler and easier.
- People have the tools they need to do their job effectively.
- Employees take responsibility and are accountable for their work.
- Performance management is recognised and embraced as a key lever for business success.

We measure our progress across these areas primarily through our Trust Survey, which focuses on questions which build a picture of trust and engagement, both locally and at a company level. The survey is deployed through monthly pulse surveys and our annual Big Trust survey. In 2022, over 97,000 colleagues took part in the survey, representing 69% of our workforce.

Our internal Trust Score has seen a significant increase from 62 to 68 in a year, with participation in the survey growing from 48% to 69%. Key findings from the 2022 Trust Survey were:

- 83% of colleagues said they felt safe at work.
- 83% of colleagues feel trusted to do their job.
- 50% of teams had a trust score of 70 or above.

Too few of our colleagues report that they've seen action taken as a result of their feedback – acting on feedback is what matters most and this is a key area of focus for us.

Our trade union partners play an active role in supporting great local action plans and with their support we have we have developed additional support and upskilling to ensure conversations happen locally with greater visibility and involvement in making change happen. This will be measured through our monthly Trust Check-in approach that will re-commence in the summer.

Several GLS subsidiaries conduct employee surveys on a regular basis. For example, in 2022, GLS Austria participated in the employee engagement survey 'Great Place to Work', which provided the positive feedback that GLS Austria is an attractive employer. Following the survey, numerous workshops were held with managers to discuss the survey results and respective measures to be implemented. The survey also provided valuable feedback on where there was potential for improvement. In spring 2021, GLS Denmark used its survey to better understand the impact of the pandemic on work-life balance and job satisfaction. Overall, it saw high scores in relation to the desire to work and wellbeing. The survey found that many activities could be maintained and conducted online via Microsoft Teams rather than postponing or cancelling them.

Rewarding people fairly

We believe Royal Mail provides the best terms and conditions for workers in our industry in the UK. Fair employment conditions are the foundation of how we do business. We offer permanent employees a competitive salary, paid holiday and a good pension.

In 2021-22, UK postmen and women on average earned 25% more than the UK National Living Wage (NLW). All temporary workers receive the NLW, with the majority receiving hourly pay above the Real Living Wage.

Providing development opportunities

We aim to provide the tools, knowledge and resources for people to have fulfilling careers at Royal Mail, and offer learning and development opportunities to colleagues at all levels of our organisation. In 2021-22, we invested £6 million in training, equating to approximately 23,000 training days compared with 19,000 in 2020-21.

Royal Mail is on an ambitious transformation journey and to reflect this we have rebranded our learning offer as 'The Academy'. The Academy will a promote a culture of learning, connection and possibility, and will underpin our change programme. In particular, it will develop the next generation of talent who will continue to re-invent Royal Mail.

In 2021, we launched our new entry level Postal Apprenticeship scheme. The programme is committed to increasing social mobility and helping to provide opportunities to those who have been impacted by the pandemic and the challenging and often difficult circumstances that resulted. Further information about this scheme and our new 'Driver Career Path' programme is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

GLS also provides a range of learning and professional development opportunities for its employees.

Working with our unions

In the UK we recognise two unions: the CWU and Unite/CMA. Around 89% of our operational and administrative-grade employees are members of the CWU and approximately 65% of our managers are members of Unite/CMA. In the UK around 99% of employees are covered by our agreements with these two unions. We work closely with our unions with the aim of maintaining a productive and positive relationship, and our agreements with them are designed to support industrial stability. This year, the key focus of our relationship with our unions has been to ensure colleague safety while delivering customer services. The pandemic brought major changes in customer demand, which had a big impact on every one of our operating sites and required company, colleagues and unions to respond.

At the same time, we have worked with the unions to secure the financial position of the company and create the foundations for future success. With Unite/CMA we negotiated and agreed the Unite/ CMA Transformation Agreement which outlined our future ways of working. We also consulted on a substantial restructure of the management team and achieved a significant reduction in numbers via voluntary redundancy schemes.

In 2022-23, we will continue negotiations with both Unite/CMA and the CWU on a future pay deal.

ESG Review continued

Social

Diversity, Equality and Inclusion (DEI)

We strive to create an inclusive, fair, respectful and accessible working environment and continue to develop and evolve our DEI strategy to achieve this.

DEI strategy, roadmap and ambitions

During the year, Royal Mail reviewed its approach to DEI. As part of this review, we ran a series of 'future focus' workshops to listen to the voices of colleagues at all levels. Their feedback and insights are reflected in our refreshed/enhanced DEI ambition, strategy and roadmap.

Royal Mail's updated DEI strategy and roadmap directly supports our business strategy. It aims to ensure that we have a workforce that reflects the broad diversity of the customers and communities we serve and that we offer an inclusive, fair and accessible workplace where everyone can grow, develop and succeed. Key areas of focus include the recruitment and retention of the best diverse talent and DEI collaborations that benefit society more broadly and the communities in which we operate.

The updated strategy includes the following strategic priorities:

- Increase the diversity of leadership and talent across Royal Mail.
- Transform our generational profile.
- Partner with others to lead the way in social mobility.
- Build an environment of inclusion, fairness and accessibility for all.
- Focus on creating vibrant and inclusive national networks open to everyone.

Diversity profile

Our Group gender diversity profile is shown in the table below.

In our Royal Mail business, around 11% of our employees are from an ethic minority background, which is broadly representative of the UK population. Royal Mail is a signatory to Business in the Community's (BITC) Race at Work Charter, and actively participates in BITC's internal and external Mentoring Circles programme. This programme offers our ethnic minority colleagues an opportunity to be mentored by senior colleagues within our organisation and across multiple industries.

Royal Mail also complies with the Parker Review target for all FTSE 100 boards to have at least one director from an ethnic minority background by 2021 (see page 80).

The Board is responsible for defining the direction of our DEI strategy and monitoring its implementation across our business. The Royal Mail Executive Board oversees our programmes and are responsible for driving culture change across the business.

Royal Mail 2025 diversity targets

To support the implementation of the updated DEI strategy new diversity targets have been set see table below.

	Position at 27 March 2022 (%)	Target position March 2025 (%)
Female representation (all levels)[1]	19%†	25%
Female representation (levels 1-6)	28%	33%
Ethnic minority (all levels)	11%†	15%
Ethnic minority representation (levels 1-6)	6%	11%
Youth representation (frontline below level 6)	6%	18%

† Included within PwC's limited assurance scope. See page 45 for further details.

Group gender diversity profile as at 27 March 2022

	Royal Mail		GLS		Total	
	Female	Male	Female	Male	Female	Male
Board[1]	4†	6†	0	1	4	7
Senior management[2]	575†	1,264†	39	250	614	1,514
Management	1,430†	4,877†	492	1,526	1,922	6,403
Administration	1,543†	1,002†	2,741	2,211	4,284	3,213
Operational	24,987†	104,122†	3,616	11,449	28,603	115,571
Total[3, 4]	28,539	111,271	6,888	15,437	35,427	126,708

1. The Board as at 27 March 2022. Royal Mail Board numbers include both Royal Mail and Royal Mail Group employees. Total includes Board members not classified as employees, the Chairman and Company Secretary. The GLS Board member refers to Martin Seidenberg as Group Board member.
2. For our ESG reporting, we define senior managers as persons graded in bands 1-9, 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 1-9. This definition of senior management is used each year, ensuring alignment with our people management systems and consistent comparison on data year-on-year. GLS refers here to A and B level employees and employees, which have a comparable degree of responsibility.
3. In total, 26 employees have no declared gender within the Royal Mail reporting system. These employees would add an additional 25 employees to total operations, and one additional admin. The total headcount for Royal Mail is therefore 139,836 and overall headcount for the Group is 162,161.
4. Number excludes Pensions Trustees and Intersoft and eCourier.

† Included within PwC's limited assurance scope. See page 45 for further details.

National employee networks operate across Royal Mail to galvanise DEI activities across the business. Our One Royal Mail DEI Action Group, which comprises senior leaders and representatives from each network, meets quarterly to coordinate activities across all networks. Information about our employee networks and their activities during the year is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

We remain committed to supporting disabled applicants and colleagues at all stages of the employee cycle. We provide training, career development and promotion opportunities, while our operations managers complete Disability and Reasonable Adjustments training to ensure that they are confident and effective in supporting colleagues with disabilities. We provide support and training for colleagues with existing disabilities and for those who have become disabled during their employment. Royal Mail is proud to be part of the UK's Disability Confident scheme and achieve Disability Confident Employer Status.

GLS is currently in the process of developing its own DEI Programme to support its ambition to provide all employees with an equal opportunity to succeed. The programme will focus on promoting gender equality and ensuring an inclusive and welcoming working environment where there is equal treatment and development opportunities for all employees, including those with disabilities and caring responsibilities.

Gender pay gap

We believe all our people should be rewarded fairly for their work, regardless of gender. We are pleased to report that the total average pay for male and female employees continues to be broadly the same, with the pay gap (on a mean basis) narrowing from the same period in 2020. Information on our 2021 Gender Pay Gap Report is included on page 123 and the full report is available at www.royalmailgroup.com/en/responsibility/our-people/investing-in-our-people/.

ESG Review continued

Social

Supporting our communities

Our social and economic impact
Royal Mail seeks to be an integral, valued and trusted part of every community in which we operate.

In 2021-22, Royal Mail contributed £3.5 million to good causes and charitable schemes. This included match giving for colleague fundraising and the cost of our Articles for the Blind service. In addition, our colleagues raised £2.1 million for charity.

Earlier this year, in recognition of the trust that was built in its response to the challenge of the pandemic and the steps taken to keep its business safe, Royal Mail won the Resilient Workforce award and the Business Continuity award at the CIR Annual Business Awards.

Community investment
We build on the economic and social impacts of our operations by investing in strategic partnerships and finding ways to use our heritage and business assets to contribute to society. Our community investment strategy is structured into three key areas:

- **Leveraging our national scale:** In response to reported increases in domestic abuse during the pandemic, we launched Online Safe Spaces (OSS) with the charity Hestia. The service continues to provide support, advice and contact numbers for those experiencing, or at risk of, domestic abuse. Since launch, we estimate 1 million users have accessed the service. During the year we also supported the launch of Hestia's 'Fresh Start' initiative to support women and children staying at London refuges in gaining financial independence and the security to flee domestic abuse. As part of this partnership, Royal Mail offers free 'in confidence' redirections to their new accommodation.
- **Using our local presence:** As our people are present in every community across the UK, we are uniquely placed to support the search for missing people. Since 2014, we have posted alerts from the charity Missing People to our postmen and women via their handheld scanners. This year we supported Missing People's Home for Christmas Campaign, which included a 12-hour social media takeover to raise awareness around the issue of missing people.

Celebrating the heroes of the pandemic

To celebrate the 'heroes of the pandemic', Royal Mail launched a competition for children across the UK to design a stamp. The competition received 606,049 entries and secured a Guinness World Records title for the largest postage stamp design competition. Designs covered a wide range of heroes, including NHS workers, parents, carers, refuse collectors, supermarket workers, public transport staff, and postmen and postwomen. The final eight winning designs, which were selected by His Royal Highness The Prince of Wales, appeared on a new set of stamps that were issued earlier this year.

Our social and economic impacts on communities

7th
largest contribution of any UK company to the UK economy[1]

1 in 175
people employed in the UK by Royal Mail[1]

£11.8bn
of gross value added by Royal Mail (direct and indirect contributions)[1]

£3.2bn
contributed through procurement of goods and services[1]

73,000
jobs indirectly supported by Royal Mail in the wider economy[1]

£3.5m
contributed to good causes and charitable schemes

1. Cebr research, conducted by Royal Mail in May 2022, comprising direct and indirect contributions.

– **Unlocking potential through education:** Royal Mail supports World Book Day and the National Literacy Trust's Vision for Literacy pledge, which aims to close the national literacy gap and boost social mobility. A key activity in this programme was to working closely with The Postal Museum and Puffin Books to roll out The Postal Museum's Jolly Postman virtual learning sessions to schools across the country for free.

The pandemic has intensified existing social and economic challenges and created many new ones. We have played an important role in the recovery of local communities and economies, particularly by supporting the health of those affected by the virus. Further information about our work in relation to the delivery and collection of test kits, and the delivery of vaccination appointment letters and prescriptions is included on page 7.

Royal Mail has supported the Disasters Emergency Committee (DEC) with a dedicated PO Box for over 30 years, providing the UK public with a way to respond to national appeals for overseas disasters. In addition to the ongoing Coronavirus and Afghanistan Crisis appeals, we launched our support for the DEC's Ukraine Crisis Appeal. As of March 2022, £374 million has been donated to the three DEC appeals with an approximate average of 6% of UK public donations made via the Royal Mail PO Box.

In response to the war in Ukraine, both Royal Mail and GLS have introduced specific programmes and fundraising measures. Royal Mail launched an internal fundraiser for the British Red Cross, matching all employee donations. To further enhance our support, Royal Mail has been working closely with the Ukrainian Embassy in relation to the provision of logistics support. We have supported vehicles travelling to Poland as part of the Ukrainian Embassy's aid effort and this activity is continuing. Across GLS, a number of countries including, GLS Germany, Finland and Italy, have donated to the Red Cross to purchase the goods needed. GLS Slovenia, Germany and Romania have also provided transit of goods to the border.

GLS community support
GLS supports numerous charitable projects by organising both regional and nationwide initiatives. These include free parcel shipping for aid organisations and the sponsorship of foundations for people with developmental or physical disabilities. In addition, the business makes financial contributions to support numerous local charitable projects including kindergartens and hospitals.

Following a volcanic eruption in La Palma, GLS Spain supported several NGOs, city councils, and other associations in transporting key items such as clothes, blankets and toys to the affected people in La Palma. In addition, in collaboration with a school in Northern Spain, children sent books to create a library for the La Palma pupils whose school was swept away by the lava flow.

Protecting our customers
As the Universal Service Provider and a responsible business, we have an obligation to support our customers and ensure that our products and services are available and accessible to all. During the year we introduced several new initiatives and cost changes, including a reduction in the cost of our redirection service for customers on Universal Credit. More information can be found in the Royal Mail ESG Report at www.royalmailgroup.com/en/responsibility/policies-and-reports.

Protecting human rights
We are committed to playing our part to uphold and protect human rights in our businesses and across our supply chain globally. We obey the laws, rules and regulations of every country in which we operate and implement the UN Guiding Principles on Business and Human Rights, the UN Declaration of Human Rights and the International Labour Organization Fundamental Conventions within our businesses and our supply chain. These cover freedom of association, the abolition of forced labour, equality and the elimination of child labour.

During the year, Royal Mail worked in conjunction with the UK charity Unseen, which is working to stamp out modern slavery, to launch a series of awareness materials and training programmes. For the first time, a bespoke postmark was applied to all UK stamped mail to support and raise awareness of Anti-Slavery Day. In addition, updated modern slavery content has been incorporated in Royal Mail's induction and compliance training, which is mandatory for all managers. GLS provides online supply chain compliance training, which also covers modern slavery. This training is mandatory for all personnel with purchasing authority or depot supervisory function. In addition, modern slavery issues are highlighted during face-to-face training with relevant GLS managers.

We will continue to focus on assessing supply chain risks in relation to modern slavery and human trafficking, and are exploring options for certification of third-party suppliers for correct employment standards and signposting them to modern day slavery training materials.

Our Modern Slavery Act Statement is available at www.royalmailgroup.com.

ESG Review continued

Governance

Operating responsibly

Our stakeholders trust us to deliver for them. Maintaining this trust by operating with integrity is essential if we are to succeed and generate long-term value.

Management and oversight of our ESG-related activities

We implement Group-wide policies and frameworks and business specific strategies, policies and processes that are tailored to the needs of our Royal Mail and GLS businesses and their respective stakeholders. Information about key policies, including the Group's ESG Policy Statement, is set out on the next page and their implementation is described throughout this ESG Review. The Group's ESG Policy Statement is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

The ESG Committee provides Board level oversight of the implementation of our ESG Principles (see page 31) across the Group. Information about the ESG Committee's activities during 2021-22 is included on pages 107 to 109.

The Royal Mail and GLS Executive Boards, supported by dedicated ESG functions, are responsible for ensuring effective execution of their respective ESG strategy and alignment of targets, policies and procedures with the Group's ESG Principles and ESG Policy Statement.

We assess the risks and opportunities arising from social and environmental issues relevant to the Group at least once a year and use our risk management framework to determine their criticality. Information about our approach to risk management is included on pages 52 to 55. As part of the Group's remuneration arrangements, relevant ESG performance metrics are reviewed and incorporated into the Group's incentive plans. Further information is available on pages 112 to 116 and page 136.

Our ethical standards

We aim to foster a culture based on honesty, integrity, openness and effective debate. The overarching business policies that set out our approach to responsible business conduct, which includes our supply chain, are outlined on the next page.

Royal Mail employees have access to our policies and guidance via the intranet or our communications channel, MyRoyalMail. Royal Mail operates a comprehensive ethics and compliance training programme. All employees are required to undertake training relevant to their role and our managers are required to complete compliance refresher training annually which includes an attestation of our Business Standards. The completion rate for this annual training for FY2021-2022 was 99.8%. During the year, Royal Mail provided additional training for colleagues with procurement or supply chain management responsibilities, which covered modern slavery, anti-bribery, and the identification and mitigation

Our performance

The Group is independently rated as a leading responsible business by numerous international benchmarks for sustainability, including:

Member of
Dow Jones
Sustainability Indices
Powered by the S&P Global CSA

Included in both World and Europe Indices for the transportation industry.

FTSE4Good

Ranked in the 89th percentile of companies. Constituent of both FTSE4Good UK and Europe.

MSCI

Rated as AA.

CDP
DISCLOSURE INSIGHT ACTION

Scored B rating, ahead of industry average of C.

of tax risks relating to suppliers. All colleagues are required to complete annual mandatory compliance refresher training, which includes an attestation of our business standards. Colleagues, contractors, agency and casual workers, suppliers and business partners are encouraged to report any suspected policy breaches through our confidential Speak Up process.

GLS employees with computer access are assigned relevant policies and guidance through an online system. Employees without computer access can access print versions of the policies in the depot locations. GLS' compliance training approach consists of online training for all white-collar employees, including employees with purchasing or depot supervisory functions. These comprise modern slavery awareness training and appropriate levels of anti-corruption training.

GLS operates a dedicated Whistleblowing Helpline that is available for reporting and investigating allegations of criminal acts or similar serious offences. GLS encourages employees, business partners and third parties to report, in confidence, any concerns they have.

Royal Mail has set a target to have 50 of its high-risk suppliers and subcontractors reporting self-assessments or third-party sustainability audits via Sedex by end of 2022-23. Currently, 40 suppliers are active on the system and Royal Mail is working with Sedex to expand coverage, including launching an on-boarding support programme to identify and sign-up more suppliers.

Our approach to responsible procurement also covers the timely payment of our suppliers. Our latest Payment Practices report (which was published in October 2021) showed the percentage of invoices paid in 61 days or more fell to 2%, compared to the same period in the prior year when 8% were paid in 61 days or more.

Reporting standards

We are committed to being as open and transparent as possible about our business. Our ESG reporting meets:

- The disclosure requirement Global Reporting Initiative (GRI) Standards: Comprehensive option.
- The requirements of the EU's Non-Financial Reporting Directive.
- Our obligations as a signatory to the United Nations Global Compact.

We engage PricewaterhouseCoopers LLP (PwC) to provide limited assurance over certain non-financial performance indicators and related assertions. Their assurance covers environmental indicators and metrics used to monitor culture, such as health and safety, sickness absence and diversity. The assured metrics are included within this report and are marked '†'. Their limited assurance engagement was performed in accordance with the ISAE 3000 (Revised) and ISAE 3410 standards and further information is available at www.royalmailgroup.com/en/responsibility/policiesand-reports.

Policy	Scope
Group ESG Policy Statement	Sets out our ESG strategy, governance and commitments, including our support for the United Nations (UN) Global Compact and Universal Declaration of Human Rights.
Royal Mail Business Standards	Outlines the behaviours Royal Mail expects from our employees, and others working on our behalf. The standards are about doing the right thing, following the law, acting honourably and treating others with respect. They help our people to do the best job for our customers, keep our people safe and protect our reputation.
GLS Code of Business Standards (the GLS Code)	Outlines the values and behaviours GLS expects from its employees and business partners. It is available in local languages for all GLS employees and business partners in the 20 countries where GLS has wholly owned subsidiaries.
Royal Mail Policy for the Prevention of Bribery, Corruption and the Facilitation of Tax Evasion	Sets out our approach to minimising the risk of bribery and corruption taking place in any part of our business. We have a strict zero-tolerance policy towards bribery and corruption, and our anti-bribery and corruption policies apply to our employees and anyone performing services on our behalf.
GLS Anti-bribery Policy	Sets out our approach to minimising the risk of bribery and corruption taking place in any part of our business. We have a strict zero-tolerance policy towards bribery and corruption. Our Anti-bribery Policy applies worldwide, wherever GLS employees do business.
Royal Mail Responsible Procurement Code (the Procurement Code)	Outlines the environmental, social and ethical commitments and behaviours we expect from our suppliers and aims to ensure that we only engage suppliers that meet our standards. This code, which is based on the UN Global Compact Principles, requires our suppliers to adhere to the UN Declaration of Human Rights, which is part of our commitment to implementing the UN Guiding Principles on Business and Human Rights. We require our suppliers to communicate the Procurement Code in full to all relevant employees within their organisations. The Procurement Code is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.
GLS Supplier Code of Conduct	Sets out the standards GLS expects of its suppliers and is also based on the UN Global Compact Principles framework. A copy is available at https://gls-group.eu/GROUP/en/about-us/our-codes-of-conduct.

TCFD Statement

We recognise climate change as a key global threat, and one that poses particular risks and opportunities for our business. Identifying these risks and opportunities enables us to enhance the resilience of the business and take advantage of the opportunities it may offer.

We are committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and have started working to develop our disclosures and embed processes across the Group. Our TCFD Statement of Compliance is set out below and in the adjacent column.

Governance of climate-related risks and opportunities
The Board is responsible for overseeing the management of our climate-related risks and opportunities. It has delegated specific responsibilities to its Committees and other relevant functions across the Group, as summarised on the adjacent page.

Climate-related risk identification and analysis is a process in which risk profiles are maintained by relevant members of the Royal Mail and GLS senior management. The Audit and Risk Committee (ARC) provides oversight of Group principal risks and progress against mitigation strategies. The ARC is supported by the Royal Mail Risk Management Committee and GLS Audit and Risk Committee. We are also establishing a Group-wide TCFD working group which will comprise representatives from Investor Relations, Finance, Risk and ESG functions.

A standard risk scoring methodology, based on probability and potential impact, is used to rank 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 more information on how the Royal Mail and GLS businesses identify, manage and monitor risks (including climate-related risks) please see pages 52 to 61.

We have further work to do to develop our processes and enhance our reporting in relation to TCFD. Specific recommendations not fully implemented are outlined below, together with information about how we plan to develop these areas in the future based on timelines that will be determined and approved by the Board.

- Governance and risks: we describe the Board's oversight of climate-related matters in so far as they pertain to the broader ESG landscape and strategy. Processes to ensure Board and senior management oversight of specific climate-related risks and opportunities are to be developed, together with mechanisms to ensure management is informed about these matters. The maintenance of risk profiles by relevant members of the Royal Mail and GLS senior management to take account of climate-related issues will be improved. In addition our future disclosures will provide more detailed information about how climate-related risks are managed and integrated into the Group's risk management framework.
- Climate risk metrics: we have yet to fully define and implement the metrics we will use to monitor and manage the identified climate-related risks.
- Financial impacts: we have not yet fully quantified the financial impacts that climate-related risks and opportunities could have on the Group over the short, medium and long term TCFD horizons. We recognise the need to present a holistic picture of the climate-related interdependencies that could affect our ability to create value over time, and how these are integrated into our financial planning process. In this context, carbon pricing will be considered as part of our future financial planning.

TCFD Statement of Compliance
Set out below are our disclosures in accordance with Listing Rule 9.8.6R(8). We believe the recommendations listed below require further development to fully meet TCFD guidelines. The page numbers refer to where information can be found on the progress that has been made to date in each area.

Recommended disclosures	Page numbers
Board's oversight of climate-related risks and opportunities.	**46 and 47**
Management's role in assessing and managing climate-related risks and opportunities.	**46 and 47**
Climate-related risks and opportunities identified over the short, medium, and long term.	**50**
Impact of climate-related risks and opportunities on businesses, strategy, and financial planning.	**50 and 51**
Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**49**
Processes for identifying and assessing climate-related risks.	**48**
Processes for managing climate-related risks.	**50**
How processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management.	**46 and 47**
Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process.	–
Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.	**48**
Targets used to manage climate-related risks and opportunities and performance against targets.	**48**

Climate-related governance

Board oversight

The Board

Role

Accountable for and oversees management of climate-related opportunities, risks and performance.

Relevant experience

In early 2021, the Board received training on ESG-related topics. Also see Board member biographies on pages 82 and 83.

Key focus during 2021-22

The Board has continued to increase its focus on climate-related matters as the ESG landscape evolves. This has included discussions on increased regulatory requirements, and changing investor, customer and consumer expectations. ESG also forms part of wider Board discussions on strategy and investor relations, and the Board receives ESG Committee updates from the ESG Committee Chair on any material issues that are discussed.

Board activities related to climate change included:

- Approved new Group ESG Principles, which include our role in the transition to a low-carbon future.
- Reviewed and approved the environmental and sustainability principal risk.
- Reviewed and approved updated environment strategies for Royal Mail and GLS.
- Reviewed environmental sustainability metrics and performance targets.
- Reviewed and approved climate and environmental-related disclosures of the Annual Report.
- Reviewed quarterly update from the ESG Committee in relation to progress with development of climate-related strategy and key activities.

See pages 84 to 90

Specific responsibilities are delegated to the Board's Committees

Audit and Risk Committee

Oversees the Group's risk management systems and reviews the policies and processes for identifying and assessing the risks to which the Group is exposed, which include environmental and sustainability principal risk, and the management of those risks.

See pages 99 to 106

ESG Committee

Oversees the Group's ESG agenda, with a focus on the Group's environment strategies and performance. During the year the Committee reviewed the GLS and Royal Mail strategies, and recommended their approval to the Board.

See pages 107 to 109

Remuneration Committee

Determines how ESG metrics, including environmental and climate, will be considered within the remuneration policy and how they will be taken into consideration in determining the final incentive pay decisions.

See pages 110 to 141

Executive leadership and their functions oversee day-to-day management

Executive management

Royal Mail Executive Board
GLS Executive Board

Responsible for day-to-day assessment and management of climate-related risks and opportunities, and the delivery of each business' environmental strategies.

Royal Mail
Risk Management Committee

Identifies principal risks, including environmental and sustainability, and oversees plans to mitigate.

GLS
Audit and Risk Committee

Identifies principal risks, including environmental and sustainability, and oversees plans to mitigate.

We are also establishing a TCFD working group to ensure discussion and interpretation of climate-related risks and opportunities and, appropriate business planning.

TCFD Statement continued

Climate transition strategies
We are committed to providing sustainable solutions for our customers and communities and managing the transition to a low-carbon economy through science-based decarbonisation strategies. During the year, Royal Mail and GLS set new ambitions to decarbonise their respective businesses and developed bespoke environmental strategies. These strategies include increasing the use of low and zero-emission transport, reducing emissions across operations overall, and reducing energy usage at buildings. For more information about our environmental strategies, please see pages 32 to 35.

Identification of main climate risks and opportunities
The Group has applied the following three-step approach to identify and analyse the impact of climate-related risks in different scenarios to facilitate medium- to long-term business planning:

1) Based on the defined climate scenarios, hold workshop discussions with representatives from across the business to discuss the material climate risks in key areas of our operations, supply chain and markets.

2) Map the impact pathways of the material climate risks identified.

3) Assess the scale of the climate risks and opportunities for the business.

Time horizons and climate risk scenarios
We determine our climate risks and opportunities based on our operations, locations and legal obligations. In 2021-22 we worked with external specialists to better understand the long-term impacts of climate change on our business. This included a qualitative climate change risk and opportunity assessment to understand the different climate issues that could impact the business in the future under different scenarios. These scenarios derive from the Network for Greening the Financial System (NGFS), a peer-reviewed and publicly available third-party source, and are summarised below.

We reviewed material climate risks against the following three time horizons in which risks could have an impact:

- **Short term:** < 2030, with a focus on transition risk and significant policy frameworks.
- **Medium term:** between 2030 and 2040, with a focus on transition risks and policy frameworks aligned to meet climate goals and some physical impacts.
- **Long term:** > 2040, largely focused on physical risks to take into account climate science projections.

In line with TCFD recommendations, we also conducted a review against the climate risk scenarios detailed in the graphic on the following page.

Royal Mail

Target – Net zero by 2040
Scopes 1, 2 and 3 at all UK operations (Royal Mail and Parcelforce), aligned to 1.5°C and the latest climate science, and science-based target standards.

GLS

Target – by 2045
Ambition to reduce Scope 1, 2 and 3 emissions to zero by 2045 across European operations.

Description of time horizons and climate-risk scenarios

Rapid scenario (1.5 degrees): rapid transition. Transition risks are maximised and physical risks, although present, are relatively low.	Policy frameworks begin to increase and take effect to facilitate rapid decarbonisation. Key considerations for Royal Mail and GLS are to ensure that environment and business strategies are aligned with, or are ahead of the policy requirements. Decarbonisation plans of both businesses will require regular review to ensure they remain at pace with climate science and are aligned to requirements across all areas of operation. In this scenario, physical risks should be limited.
Orderly (<2 degrees): long-term orderly transition to low-carbon economy. Climate policy gradually becomes more stringent and physical risks are present but relatively low, while transition risks are moderate to high.	The implementation of policy is slower than in the rapid scenario, which reduces the impact on the business of any sudden policy changes. This scenario would need regular reviews of decarbonisation plans and business strategy to ensure that plans remain aligned across all areas of operation. In this scenario, physical risks are present, but are considered relatively low, and should be integrated into business continuity and business risk mitigation and adaptation planning.
Disorderly (2-3 degrees): sudden disorderly transition to low-carbon economy. Climate policies are not introduced until 2030. Emissions reductions are sharper than in an orderly scenario to limit warming to the same target. Physical risks rise and transition risks are maximised.	A sudden increase in climate-related policy would be introduced around 2030 following years of largely ineffective policies. Physical risks are higher within this scenario requiring more significant planning for business continuity to avoid or mitigate disruption to operations.
No transition (>4 degrees): failed transition to low-carbon economy. Only current policies implemented, and national targets are not met. Emissions continue to grow, leading to severe physical risks but with limited transition risks.	The business would be required to comply with current policy only from a regulatory perspective. However, the physical impacts of climate change would be significant, causing disruption to operations and the value chain. In this scenario, transition risks should be integrated into our business continuity and business risk mitigation and adaptation planning.

TCFD Statement continued

Main climate risks and opportunities
The Group has done an initial assessment of the climate-related risks and opportunities with the highest potential to impact the business under the range of time horizons and scenarios outlined above. It has yet to fully assess what the impact of the risks identified will be on all areas of the business, such as products, services, supply chain. To date, we have concluded that:

- The relative materiality of climate-related risks and opportunities varies across the Group's business areas.
- Extreme weather events are a material physical risk, based on internal stakeholder engagement but less material than transition risks.
- A ban on the sale of petrol and diesel vehicles is the most material transition risk, based on internal stakeholder engagement.
- In each case, the Group's products and services will have to respond to shifts in customer demand.

Physical risks
These are defined as risks which arise from the physical effects of climate change, such as an increase in extreme weather events. These are already having an impact on the Group, but are considered to be less materially significant to the Group than transition risks. Even so, the physical risks below would have a negative impact on the Group's delivery of service.

Transition risks
These are business-related risks that follow societal and economic shifts toward a low-carbon future. They are considered to be very material to the Group due to the reliance of its business model on its fleet for operations, where the majority of the Group's CO_2e emissions come from. The transition risks detailed in the adjacent column could have a negative impact on the Group's business model.

Transition opportunities in our markets
Climate change offers the Group significant commercial opportunities. As consumer demand for more ethical business practices and products continues to grow, the Group can create more sustainable delivery mechanisms and 'greener' products and services that can help it to expand market share. Furthermore, the Group can achieve important savings through renewable energy.

Transition opportunities with investors and via partnerships
Climate change offers the Group significant opportunities in financial markets and by collaborating with key external partners. As investor expectations continue to shift in favour of businesses that take decisive action to tackle the threat of climate change, the Group has the opportunity to differentiate by taking a leadership role with regard to ESG more broadly. At the same time, the transition of the Group's fleet to low- and zero-emission vehicles such as EVs will offer new opportunities for partnerships with a wide range of companies including competitors and energy providers to create efficiencies and support the development of charging infrastructure.

Group priority physical risks	Business element impacted	Risk rating	Time horizon
Extreme weather events (e.g. storms, flooding) impacting operations.	**Operations, Market**	**High**	**Medium to Long**
Impacts of changing climate on employee wellbeing.	**Operations**	**Medium**	**Medium to Long**
Damage to facilities/equipment at sites/data centres reducing connectivity.	**Operations**	**Medium**	**Long**
Chronic changes in physical environment. Increased frequency of extreme weather events including chronic sea level rise and changing weather patterns causing supply chain disruption.	**Supply chain, Operations**	**High**	**Medium**

Group priority transition risks	Business element impacted	Risk rating	Time horizon
Introduction of a carbon tax increasing the cost of running the Group's large commercial vehicle fleet and property.	**Operations, Market**	**Medium**	**Short**
Ban on the sale of petrol and diesel vehicles requiring alternative fuel vehicles.	**Operations, Supply chain**	**High**	**Short to Medium**
Reputational damage as peers transition more successfully/swiftly.	**Operations, Market**	**High**	**Medium**
Growing costs due to increased demand for electricity, especially from renewable sources.	**Operations, Market**	**High**	**Short to Medium**

Group priority transition risks	Business element impacted	Risk rating	Time horizon
Enhanced investment in energy efficiency through a greater proportion of renewable energy sourced for the Group.	**Operations, Supply chain**	**Medium**	**Medium**
Increasing customer/consumer demand for clean delivery mechanisms and new products/services.	**Operations, Market**	**High**	**Short to Medium**

Financial impacts

Our Royal Mail business has begun reviewing the estimated potential financial implications associated with two transition risks, which are likely to impact the business within the next five years (GLS has not yet performed a quantitative analysis of its transition risks).

While both transition risks are not individually material to the business, suitable mitigations can be put in place to reduce the financial risk to our business over time. These are:

1. Ban on the sale of petrol and diesel vehicles requiring alternative fuel vehicles. Such a ban would have wide ranging impact on our transition to EVs by 2030. This year we have focused on the impact of taxation and duty changes, including a distance-based road pricing system, and potentially increased taxation for fossil fuel and electricity.

2. This is the estimated increased cost impact of growing demand for electricity, especially from renewable sources, as we continue to automate and electrify our operations towards 2030, but does not reflect potential savings from self-generating renewables.

Transition risk	Likelihood and timeframe	Financial impact estimate
1. The transition to electric vehicles changes the road, fuel and vehicle taxation system.	Likelihood: Likely Risk timeframe: By 2030	Increase in operating cost: Range £0-20M Impact: Not material
2. Growing costs due to increased demand for electricity, especially from renewable sources.	Likelihood: Likely Risk timeframe: By 2030	Increase in operating cost: £20-50M Impact: Not material

Risk Management

Through the implementation of risk management processes that promote a sound control environment, we seek to identify, assess and manage risks that could impact our business.

Risk management framework
Risk management processes and controls are utilised across the Group. The Board has overall accountability for ensuring that we operate sound risk management procedures and, on at least an annual basis, the Board assesses their effectiveness (see page 87).

The Board has delegated responsibility for reviewing the effectiveness of the Group's risk management and internal control systems to the Audit and Risk Committee (the ARC). The ARC seeks to ensure that the Group operates prudent and effective controls that allow significant risks to be identified, assessed and managed. The ARC, in turn, is supported by the Risk Management (RM) Committee, the Finance Committee and the GLS Audit and Risk Committee in fulfilling its duties.

Risk management policies and procedures are utilised across the Group and we provide training and guidance to relevant personnel. Management teams across Royal Mail and GLS are responsible for the management of specific operational risks and developing actions to mitigate their impact.

Our risk management processes and controls are designed to manage rather than eliminate risk. Taking on manageable risks is an inherent part of the Group's commercial activities and the framework we operate can only provide reasonable and not absolute assurance against misstatement or loss.

Our risk management framework

Top down

Principal
risk management

Board
- Review external environment.
- Set risk appetite.
- Determine strategic response.

ARC
- Assess effectiveness of risk management process and internal control systems.
- Monitor principal risks.
- Report on principal risks and uncertainties.

Risk Management Committee
- Identify principal risks.
- Oversee mitigation plans.
- Monitor progress towards risk appetite.

GLS Audit and Risk Committee / **Finance Committee**
- Consider completeness of identified risks and adequacy of mitigation activity.
- Consider aggregate of risks across the business.

Royal Mail & GLS Executive Boards
- Execution and delivery of mitigating actions.
- Report on progress towards risk appetite.

Royal Mail Business Unit Leadership / **GLS Regional Management**
- Report current and emerging risks.
- Identify, evaluate and mitigate risks.
- Maintain risk profiles.

Bottom up

Business unit/Regional*
risk management

Third line
- Independent assurance by internal and external providers over adequacy and effectiveness of mitigation provided to the Board.

Second line
- Compliance monitoring and oversight of first line through regular reviews, assessments and dedicated oversight functions.

First line
- Primary controls to manage risks in day-to-day operations.

* During the year GLS commenced the implementation of regional risk management which will complete during the 2022-23 financial year.

Risk appetite

The Board sets the Group's risk appetite. This determines the target level of risk we are prepared to take to achieve our strategic objectives over the medium to long term and the extent of controls we need to operate in order to mitigate such risks.

The ARC monitors the Group's risk management activity within the risk appetite throughout the year. Focused discussions on progress towards target risk levels take place at the RM Committee and ARC meetings at least twice a year.

Our Royal Mail and GLS management teams are accountable for identifying and managing risks and for delivering the Group's objectives in accordance with the Group's risk appetite.

To achieve our strategic objectives, it is necessary to take on, or accept, certain risks. In doing so, we seek to ensure that:

- We clearly understand our significant risks, their likelihood and potential impact.
- The level of risk we take, or accept, is balanced against the potential benefits.

Our risk appetite ranges across low, low to moderate and moderate to high tolerance levels and is broadly mapped against three risk categories as illustrated in the adjacent table.

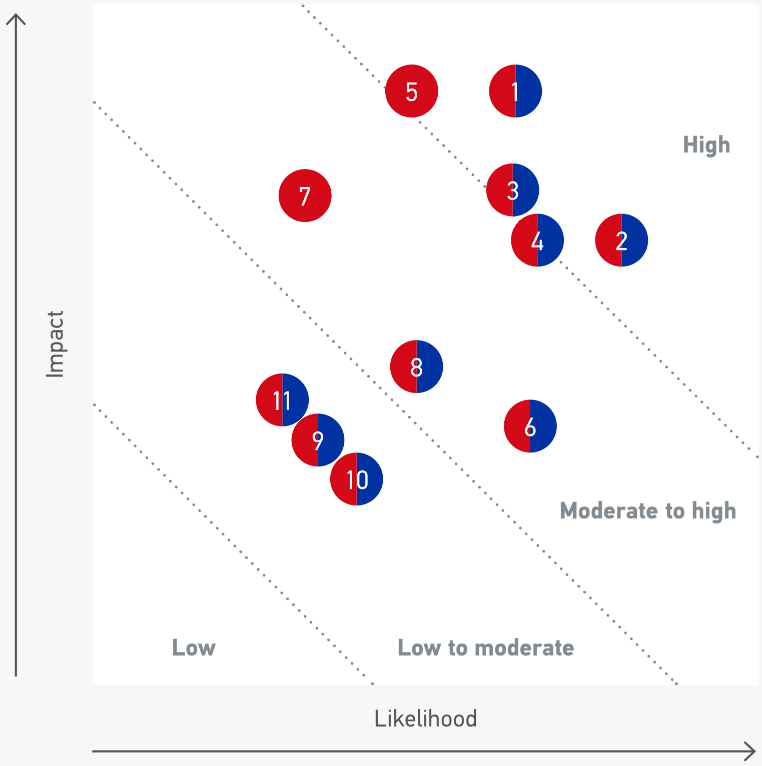
Risk appetite

Risk category	Risk appetite level and link to principal risks[1] (see pages 56 to 61)
Strategic/ External	**Moderate to high** The Group takes well-informed and well-managed risks to achieve strategic objectives if potential benefits outweigh risks, particularly where the external risks are less in Management's direct control. 2 7
Operational/ Financial	**Low to moderate** The Group works to achieve strategic objectives through accepting, managing and/or reducing risk to a low to moderate level, as appropriate. 1 3 4 5 6 8
Legal, compliance and regulatory	**Low** The business seeks to reduce the risk to a low level as far as practically possible. 9 10 11

1. The icons on this page and the following page are colour coded to illustrate the risks that relate to Royal Mail (red) and those that relate to GLS (blue).

Risk Management continued

Risk heatmap



Principal risks (see pages 56 to 61)

1. Failure to reduce our cost base
2. Economic and political environment
3. Major breach of information security, data protection regulation and/or cyber-attack
4. Customer expectations and our responsiveness to market changes
5. Industrial action
6. Talent – workforce for the future
7. Our UK regulatory framework
8. Environmental and sustainability
9. Actual or suspected breaches of material law and/or regulation
10. Business continuity and operational resilience
11. Health, safety and wellbeing

Our principal and emerging risks

Our principal and emerging risks are assessed by the Board on a bi-annual basis and monitored by the ARC across the year. The Board confirms that robust risk assessments were completed during the financial year.

Our principal risks are detailed on pages 56 to 61. They are ordered on a net risk basis which takes into account the estimated magnitude of potential impact and probability of occurrence. Our principal risks are also reflected in the key assumptions that form part of our viability assessment process (see pages 62 and 63).

The graphic above illustrates our assessment of the likelihood of our principal risks occurring and their estimated impact, and takes into account the mitigating actions in place to manage each risk.

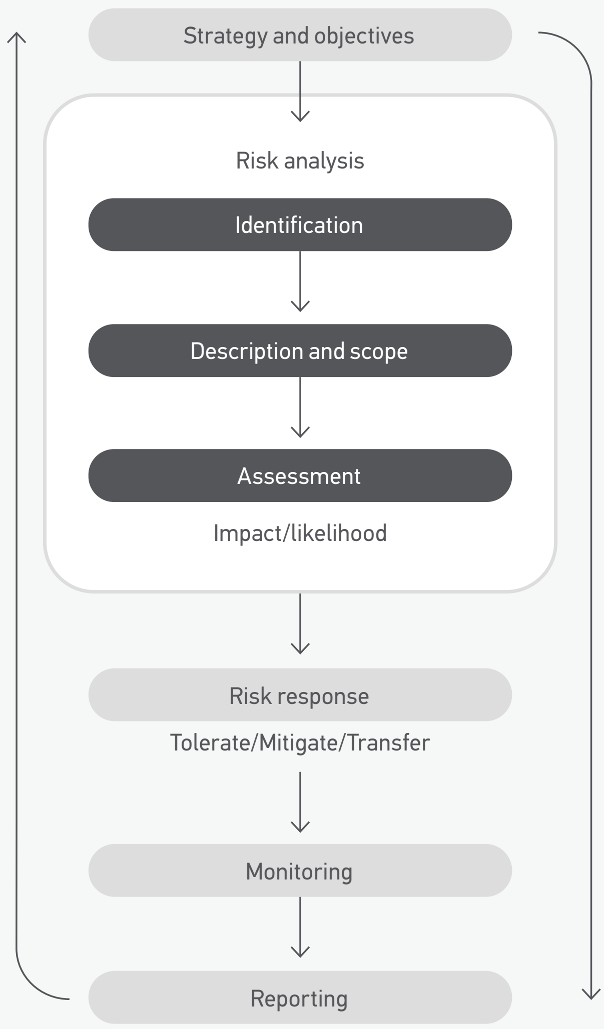
Net risks can move depending on circumstances at any time. Movements compared to prior year have been highlighted on pages 56 to 61.

War in Ukraine

Following the commencement of the war in Ukraine and the imposition of sanctions on Russia, we have assessed the potential impact on the Group. We do not rely on goods or services procured from or sold into impacted regions and we do not own any business assets in those regions. While there is no direct impact, we have identified a number of areas that are indirectly affected. A prolonged war could result an extended period of higher inflation and energy costs, reduced consumer spending and an increased threat of cyber-attacks. We have reflected this indirect impact in the following existing principal risks which are set out on pages 56 and 57:

– Failure to reduce our cost base – inflationary cost pressures.
– Economic and political environment – reduction in consumer confidence due to increased cost of living and lower GDP growth.
– Major breach of information security, data protection regulation and/or cyber-attack – increased threat of cyber-attacks.

Risk identification, analysis and response



Identification, analysis and response

The identification and analysis of individual risks is a continuous process that takes account of the internal and external business environment as well as the effectiveness of the risk controls we operate. Principal risk profiles are maintained by relevant members of the Royal Mail and GLS Executive Boards. Business Unit risk profiles are also maintained at functional levels across the Royal Mail business. During the year, GLS started to develop regional level risk profiles across its business which will be fully implemented during 2022-23.

Gross, net and target risk scores are evaluated as a product of impact and likelihood, and are represented visually on heatmaps within risk profiles to facilitate analysis and Management focus. These risk profiles provide visibility to Management over the effectiveness of control activities and mitigations. Each risk is assessed considering the likelihood of the event occurring based on multiple factors, the full range of potential impacts and their severity should the event occur.

We identify emerging risks through various discussions with Management and subject matter experts and other external insights. All relevant information is captured in a horizon-scanning radar which serves to illustrate our potential exposures across a number of risk categories and helps us assess whether we are adequately prepared for new and potential future risks and any opportunities they may create.

Monitoring and reporting

Throughout the year, Royal Mail business unit leadership teams regularly review the risk profiles covering their functional areas of responsibility. Formal risk assessments are undertaken on a bi-annual basis to coincide with the Group's full- and half-year reporting cycle. GLS' principal risk profile is reviewed by subject matter experts and GLS Executive Board members twice a year. In 2022-23 this bi-annual review process will be supplemented by the regional risk profile reviews described above. The outcomes of these bi-annual assessments are reviewed by the RM Committee, the GLS Audit and Risk Committee and the ARC, and are used to inform and determine the Group's principal risks.

Emerging risks

We report the results of emerging risk activity to the ARC, taking into account of both external and internal factors to ensure that a holistic view is taken. We have increased the frequency of emerging risk reporting as part of the half-year and year-end risk assessments.

Our Principal Risks and Uncertainties

Detailed below are the principal risks we consider could threaten our business model, the execution of our strategy, and the preservation and creation of sustainable value for shareholders and other stakeholders. How we seek to mitigate these risks is also explained below.

Risk	Status	Controls and actions to mitigate
1. Failure to reduce our cost base (previously called 'Efficiency') – High risk		
We must become more efficient and agile to compete effectively in the parcel and letter markets. **The success of our strategy relies on the reduction of our cost base whilst managing wider economic pressures and the Industrial Relations environment to deliver productivity benefits across all areas of the business.** **Failure to reduce costs while at the same time delivering high-quality services could result in a loss of customers, market share and revenue.**	In common with many businesses, there are inflationary cost pressures across the Group, exacerbated by the war in Ukraine including labour, energy and other supply costs. While our delivery network in Royal Mail provides a strong competitive position, particularly in the combined delivery of letters and small parcels, it is not currently optimised for the increased demand for flexible acceptance times and larger parcels. Effective working relationships with our trade unions are key to the delivery of ongoing efficiency benefits (see risk 5. Industrial action). In GLS, we need to ensure that our networks and processes are optimised to withstand inflationary cost pressures and support sustainable growth.	We have a number of initiatives in place to drive efficiency across the Group, including: – Transforming our UK business from a letters-led to a parcels-led operation through network optimisation. – Building dedicated parcel hubs and installing automated parcel sorting machines. – Embedding a range of digitally enabled work tools. – Simplifying products and services and developing customer-focused technology solutions. – Accelerating GLS' pricing and productivity initiatives. – Reviewing the operational efficiency of GLS' networks. For further detail on initiatives to improve productivity see pages 19 and 20.
2. Economic and political environment – High risk		
Macro-economic conditions and/or the political environment across our markets may adversely affect the Group's ability to control costs and maintain and grow revenue due to reducing volumes or by driving customers to adopt cheaper products or formats for sending letters and parcels.	We continue to monitor the economic, political and wider external environment across all of our markets. The economic outlook has worsened and is dependent on the extent to which the global economy recovers following the pandemic. A prolonged war in Ukraine could have an adverse effect on our costs, supply chain, business confidence and customer behaviour, which will impact letter and parcel volumes. Prolonged fiscal tightening, including increased business rates, employment taxes, tax policies including subcontractors and a potential online UK sales tax, could increase our costs or impact consumer confidence, which could affect parcel and letter volumes.	– Regular review and update of scenarios to inform a range of medium- and long-term economic outcomes and strategic actions to maintain a strong liquidity position, with good levels of cash and limited financial debt. – Hedging exposure to commodity costs and pricing initiatives to offset inflationary cost pressures. – Executing an efficiency programme to build resilience into the operating model and agility to respond to revenue and cost headwinds. – Ongoing monitoring of political and policy changes and regular engagement with politicians and policy makers, as appropriate.

Royal Mail strategy

- Customer
- Trust
- Growth

GLS strategy

- Connect Europe
- Strengthen 2C parcel market position and lead in 2B
- Inspire the market

Change in risk score during the year

- Increasing risk – Low to Moderate / Moderate to High risk
- Decreasing risk – Moderate to Low / High to Moderate risk
- Stable risk – no change

Risk	Status	Controls and actions to mitigate
3. Major breach of information security, data protection regulation and/or cyber-attack – High risk		
Due to the nature of our business, we collect, process and store confidential business and personal information. 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, employees, shareholders and suppliers. **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.** **Also, a major breach of information security, data protection laws and regulations and/or cyber-attack could adversely impact our reputation, resulting 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 war in Ukraine, the hybrid workforce driven by the pandemic and an increasing reliance on technology and data for operational and strategic purposes, this continues to be a principal risk. We also recognise that in a business with more than 161,000 people and large quantities of documentation, there is a possibility of human error in the protection of data.	– Continually investing in cyber resilience including enhancing our cyber control capabilities across our technology estate to protect our customers, colleagues, services and assets. – Strengthening our preparedness to quickly detect and respond to threats before they become incidents, including ransomware. – Ongoing assurance of organisational and technical measures, including disaster recovery and assessment of third-party supplier controls. – Promoting good behaviours and stressing the importance of maintaining vigilance through regular communication, training and awareness across our workforce. – Encouraging an open and prompt reporting culture so appropriate remedial action can be taken as soon as possible. – Data privacy and protection policies and compliance programme, which includes assessment and monitoring of data risks across the global business.
4. Customer expectations and our responsiveness to market changes – High risk		
Failure to deliver against existing and changing customer needs and expectations (including quality of service) could impact the demand for our products and services. **Our success at growing new areas of business is dependent on identifying profitable and sustainable areas of growth and having in place appropriate structures to support transformation.**	The pandemic and, in particular, the rapid growth in online business and increased parcel volumes, has accelerated structural changes in our markets. To remain competitive, it is more important than ever that we meet customers' evolving expectations, such as the increasing importance of ESG (see risk 8. Environmental and sustainability), and continue to harness growth opportunities in a sustainable and profitable way. The economic outlook has worsened as a result of the pandemic and a prolonged war in Ukraine could further affect business confidence and consumer spending, which in turn could adversely affect parcel and letter volumes.	We are becoming more customer centric and we are responding to market changes by: – Restoring Royal Mail's quality of service. – Driving new product development based on customer feedback, including increasing the proportion of products that can be tracked and other incentives to encourage reconnection with letters and mail services. – Leveraging our UK footprint as the sole designated Universal Service Provider. – Delivering sustainable growth and customer innovation through the Accelerate GLS strategy. – Growing new areas of business and expanding service offerings. – Pricing/surcharge opportunities that do not inhibit value growth. For further information see pages 10 and 11 and pages 14 to 23.

Our Principal Risks and Uncertainties continued

Risk	Status	Controls and actions to mitigate
5. Industrial action – High risk		
There is extensive trade union representation across our UK workforce, with strong and active trade unions. **One or more material disagreements or disputes could result in widespread localised or national industrial action.** **We may be unable to obtain the necessary legislative changes to enable us to implement the Royal Mail Collective Pension Plan (RMCPP), as agreed with the CWU.** **Industrial action could cause material disruption to our UK business and likely result in an immediate and potentially ongoing significant loss of Group revenue. It may also affect Royal Mail's ability to restore Quality of Service and meet targets prescribed by Ofcom, which may lead to enforcement action, fines and loss of customers.**	The success of Royal Mail is reliant on the dedication of its people and the delivery of its transformation programme. One of our strategic priorities is to rebuild trust and develop positive working relationships with our people and unions. As a result of the increasingly uncertain external environment, competition and growing inflationary costs, the transformation of the Royal Mail business needs to be accelerated. This, together with a rise in the cost of living, is increasing the risk of industrial action. The Pension Schemes Bill, of which RMCPP is a part, received Royal Assent in February 2021 and is now allowed by law. However, further regulatory changes and approvals will be required by the Government/Pensions Regulator before our scheme can be established. CWU submitted a pay claim in February 2022 and we have entered discussions. We have made an offer on pay which CWU has rejected. CWU has informed Royal Mail it is making preparations for a possible ballot for industrial action. We have entered into our formal Dispute Resolution Procedures to try to secure agreement. Unite/CMA have informed us of their intention to issue a consultative ballot to test their members' will for any further action in relation to the operational management restructure announced in January 2022. This does not constitute a formal ballot for any industrial action.	– Royal Mail CEO, Group CFO and members of the Royal Mail Executive Board regularly meet with union leaders. – Joint implementation of the Pathway to Change agreement. – Regular engagement with CWU and Government to introduce the necessary legislative and regulatory changes for RMCPP. – Engagement with unions on the 2022 pay deal and the operational management restructure. – Use of the dispute resolution procedures to reach agreement. – Operational contingency plans in the event of industrial action. – Continuing to rebuild trust with our employees through engagement, communication and supporting them in the delivery of the business goals.
6. Talent – workforce for the future (previously called 'Capability – talent and strategic workforce planning') – Moderate risk		
Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate skills and expertise across the Group. **In Royal Mail, workforce planning could be adversely impacted by an ageing workforce and a reduction in available workforce due to socio-economic factors, demographic change and increasing digitalisation.** **A high level of employee trust and engagement is essential if we are to deliver Royal Mail's transformation and growth strategy.**	The Royal Mail transformation programme, together with the structural changes in the letter and parcel delivery markets, is changing the nature of some roles and creating the need for new and different skills. We need to upskill and develop our existing workforce, and attract new people with the right capabilities and behaviours to support the delivery of our strategic ambitions. As GLS' business continues to grow, the need for strong and effective management in all regions are essential.	– Regular Senior Management talent reviews and succession planning supported by external recruitment where key skills are required. – Leadership development programmes to support transformation and strengthening performance management. – Diversity, equality and inclusion (DEI) initiatives to accelerate DEI across our teams. – Implementation of a workforce plan aligned with the strategy and commercial outlook. – Generational change initiatives including Postal Apprenticeships and the Royal Mail Academy. – Regular trust and employee engagement surveys, improved communications and use of digital tools. – GLS regional management succession planning.

Risk	Status	Controls and actions to mitigate
7. Our UK regulatory framework – Moderate risk		
The continuing structural decline in addressed letter volumes, and broader changes in the parcels market poses significant risks to the financial sustainability of the Universal Service Obligation (USO). **There is a further risk that Ofcom fails to change and modernise the regulatory framework in order to preserve the scale and relevance of the postal USO, or chooses to change the framework in a way which impacts our customer strategy or is commercially disadvantageous to Royal Mail.**	Given the scale of our transformation in Royal Mail and the pace of change in the postal sector, we need the right regulatory framework in place to make a reasonable return on our investment and have the commercial flexibility to innovate and keep pace with the market and consumer needs. Ofcom is undertaking a review of postal regulation and published its consultation in December 2021. Ofcom has stated that the current system is generally working well for people and businesses who use postal services, and we support Ofcom's proposal not to extend Access regulation. However, we are disappointed that Ofcom has not taken this opportunity to allow tracking on USO services as consumers increasingly demand more visibility over their deliveries. We expect the outcome in Q2 2022-23, with any resulting changes likely to take effect from April 2023.	We are engaged in a number of activities that are focused on securing the future sustainability of the USO, including: – Active participation in Ofcom's consultation process, including providing detailed, evidence-based submissions to Ofcom. – Executing the Royal Mail transformation plan to underpin the sustainability of the USO. This will help us become even more efficient and better placed to respond to changing customer demands. – Working with Ofcom, Government and the unions more broadly to ensure that the Royal Mail business is financially sustainable. – Extensive stakeholder engagement programme during the review of postal regulation.
8. Environmental and sustainability (see also our TCFD Statement on pages 46 to 51) **– Moderate risk**		
Transition risks: **As our customers and stakeholders seek to adapt to climate change, demand is increasing for more sustainable products and services. The cost of operations could increase as we adapt to government and regulatory changes in response to a drive to net zero emissions and air quality targets for towns and cities.** **In common with all major organisations, there is a risk of reputational damage and/or loss of revenue if we do not meet stakeholder expectations for action on climate change.** **Physical risks:** **An increase in the frequency of extreme weather events may result in disruption to our operations and impact our ability to meet customer expectations, the USO or other contractual requirements. We may also see price rises as a result of resource scarcity, increased operational costs and required investment to protect the business from extreme weather events.**	Demonstrating leadership on ESG issues, including the environmental impact of our activities, is the right thing to do. It is also essential if we are to achieve competitive advantage, create value and deliver our strategy. Delivering a sustainable network has been embedded in Royal Mail and GLS' strategies for some time. We are increasing our focus in this area. During the year we developed Group ESG Principles and updated Royal Mail and GLS' environmental strategies (see pages 30 to 33). We continue to review our business strategies to address and manage the most important ESG issues, embed these into our processes and seek to comply with the guidelines of the TCFD for environmental risks.	– Development of a Group-wide ESG framework. – Executing enhanced Royal Mail and GLS environmental strategies including accelerated ambitions for decarbonisation. (see pages 32 and 33). – Investing in zero- and low-emission vehicles and installing efficient equipment across our property estate. – Investing in innovative technologies, such as telemetry, and driver training programmes, to improve operational efficiency and reduce our fuel consumption. – Opening new EcoHubs with renewable energy generation and sustainable infrastructure across GLS' network. – Engaging our people in our efforts to become more efficient and reduce our use of natural resources. – Reducing our energy and water consumption and reducing the amount of waste we generate.

Our Principal Risks and Uncertainties continued

Risk	Status	Controls and actions to mitigate
9. Actual or suspected breaches of material law and/or regulation (previously called 'Competition Act investigation') – Moderate risk		
Failure to comply with relevant material laws and regulations that apply to our business, including competition, anti-bribery, Ofcom essential conditions and quality of service targets, trade sanctions and corporate governance. Actual or suspected breaches could result in financial loss, fines, regulatory enforcement action, criminal charges, debarment and/or reputational damage impacting our ability to operate and grow.	This risk previously focused on the competition law investigation relating to the Royal Mail business, which is described on pages 216 and 218. It has been broadened and now reflects all the material laws and regulations that the Group must comply with. There has been continued focus on controls in relation to competition law and as such the overall risk to the Group has decreased. In May 2021, the Group's appeal against the Competition Appeal Tribunal's judgement to uphold Ofcom's decision to fine Royal Mail £50 million was rejected by the Court of Appeal (CoA), The Group is now seeking permission from the Supreme Court to appeal the CoA's judgment. Our quality of service results for the 2021-22 year showed that the difficult and exceptional ongoing impact of COVID-19 had impacted our performance and Royal Mail did not meet its regulatory quality targets.	– Policies, training and guidance to colleagues to raise awareness of risks, required mitigation and expected standards of conduct. – Regular assessment of risks and advice by specialist lawyers. – Horizon scanning to prepare for legislative changes and developing policies and processes to address them. – Monitoring of compliance and provision of assurance. – Fostering a culture where colleagues can speak up so we can promptly address any issues and stop them happening again. – Quality of service monitoring and restoration activity.
10. Business continuity and operational resilience (previously called 'Business continuity and crisis management') – Moderate risk		
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, our customers and our supply chain. This could also impact on the ability of Royal Mail to meet its regulatory obligations.	Royal Mail is classified by the Department for Business, Energy & Industry Strategy as critical national infrastructure and also has a responsibility to provide sustained and continued postal services under the USO. The temporary relaxation by Ofcom of some Universal Service requirements during the pandemic has now ended. The pandemic has been a robust test of our business continuity arrangements. GLS has a growing geographical footprint and has an interconnected international network across Europe and the US.	– Regular comprehensive reviews of business continuity and crisis management governance including operational contingency plans. – Established functional response teams, comprising Senior Management and executive leadership, embedded across the business. – Tactical arrangements in place to support operational incident management. – Regular testing of disaster recovery plans and alignment with business continuity plans. – Ongoing monitoring of operational processes to minimise disruption related to the pandemic whilst keeping our people and customers safe.

Risk	Status	Controls and actions to mitigate
11. Health, safety and wellbeing – Moderate risk		
A health and safety incident or global health crisis could result in the serious injury, ill health or death of our people 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/or reputational damage. **Within GLS there are also health and safety risks associated with subcontractors utilised across the business.** **Failure to manage the health and wellbeing of our people could lead to reputational damage, loss of employee goodwill and financial losses through increased sickness absence, lower productivity, and failure to deliver the USO, civil action or criminal prosecution.**	The health, safety and wellbeing of our people, customers and members of the public is of paramount importance. We have many employees, including seasonal staff and agency workers. We also operate a very large fleet of vehicles, employ a large number of contractors and interact extensively with members of the public. A large proportion of our people spend most of their time working outdoors, on foot or driving, where the environment is unpredictable and more difficult to control. Due to our wide reach and the number of people affected by the Group's undertakings, the risk of serious harm to people cannot be totally mitigated. We acknowledge that every health and safety incident has a human impact. In common with many businesses, the pandemic has had an adverse effect on short- and long-term employee absence throughout the year with peaks in infection rates, isolation and NHS delays for routine procedures. As a result of these factors, the overall risk has increased.	– Policies, procedures, systems and tools, supported by tailored training and awareness programmes to embed a compliance culture and engage our employees in safety improvement. – Monitor health and safety performance metrics and undertake regular audits against our systems and processes. – Extensive employee health and wellbeing policies and programmes to support absence and return to workplace. – Continuing to streamline and simplify the various health and safety systems in place to enhance their effectiveness. – Group-wide measures to protect and support our employees through the pandemic, ensuring necessary safety precautions, in line with Public Health England and World Health Organization guidance and provision of wellbeing support. – Communications to employees through a dedicated, comprehensive multi-media campaign. Further information is provided on pages 36 to 38.

Viability Statement

The Directors have assessed the prospects of the Group and its viability over the longer term as part of their ongoing risk management and monitoring processes.

Assessment period
While the Directors have no reason to believe that the Group will not be viable over the longer term, they have assessed the viability of the Group over a three-year period to March 2025 (the Viability Period) taking into account the Group's current financial position and the potential impact of our principal risks. This time period is considered appropriate as it aligns with the Group's three-year business planning cycle (Business Plan) and is consistent with the time horizon used to determine the probability and likely impact of our principal risks. A three-year period is also the most appropriate time horizon over which to assess the commercial and economic environment across the Group's letter and parcel markets. Forecasting beyond three years is considered too long given the uncertainties created by the evolving economic and competitive market dynamics.

Process, key factors and assumptions
This Viability Statement should be read in conjunction with the Group's business model and strategy, which are set out on pages 12 and 13 and 14 to 23 respectively.

The Group's viability is assessed as part of our regular strategy and budget reviews, financial forecasting, capital structure and ongoing risk management. The assessment takes into account a number of matters including:

- The Group's strategic priorities and Business Plan. Financial planning and forecasting processes covering the Group's profitability, cash flows and other key financial metrics underpin the Business Plan, which comprises a budget for the next financial year (based on a detailed commercial and operational assessment) together with a projection for the following two years.
- The large fixed cost base required to deliver the Universal Service Obligation in its current form.
- The Group's principal risks and the measures in place to mitigate those risks. (See pages 56 to 61).
- The Group's capital structure and the allocation of capital to support Royal Mail and GLS' respective growth strategies (see page 72). This includes capital investment, liquidity position (including liquidity available from the syndicated loan facility (see page 206)), debt maturity profile, credit rating and dividend policy.

The key assumptions used in relation to the Business Plan that supports the viability assessment are as follows:

- No further lockdowns expected however increased macro-economic pressures impacting letters and parcels for both Royal Mail and GLS.
- Royal Mail: Addressed letter volume (excluding elections) decline high single digit percentage in 2022-23, increase National Insurance contributions of around £50 million, reduced test kit volumes and inflationary pressures on pay agreement – assume agreement is reached with both CWU and Unite/CMA without prolonged industrial dispute.
- GLS: High single digit revenue growth in 2022-23, increasing cost pressure due to driver and labour shortages and higher minimum wages in key markets (e.g. Germany). Operating profit for 2022-23 in the range of €370 – €410 million.
- GLS €500 million 'Accelerate' operating profit target in 2024-25 (assuming economic rebound in 2023-24).
- Cost mitigations to help offset headwinds include operations management restructuring, ongoing and flow through Pathway to Change savings, reduction in absence and removal of residual costs from COVID-19, next phase of non-people cost reduction and further automation of parcel sortation in both Royal Mail and GLS.
- See outlook on pages 74 and 75 for further information.

Scenario modelling
The Business Plan projections were stress tested by modelling multiple downside scenarios which have the greatest potential to threaten the Business Plan. The scenarios, which are detailed on the adjacent page, take account of the Group's principal risks, and analyse financial impact over the Viability Period. The scenarios were tested in aggregate to determine whether the Group would be able to sustain its operations over the Viability Period.

The scenarios took into account:

- The levels of committed capital and expenditure required to support Royal Mail and GLS' respective growth strategies.
- The Group's €500 million bond which matures in July 2024, within the Viability Period. The Business Plan assumes this facility would be refinanced on similar commercial terms. However, in the very unlikely event that this is not possible, to ensure that the obligation is satisfied, other options could be considered including using capital generated, reducing investment or reviewing dividend payments.
- The actions undertaken to manage and mitigate the Group's principal risks (see pages 52 to 61).
- Short-term cost and cash saving actions available to the Group including:
  - Reducing variable hours and cost of sales in response to lower revenue.
  - Reducing discretionary pay.
  - Reducing one-off projects.
  - Reducing internal investment.
  - Reviewing dividend policy.

Based on our best view of the severe but plausible downside scenarios and the outcome of the assessments undertaken, the Directors have concluded that the Group has reasonable expectation to remain viable supported by:

- Short-term cost and cash saving actions.
- Sufficient liquidity available to meet obligations.
- The syndicated loan facility (see page 206).
- Continued access to the debt markets.

The outcome of the assessments has also confirmed the importance of maintaining a conservative balance sheet, including a net cash position on a pre-IFRS 16 basis. See our capital allocation policy on page 72 for further information.

If outcomes are significantly worse, the Directors would need to consider what additional mitigating actions were needed including 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 scenarios) which may cast doubt on the Group's ability to continue to be viable over the Viability Period is not currently reasonable.

Scenarios modelled and assumptions		Principal risks (see pages 56 to 61)
Scenario:	Deteriorating economic and market conditions.	– Economic and political environment – Customer expectations and our responsiveness to market changes – Business continuity and operational resilience
Assumptions:	Further letter volume decline. Continued impact of lower international and cross-border volume.	
Scenario:	Increased competition in the UK parcels sector including changes in consumer expectations and/or market disruption.	– Customer expectations and our responsiveness to market changes
Assumptions:	Lower parcel revenues.	
Scenario:	Potential impact of industrial action or incurring costs to avoid it.	– Industrial action – Failure to reduce our cost base – Customer expectations and our responsiveness to market changes
Assumptions:	Lower operating profit as a result of industrial relations.	
Scenario:	Delays in relation to the Royal Mail transformation plan.	– Failure to reduce our cost base
Assumptions:	Lower productivity improvements.	
Scenario:	Increasing inflationary pressures on staff and non-staff costs.	– Economic and political environment – Failure to reduce our cost base
Assumptions:	Increased non-people costs in Royal Mail. GLS margin decline.	
Scenario:	Cyber-attack triggering material service and/or operational interruption.	– Major breach of information security, data protection regulation and/or cyber-attack – Business continuity and operational resilience
Assumptions:	Cyber breach impacting revenue collection for one week.	
Scenario:	Continued high sick rate absence.	– Health, safety and wellbeing
Assumptions:	Sick absence above historic average.	

Going Concern Statement

The 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 pages 64 to 75. The Board reviewed the Group's projections for the next 12 months in conjunction with the downside scenarios used to stress test the Viability Period. There were no material uncertainties causing doubt in relation to the Group's ability to continue as a going concern. Accordingly, the Board concluded that it was appropriate to continue to adopt the going concern basis of accounting. For further information, see Note 1 to the consolidated Financial Statements on pages 164 to 176.

Viability Statement

Based on the results of their analysis, including a number of severe but plausible scenarios assessed in aggregate, 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 or undrawn facility over the three financial years to March 2025.

Financial Review

Mick Jeavons
Group Chief Financial Officer

"Solid performance assisted by COVID-19 related tailwinds, but an increasingly challenging backdrop."

Summary results (£m)[1]

	Reported 52 weeks March 2022	**Specific items and pension adjustment**	**Adjusted[2] 52 weeks March 2022**	Reported 52 weeks March 2021	Specific items and pension adjustment	Adjusted[2] 52 weeks March 2021
Revenue	**12,712**	**–**	**12,712**	12,638	–	12,638
Royal Mail	**8,514**	**–**	**8,514**	8,649	–	8,649
GLS	**4,219**	**–**	**4,219**	4,040	–	4,040
Intragroup revenue[3]	**(21)**	**–**	**(21)**	(51)	–	(51)
Operating costs	**(12,128)**	**(174)**	**(11,954)**	(12,020)	(84)	(11,936)
Royal Mail	**(8,272)**	**(174)**	**(8,098)**	(8,389)	(84)	(8,305)
GLS	**(3,877)**	**–**	**(3,877)**	(3,682)	–	(3,682)
Intragroup costs[3]	**21**	**–**	**21**	51	–	51
Operating profit before specific items	**584**	**(174)**	**758**	618	(84)	702
Operating specific items	**(7)**	**(7)**	**–**	(7)	(7)	–
Operating profit	**577**	**(181)**	**758**	611	(91)	702
Operating profit margin	*4.5%*	–	*6.0%*	*4.8%*	–	*5.6%*
Royal Mail	**250**	**(166)**	**416**	271	(73)	344
Royal Mail Operating profit margin	*2.9%*	–	*4.9%*	*3.1%*	–	*4.0%*
GLS	**327**	**(15)**	**342**	340	(18)	358
GLS Operating profit margin	*7.8%*	–	*8.1%*	*8.4%*	–	*8.9%*
Profit on disposal of property, plant and equipment (non-operating specific item)	**72**	**72**	**–**	36	36	–
Net finance costs	**(51)**	**–**	**(51)**	(38)	–	(38)
Net pension interest (non-operating specific item)	**64**	**64**	**–**	117	117	–
Profit before tax	**662**	**(45)**	**707**	726	62	664
Tax (charge)/credit	**(50)**	**62**	**(112)**	(106)	37	(143)
Profit after tax	**612**	**17**	**595**	620	99	521
Earnings per share (basic) – pence	**61.7p**	**1.7p**	**60.0p**	62.0p	9.9p	52.1p
In-year trading cash flow	**519**	**–**	**519**	770	–	770
Royal Mail	**280**	**–**	**280**	440	–	440
GLS	**239**	**–**	**239**	330	–	330
Gross capital expenditure	**(603)**	**–**	**(603)**	(346)	–	(346)
Royal Mail	**(441)**	**–**	**(441)**	(210)	–	(210)
GLS	**(162)**	**–**	**(162)**	(136)	–	(136)
Net debt	**(985)**	**–**	**(985)**	(457)	–	(457)

1. Reported results are prepared in accordance with IFRS. In addition, the Group's performance is 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 also consistent with the way financial performance is measured by Management and reported to the Board. The APMs used are explained on pages 228 to 232 and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.
2. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. A full reconciliation of reported to adjusted results is explained on page 228 to 232
3. Intragroup revenue and costs represent trading between Royal Mail and GLS, principally a result of Parcelforce Worldwide operating as GLS' partner in the UK.

Group results

Group and Royal Mail results are for the 52-week period to 27 March 2022. GLS results are for the 12 months to 31 March 2022.

Year-on-year Group revenue grew despite the unusually strong performance seen in the prior year. As we emerged from COVID-19 restrictions, Group parcel revenue declined marginally as non-essential retail reopened. However, parcel revenue is still significantly higher than prior to the pandemic due to an acceleration in customer behaviour towards e-commerce.

In Royal Mail, letter revenue has recovered from the deterioration experienced during the pandemic, albeit this market is still in structural decline with revenue down 7.6% versus the pre-pandemic year.

The pandemic has continued to impact the Group over the last year. At times we experienced elevated absence rates along with inefficiencies whilst social distancing rules were maintained. This impacted our ability to deliver our UK targets on both service quality and the full benefits from operational change activity. We also faced some additional challenges including rising pay costs, labour shortages, the ongoing weakness in the international market and the emergence of the cost of living crisis.

Against this challenging backdrop, reported operating profit before specific items was £584 million (2020-21: £618 million), £34 million lower than the prior year. Operating specific items were a cost of £7 million (2020-21: £7 million) and non-operating specific items were a credit of £136 million (2020-21: credit of £153 million).

On a reported basis the Group operating profit margin reduced by 30bps to 4.5%, largely due to the increased pension charge to cash difference adjustment.

Adjusted Group operating profit improved by £56 million to £758 million (2020-21: £702 million) mainly driven by profit improvement in Royal Mail. Adjusted Group operating profit margin improved by 40bps to 6.0%. GLS experienced margin compression primarily as a result of the economic environment. The GLS prior year margin was unusually strong due to lockdowns. Royal Mail delivered margin improvement despite several cost headwinds. These headwinds were more than offset by cost saving initiatives including the successful completion of the management restructure (announced in June 2020).

Reported profit before tax of £662 million (2020-21: £726 million) comprises a £346 million profit in Royal Mail (2020-21: £398 million profit) and a £316 million profit in GLS (2020-21: £328 million profit). Basic reported earnings per share decreased to 61.7 pence (2020-21: 62.0 pence).

	52 weeks ending March			% change	
Revenue (£m)	**2022**	2021[4]	2020[4]	2022 vs 2021	2022 vs 2020
Group[5]	**12,712**	12,638	10,840	0.6%	17.3%
Royal Mail	**8,514**	8,649	7,720	(1.6)%	10.3%
Total Parcels	**4,800**	5,133	3,702	(6.5)%	29.7%
Domestic Parcels (excluding international)[6]	**4,021**	4,118	2,831	(2.4)%	42.0%
International Parcels[7]	**779**	1,015	871	(23.3)%	(10.6)%
Letters	**3,714**	3,516	4,018	5.6%	(7.6)%
GLS[8]	**4,219**	4,040	3,161	4.4%	33.5%

	52 weeks ending March			% change	
Volume (m units)	**2022**	2021	2020	2022 vs 2021	2022 vs 2020
Royal Mail					
Total Parcels	**1,517**	1,735	1,312	(13)%	16%
Domestic Parcels (excluding international)[6]	**1,365**	1,475	1,039	(7)%	31%
International Parcels[7]	**152**	260	273	(42)%	(44)%
Addressed letters (excluding elections)	**7,961**	7,718	9,703	3%	(18)%
GLS	**870**	838	667	4%	30%

4. The prior years' letter and parcel revenue split has been re-presented to reflect a reallocation of international revenue between letters and parcels.
5. Royal Mail and GLS revenue does not equal Group revenue due to the elimination of intragroup trading (2021-22: £21 million, 2020-21: £51 million, 2019-20: £41 million).
6. Domestic Parcels excludes import and export for both Royal Mail and Parcelforce Worldwide.
7. International includes import and export for Royal Mail and Parcelforce Worldwide.
8. The results for the full year 2021-22 include four months of contribution from the acquisition of Rosenau Transport on 1 December 2021. The prior year does not include any contribution.

Group revenue grew by 0.6% in the year with parcel revenue accounting for 71% of total revenue (2020-21: 72%), a slight reduction to the prior year due to the recovery of letter revenue and the decline in Royal Mail parcel revenue as a result of the strong comparative. Compared with the pre-pandemic year (2019-20), Group revenue grew by 17.3%.

Financial Review continued

Segment – Royal Mail

Royal Mail adjusted operating profit improved 20.9% to £416 million (2020-21: £344 million). Adjusted operating profit margin was 4.9%, a 90 bps improvement on the prior year primarily due to the delivery of a number of cost saving initiatives which offset some of the headwinds experienced in the year. Reported operating profit was £250 million (2020-21: £271 million), the deterioration was largely due to an increase in the pension charge to cash difference adjustment.

Revenue

Overall, Royal Mail revenue reduced slightly on the prior year (1.6%) as pandemic restrictions were relaxed and our traffic mix adjusted.

Parcels revenue represented 56% of total Royal Mail revenue, compared with 59% in the prior year, driven by the recovery of letter revenue in the year.

Parcels

Total parcel revenue was down year-on-year by 6.5% with volumes down 13%; however, the comparative year was unusually strong as it included several months of national and local lockdowns when non-essential retail was closed. This drove e-commerce activity and parcel volumes. During the current year, non-essential retail was closed for just two weeks. Revenue benefitted from a positive price mix which partially mitigated the decline in volumes.

Domestic parcels (excluding international) volumes were down 7% driven by the relaxation of pandemic restrictions. Domestic parcels (excluding international) revenue was down 2.4% at a lower rate than volumes due to positive product/channel mix.

We saw a significant year-on-year increase in COVID-19 test kit revenue. COVID-19 test kits accounted for around 7% of total parcel volumes.

Royal Mail's premium products, Tracked 24®/48® and Tracked Returns® performed well with volumes growing 17% (2020-21: 79% growth). Excluding the effect of test kits, Tracked 24®/48® and Tracked Returns®, volume growth was flat (2020-21: 74% growth).

As previously disclosed, International has seen significant headwinds with volumes down 42% year-on-year. In the main, this decline has been driven by external factors including reduced air freight capacity and the transition to a new trade deal with the European Union.

Parcelforce Worldwide revenue, which is included in the domestic and international lines above, reduced as a result of the reopening of non-essential retail. The impact of Britain's withdrawal from the European Union also impacted cross-border volumes.

Letters

Total letter revenue grew 5.6% versus the prior year, with volumes for addressed letters excluding elections up 3%. These increases are against a prior year base which included sharp declines seen at the start of the pandemic.

The pandemic particularly impacted Advertising Mail. The recovery in Advertising Mail volumes in the current year was therefore more pronounced, with growth of 30%. This was partially offset by a marginal decline in Business mail volumes (down 1%) as they reverted to their pattern of structural decline experienced prior to the pandemic. Business mail revenue benefitted from positive pricing actions.

Comparison with pre-pandemic year (2019-20)

Parcels

Total parcel revenue was up 29.7% versus the pre-pandemic year with volumes up 16%. This has been driven by the acceleration in customer behaviour to e-commerce. The current year also includes the delivery of COVID-19 test kits; there were no test kit volumes included in 2019-20.

Compared with 2019-20, domestic parcels (excluding international) revenue increased by 42.0% with volumes up by 31%.

International volumes have decreased significantly versus the pre-pandemic year, down 44%. In the main this has been driven by the external factors outlined previously.

Letters

Total letter revenue is down 7.6% versus the pre-pandemic year with volumes for addressed letters excluding elections down 18% in the same period. This is reflective of the ongoing structural decline in the letters market. The 2019-20 year also included the European Parliamentary election and the UK General election; if the effects of the elections are removed then the decline in letter revenue is significantly reduced.

Advertising mail volumes declined 12% versus 2019-20 with low AUR unaddressed advertising letter volumes, down 9%, driven by the impact of the pandemic and ongoing e-substitution.

Business mail volumes were lower than 2019-20 levels by 17%.

Adjusted operating costs[2]

(£m)	Adjusted 52 weeks March 2022	Adjusted 52 weeks March 2021	% change
People costs	**(5,583)**	(5,619)	(0.6)%
People costs excluding voluntary redundancy	**(5,502)**	(5,510)	(0.1)%
Voluntary redundancy costs	**(81)**	(109)	(25.7)%
Non-people costs	**(2,515)**	(2,686)	(6.4)%
Distribution and conveyance costs	**(971)**	(1,054)	(7.9)%
Infrastructure costs	**(802)**	(825)	(2.8)%
Other operating costs	**(742)**	(807)	(8.1)%
Total	**(8,098)**	(8,305)	(2.5)%

2. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. A full reconciliation of reported to adjusted results is explained on pages 228 to 232.

Total adjusted operating costs decreased by 2.5% year-on-year. We estimate that total COVID-19 related costs reduced by £53 million to £92 million. Pay inflation and other operational cost increases were more than offset by cost saving initiatives including the successful completion of our management restructure (announced in June 2020) and non-people related cost reduction programmes. These initiatives, in addition to the benefits derived from our Pathway to Change agreement, delivered cost savings of c.£285 million in the year.

People costs

People costs excluding voluntary redundancy costs were broadly flat, with the decline in voluntary redundancy costs mainly due to a £93 million charge in the prior year for the management restructure announced in June 2020 compared with £70 million in the current year for a further restructuring announced in January 2022. This programme looks to streamline operational management and improve focus on performance at a local level.

Transformation costs declined by £6 million.

The management restructure programme (announced in June 2020) delivered in line with our expectations, with sustainable benefits of £115 million in the year.

We delivered £59 million of efficiencies from the Pathway to Change agreement. This was at the lower end of the revised guidance provided on 25 January 2022. Although this was disappointing against the initial expectation of over £100 million, the shortfall was almost entirely driven by the challenges in the delivery function. Changes implemented in Processing and Logistics were successful.

Despite higher absence rates during the peak period (November 2021 to January 2022) when the Omicron variant was prevalent and during the 'Ping-demic' in July, COVID-19 people costs were down £18 million year-on-year to £62 million. The reduction is due to prior year absence rates being particularly high when the pandemic began. Non-COVID absences were up year-on-year. In the current year the average total absence rate was 8.0% compared with 8.5% in the prior year. The highest single day of absence was 12.1% in the current year compared with 18.9% in the prior year.

Pay costs increased by £122 million year-on-year. This includes the cost of the frontline 1% pay award, effective from the start of FY 2021-22, costs for the one hour reduction in the working week, which was largely implemented in the second half of the year, along with costs associated with working time regulation holiday pay, and costs associated with managerial pay awards.

Productivity was down 0.2% year-on-year as the business was slower to take out costs following the reopening of the UK High Street. The reopening occurred more rapidly than we anticipated and had a more immediate impact on parcel volumes. Additionally we failed to deliver all the targeted operational benefits from Pathway to Change. These factors offset the cost saving initiatives, resulting in broadly flat people costs.

Non-people costs

Non-people costs decreased by 6.4% versus the prior year.

Our two-year non-people cost savings plan, which aimed to maintain flat non-people costs, excluding depreciation and volume related costs, delivered in full, with £112 million of benefits delivered in 2021-22.

Within non-people costs, we estimate the costs associated with the pandemic to be £30 million (2020-21: £65 million). The prior year COVID-19 non-people costs mainly related to the purchase of protective equipment to safeguard our frontline employees. In the current year, costs have been incurred in order to maintain social distancing measures, including investment in additional vehicle hires and fuel to support the increased number of fleet.

Distribution and conveyance costs decreased by 7.9% driven by lower international volumes. As a result, terminal dues were £72 million lower, year-on-year. This decrease has been partially offset by the additional costs outlined above. Total diesel and jet fuel costs increased to £191 million (2020-21: £187 million) due to the impact of the unhedged volume, which is subject to spot prices.

Infrastructure costs decreased year-on-year, of which depreciation and amortisation costs were c.£20 million lower. This was driven by the comparative including accelerated depreciation and amortisation following a review of our investment portfolio. Before these adjustments, underlying depreciation was broadly flat.

Other operating costs decreased by 8.1%, largely driven by the decrease in COVID-19 costs discussed above. Transformation programme costs of £58 million (2020-21: £45 million) are also included in other operating costs.

Financial Review continued

Segment – GLS[8]

Summary results[9] (£m)	March 2022	March 2021	% change
Revenue	**4,219**	4,040	4.4%
Operating costs	**(3,877)**	(3,682)	5.3%
Operating profit before specific items	**342**	358	(4.5)%

(€m)	March 2022	March 2021	% change
Revenue	**4,959**	4,525	9.6%
Operating costs	**(4,557)**	(4,124)	10.5%
Operating profit before specific items	**402**	401	0.2%

8. The results for the full year 2021-22 include four months of contribution from the acquisition of Rosenau Transport on 1 December 2021. The prior year does not include any contribution.
9. 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 section entitled 'Specific items and pension charge to cash difference adjustment'. As the pension charge to cash difference is not applicable to GLS, the operating profit before specific items is the same on a reported and adjusted basis, and thus no separate adjusted measures have been presented.

Operating profit before specific items in Euro terms was broadly flat despite revenue growth. Margin deteriorated by 80 bps, to 8.1%, due to operational cost pressures including general inflation and driver shortages across most markets. Unusually strong profits were also made in the prior year during the initial lockdown period.

In Sterling terms, operating profit before specific items was £342 million (2020-21: £358 million). Foreign exchange movements adversely impacted revenue by £207 million and favourably impacted costs by £191 million resulting in a net reduction to operating profit of £16 million.

Revenue

Revenue increased by 4.4% in Sterling terms (9.6% in Euro terms). Excluding acquisitions, revenue was up 3.3% in Sterling terms, driven by growth in domestic and international volumes, higher freight revenue and better pricing. Revenue grew despite the unusually strong performance in the previous year. Revenue growth was achieved in almost all markets, with good performances in Eastern Europe, the US, Canada, Italy, France, Germany and Spain. GLS' European markets represented 89.6% of total revenue (2020-21: 90.8%), with the North American market contributing 10.4% (2020-21: 9.2%).

Volumes were up 4%, driven by recovery of B2B volumes, with B2C volumes also higher but with a lower growth rate than the prior year. B2C volume share was 55% compared with 57% in the prior year. GLS domestic and international volumes grew by 4% and 5% respectively. International volume growth was impacted by Britain's withdrawal from the European Union, which led to reduced parcel flows between Europe and the UK. Excluding UK traffic, export volume growth was double-digit.

Operating costs

(£m)	March 2022	March 2021	% change
People costs	**(908)**	(851)	6.7%
Non-people costs	**(2,969)**	(2,831)	4.9%
Distribution and conveyance costs	**(2,606)**	(2,480)	5.1%
Infrastructure costs	**(257)**	(249)	3.2%
Other operating costs	**(106)**	(102)	3.9%
Total	**(3,877)**	(3,682)	5.3%

Total reported operating costs in Sterling terms increased by 5.3%, or 4.2% excluding acquisitions. Cost increases in Euro terms were around 500 bps higher than the reported increases in Sterling due to the strengthening of Sterling during the year.

Costs were impacted by significant increases in inflation rates during the year in the markets in which GLS operates. A combination of higher fuel costs, wage inflation and driver shortages all contributed to increases in subcontractor costs for collection, delivery and line-haul services. The impact from higher minimum wages (for example in Germany) and rising utility costs also resulted in an increase in the GLS cost base. The reported increase in Euro terms is presented below.

(€m)	March 2022	March 2021	% change
People costs	**(1,067)**	(954)	11.8%
Non-people costs	**(3,490)**	(3,170)	10.1%
Distribution and conveyance costs	**(3,064)**	(2,777)	10.3%
Infrastructure costs	**(302)**	(279)	8.2%
Other operating costs	**(124)**	(114)	8.8%
Total	**(4,557)**	(4,124)	10.5%

People costs

People costs increased by 11.8%, or 9.6% excluding acquisitions, due to a combination of factors including 4% higher volumes, higher unit operational labour costs driven by wage inflation across GLS' markets, and further investments in the organisation to support the rollout of our Accelerate strategy.

Non-people costs

Non-people costs increased by 10.1%, or 9.3% excluding acquisitions. Distribution and conveyance costs were up 10.3%, or 9.7% higher excluding acquisitions, driven by the 4% increase in volumes and higher sub-contractor rates for collection, delivery and line-haul services due to inflationary effects. Infrastructure and other operating costs increased by 8.2% and 8.8% respectively (5.4% and 7.9% respectively excluding acquisitions), principally due to higher marketing costs related to initiatives to raise awareness of the GLS brand and higher depreciation associated with increased capital expenditure.

Country overview

The following individual market summaries detail revenue growth in Euro terms.

In Germany, the largest GLS market by revenue, revenue grew by 8.1%, driven by a combination of better pricing and higher volumes. Operating profit decreased due to the operational cost pressures. Minimum wage increases of 25% will be phased in between 1 January 2022 and 1 October 2022, and as a result we implemented strong price increases on 1 January 2022 to help mitigate cost pressures.

GLS Italy revenue grew by 8.8%, driven by higher volumes and better pricing. Prices benefited from a recovery in B2B volumes with a higher average weight. Operating profit improved compared with the prior year, which represented a strong performance.

GLS Spain revenue grew by 7.7%, driven by higher domestic volumes. Operating profit was slightly below the prior year, with some margin compression resulting from higher unit operational costs.

GLS France revenue grew by 8.8%, benefiting from higher domestic volumes and better pricing. Volume growth was driven by higher B2B volumes, which compensated for a decline in B2C. Losses narrowed further in 2021-22, demonstrating that the strong progress achieved in reducing losses in the prior year has been cemented.

There was continued strong performance in Eastern Europe, with revenues up 13.3% and good growth in B2C volumes.

In the US, revenue grew by 11.1% driven by higher B2C volumes, better pricing and higher freight revenues. Higher unit operational costs, driven by a shortage of drivers which impacted final-mile and line-haul costs, and inflationary pressures, impacting the general cost base, resulted in financial performance below the prior year and an overall loss. Measures focused on improving unit operational costs and the quality of revenue, including yield management activities, are underway.

In Canada, the acquisition of Rosenau Transport was completed on 1 December 2021, increasing significantly the scale of our operations in North America. The integration of Rosenau with our pre-existing business Dicom to secure synergies is underway. Rosenau Transport to date is performing in line with expectation. GLS Canada revenue increased by 16.7% on an organic basis, benefiting from good growth in parcel volumes, higher freight revenues as well as improved pricing. The business continues to perform well, delivering margins above the group average.

Revenue growth in GLS' other developed European markets was 3.9%. Performance was negatively impacted by lower volumes due to Britain's withdrawal from the European Union and the highly competitive nature of these mature markets.

Other developing markets, where GLS has a high exposure to B2C, continued to grow strongly with overall revenue growth of 13.3% in the year. Particularly good growth rates were achieved in Hungary, the Czech Republic and Croatia.

Other Group financial performance measures

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks March 2022	52 weeks March 2021
Pension charge to cash difference adjustment (within people costs)	**(174)**	(84)
Operating specific items		
Legacy/other items	**9**	12
Amortisation of intangible assets in acquisitions	**(16)**	(19)
Total operating specific items	**(7)**	(7)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**72**	36
Net pension interest	**64**	117
Total non-operating specific items	**136**	153
Total specific items and pensions adjustment before tax	**(45)**	62
Total tax credit on specific items and pensions adjustment	**62**	37

The pension charge to cash difference adjustment largely comprises the difference between the IAS 19 income statement pension charge rate of 24.6% (2020-21: 19.5%) for the Defined Benefit Cash Balance Scheme (DBCBS) from 29 March 2021 and the actual cash payments agreed with the Trustee of 15.6% (2020-21: 15.6%). The charge was £174 million in the year (2020-21: £84 million), £90 million higher than in 2020-21. The increase in the IAS 19 pension charge rate is due to the decrease in the net discount rate (versus CPI) between March 2020 and March 2021.

The legacy items largely relate to an £11 million credit (2020-21: £16 million credit) in respect of Industrial Diseases claims as a result of the use of updated models issued by the Institute and Faculty of Actuaries' Asbestos Working Party in late 2021, along with an increase in the discount rate versus the prior year. The prior year amount largely related to a partial release of the Industrial Diseases provision after it was re-assessed following indicative guidance published by the Institute and Faculty of Actuaries' Asbestos Working Party in advance of their full update.

Amortisation of acquired intangible assets of £16 million (2020-21: £19 million) largely relates to acquisitions made by GLS in recent years in Canada, Spain, the US and Italy.

The profit on disposal of property, plant and equipment of £72 million (2020-21: £36 million) primarily relates to the sale of Plots E, F and G at the Nine Elms development site. The prior year profit largely related to the sale of two London Development Portfolio plots (Plot A at the Nine Elms development site and Calthorpe Street at the Mount Pleasant development site). Further detail is provided on page 73.

Net pension interest credit of £64 million (2020-21: £117 million) is calculated by reference to the net pension surplus at the start of the financial year. The decrease in the year of £53 million is as a result of a lower overall pension surplus and lower discount rate used at 28 March 2021, compared with 29 March 2020.

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The tax credit of £62 million (2020-21: £37 million) includes a net credit of £30 million (2020-21: £37 million) in relation to the tax effect of certain specific items and the pension charge to cash difference. The balance also includes a net credit of £32 million (2020-21: £nil) in relation to the remeasurement of certain UK deferred tax assets and liabilities to the future UK corporation tax rate of 25%.

Net finance costs

Reported net finance costs of £51 million (2020-21: £38 million) comprise interest on bonds (including cross-currency swaps) of £24 million (2020-21: £24 million), interest/fees on the bank syndicate loan facility of £2 million (2020-21: £6 million), interest on leases of £29 million (2020-21: £26 million) and other net interest payable of £2 million (2020-21: £1 million receivable). This is offset by interest income of £6 million (2020-21: £17 million) which includes £1 million (2020-21: £12 million) interest on the Royal Mail Pension Plan (RMPP) escrow investments. The value of these investments bounced back in 2020-21 from a sharp fall at the end of 2019-20, causing the high interest income figure in 2020-21.

The bank syndicate loan facility was extended by one year to September 2026; there are no further extension options in the agreement. In the year, the interest reference rate was amended from LIBOR to SONIA[10] (SOFR[11] for any drawings in US Dollars). Interest is compounded daily and a credit adjustment spread (CAS) of between 0.0% and 0.3% is added using the ISDA[12] published five-year historical mean on fixing date (5 March 2021).

10. SONIA – Sterling OverNight Indexed Average.
11. SOFR – Secured Overnight Financing Rate.
12. ISDA – International Swaps and Derivatives Association.

The blended interest rate on gross debt, including leases for 2021-22, is approximately 3%. The impact of retranslating the €500 million and €550 million bonds is accounted for in equity. See Note 7 of the Financial Statements (page 181) for further information.

Taxation

The Group's reported effective tax rate is 7.6% (2020-21: 14.6%). This is 11.4% lower than the UK statutory rate of 19%. The difference is mainly due to the remeasurement of deferred tax balances to the future UK statutory rate of 25%, which reduces the effective rate by 4.8%; net pension interest credit, on which there is no tax charge, which reduces the rate by 2.1% and the reduction in uncertain tax provision mainly in respect of patent box claims due to progress in ongoing discussions with UK authorities, which reduces the rate by 3.3%. The effective tax rate is further reduced by 3.6% in relation to profits on operational property disposals which have no tax charge as the profits qualify for reinvestment relief and a Super-deduction capital allowances claim which creates an enhanced credit for qualifying capital expenditure. These amounts are partially offset by higher overseas tax rates in relation to the GLS business, and other items that are not allowable for tax purposes.

The GLS adjusted effective tax rate of 23.6% (20-21: 23.3%), is reflective of higher statutory tax rates in the more profitable GLS countries and is broadly in line with the prior year.

The Royal Mail adjusted effective tax rate of 9.0% (2020-21: 19.6%), is lower than both the prior year and the UK statutory rate mainly due to the reduction in the uncertain tax provision in relation to the patent box claims and the Super-deduction capital allowances claim.

Earnings per share (EPS)

Reported basic EPS was 61.7 pence (2020-21: 62.0 pence) and adjusted basic EPS was 60.0 pence (2020-21: 52.1 pence).

In-year trading cash flow[1]

	52 weeks ending March 2022			52 weeks ending March 2021		
(£m)	**Royal Mail**	**GLS**	**Group**	Royal Mail	GLS	Group
Adjusted operating profit	**416**	**342**	**758**	344	358	702
Depreciation and amortisation	**397**	**143**	**540**	415	139	554
Adjusted EBITDA	**813**	**485**	**1,298**	759	497	1,256
Trading working capital movements[13]	**(36)**	**12**	**(24)**	(31)	52	21
Share-based awards (LTIP and DSBP) charge adjustment	**3**	**–**	**3**	4	–	4
Gross capital expenditure	**(441)**	**(162)**	**(603)**	(210)	(136)	(346)
Net finance costs paid	**(41)**	**(11)**	**(52)**	(29)	(12)	(41)
Dividend received from associate undertaking	**5**	**–**	**5**	–	–	–
Research and development expenditure credit	**–**	**–**	**–**	1	–	1
Income tax paid	**(23)**	**(85)**	**(108)**	(54)	(71)	(125)
In-year trading cash flow[13]	**280**	**239**	**519**	440	330	770
Capital element of operating lease repayments[14]	**(102)**	**(64)**	**(166)**	(98)	(58)	(156)
Pre-IFRS 16 in-year trading cash flow	**178**	**175**	**353**	342	272	614

1. Reported results are prepared in accordance with IFRS. In addition, the Group's performance is 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 also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained on pages 228 to 232 and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.
13. Trading working capital movements and thus in-year trading cash flow have been re-presented to include deferred revenue movements (including Stamps In The Hands Of the Public (SITHOP)) which were previously presented in other working capital.
14. The capital element of lease payments of £192 million (2020-21: £188 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £166 million (2020-21: £156 million) and the capital element of finance lease payments of £26 million (2020-21: £32 million).

In-year trading cash flow

In-year trading cash inflow was £519 million, compared with £770 million in the prior year. This decrease was mainly due to higher capital expenditure in Royal Mail.

In Royal Mail, the current year includes a provision for the management restructure to further streamline operations; however, the majority of the associated cash payments have not been paid and thus the working capital position has benefitted year-on-year. By excluding the effect of the current and prior year restructures (both the cash paid and the provisions raised), the year-on-year working capital movement would be £59 million outflow. During the current year deferred revenue on stamps purchased in prior year fell by £44 million (2020-21: £8 million increase) resulting in a £52 million year-on-year outflow which explains the majority of the movement. The reduction in deferred revenue was largely as a result of customer stamp holdings falling back to pre-pandemic trends.

GLS trading working capital inflow reduced by £40 million year-on-year. Prior year working capital development benefited positively from higher than normal customer payments in advance of the Easter weekend in March 2021, part of which unwound during 2021-22.

Total gross capital expenditure was £603 million (2020-21: £346 million), of which GLS spend was £162 million (2020-21: £136 million). Royal Mail capital expenditure was £441 million in total (2020-21: £210 million), of which £205 million (2020-21: £91 million[15]) was transformational spend. Transformational spend increased as we invested in parcel hubs and automation. Royal Mail maintenance spend increased by £117 million to £236 million (2020-21: £119 million[15]). This additional spend predominantly relates to vehicle purchases, including £74 million in relation to electric vehicles. We are continuing our commitment to invest in Royal Mail infrastructure, road to net zero and innovative product portfolio.

Income tax paid decreased by £17 million. Royal Mail income tax paid of £23 million was £31 million lower than the prior year, mainly due to the effect of the Super-deduction enhanced capital allowances claims. GLS income tax paid of £85 million was £14 million higher than the prior year as tax assessments relating to the higher profits in the previous year were received.

The capital element of operating lease repayments of £166 million (2020-21: £156 million) reflects the net impact on in-year trading cash flow as a result of adopting IFRS 16. The increase is due to new leases in the year, notably the Midlands Hub. Excluding the impact of this, in-year trading cash flow was £353 million (2020-21: £614 million).

15. The comparative transformation and maintenance spend has been re-presented to reflect the reallocation of certain projects from maintenance to transformation following a review of the portfolio.

Net debt[1]

A reconciliation of net debt is set out below.

(£m)	52 weeks March 2022	52 weeks March 2021
Net debt brought forward at 29 March 2021 and 30 March 2020	**(457)**	(1,132)
Free cash flow	**420**	780
In-year trading cash flow[16]	**519**	770
Cash cost of operating specific items	**(4)**	(4)
Proceeds from disposal of property (excluding London Development Portfolio) plant and equipment	**10**	5
Acquisition of business interests	**(204)**	(4)
Cash flows relating to London Development Portfolio	**99**	13
Purchase of own shares	**(17)**	–
Movement in GLS client cash[17]	**(5)**	20
New or increased lease obligations under IFRS 16 (non-cash)	**(380)**	(173)
Foreign currency exchange impact	**21**	48
Share buyback	**(201)**	–
Dividends paid to equity holders of the Parent Company	**(366)**	–
Net debt carried forward	**(985)**	(457)
Operating leases[18]	**1,292**	1,079
Pre-IFRS 16 net cash[19]	**307**	622

1. Reported results are prepared in accordance with IFRS. In addition, the Group's performance is 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 also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained on pages 228 to 232 and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.
16. In-year trading cash flow has been re-presented following the re-allocation of deferred revenue (including SITHOP) from other working capital to trading working capital to reflect the trading nature of this balance. GLS client cash movements, which were previously disclosed in other working capital are now presented separately outside of free cash flow.
17. GLS client cash movements are presented as part of the working capital movements line in the statutory cashflow.
18. This amount represents leases that would not have been recognised on the Balance Sheet prior to the adoption of IFRS 16.
19. This measure is considered as the Group's banking covenants are calculated on a pre-IFRS 16 basis.

The cash cost of operating specific items was an outflow of £4 million (2020-21: £4 million) consisting mainly of Industrial Diseases claims and National Insurance related to employee free share payments.

Acquisition of business interests of £204 million relates mainly to the acquisition of Rosenau Transport. The prior year balance of £4 million related to deferred consideration in relation to prior period acquisitions of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions.

The net cash inflows relating to the London Development Portfolio were £99 million (2020-21: £13 million). Further details are provided in the London Development Portfolio section on page 73.

The amount of GLS client cash held at 27 March 2022 was £36 million (2020-21: £41 million).

New or increased lease obligations under IFRS 16 of £380 million (2020-21: £173 million) relate to additional lease commitments that were entered into during the year. Property lease additions, modifications and acquisitions totalled £335 million (2020-21: £121 million), of which £81 million relates to the Midlands hub; £148 million relates to 243 Royal Mail property rent reviews,

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lease regears and renewals (a larger amount than previous years due to the phasing of lease contracts); £24 million is for property leases taken on as part of the Rosenau acquisition; and £82 million relates to a number of other GLS properties reflecting capacity increases, rent reviews and renewals/extensions. Lease obligations have also increased by £45 million (2020-21: £52 million) as a result of Royal Mail vehicle and plant and machinery additions and modifications.

Approach to capital management
The Group has a clear capital allocation framework: invest in our business to support growth, maintain our investment grade rating, pay a sustainable dividend and retain flexibility for selective acquisitions. Given the high operational leverage in our business, we will continue to keep low levels of financial leverage. As announced at the half year end, in the current risk environment, we believe running a Group net nil cash position on a pre-IFRS 16 basis is appropriate. The net cash position (pre-IFRS 16) at 27 March 2022 was £307 million (2020-21: £622 million). We currently do not propose to pay any further special dividends. We expect both Royal Mail and GLS to be independently cash generative businesses. In line with this framework, the Group's key 2021-22 capital management objectives are detailed below together with a progress update.

Objectives	Enablers	2021-22 update
Meet the Group's obligations as they fall due.	Maintaining sufficient cash reserves and committed facilities to: – Meet all obligations, including pensions. – Manage future risks, including the principal risks.	At 27 March 2022, the Group had available resources of £2,096 million (2020-21: £2,457 million) made up of cash and cash equivalents (excluding GLS client cash) of £1,101 million (2020-21: £1,532 million), current asset investments of £70 million (2020-21: £nil) and undrawn committed bank syndicate loan facilities of £925 million (2020-21: £925 million). At 27 March 2022, the Group met the loan covenants (which were reinstated following the expiry of the waiver agreed in 2020-21) and other obligations for its bank syndicate loan facility, and €500 million and €550 million bonds. As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities 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.	The Group reported £353 million of pre-IFRS 16 in-year trading cash flow (2020-21: £614 million), sufficient to cover the proposed full-year ordinary dividend (subject to approval at the AGM) of 20.0 pence per share (final dividend of 13.3 pence per share combined with the interim dividend of 6.7 pence per share paid in January 2022) (2020-21: 10.0 pence per share). Capital managed by the Group, excluding the pension scheme surplus net of withholding tax payable, is £2,611 million at 27 March 2022 (2020-21: £2,416 million). The Group had retained earnings of £5,248 million at 27 March 2022 (2020-21: £4,802 million). The Group considers it has a maximum level of distributable reserves of around £2 billion, which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend.
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 Standard & Poor's and the outlook was revised from negative to positive.
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 £603 million (2020-21: £346 million) and acquisition of business interests of £204 million (2020-21: £4 million) while retaining sufficient capital headroom. Both Royal Mail and GLS generated cash to fund their own organic investment and contribute towards inorganic investment and capital distribution (see page 70).
Maintain suitable financial leverage.	Retain sufficient leverage, commensurate with the Board's assessment of the risk environment.	In November 2021, the Directors stated that they expect to move towards a net nil cash position (pre-IFRS 16) over the next two years from a net cash position at 26 September 2021 of £685 million. During the year, the Group made a special dividend payment of 20.0 pence per share (2020-21 nil) and completed a share buyback of 43,806,525 ordinary shares for £201 million (2020-21: nil). The net cash position (pre-IFRS 16) at 27 March 2022 was £307 million (2020-21: £622 million).

Financial risks and related hedging
The Group is exposed to commodity price and currency risk.

Royal Mail operates a three-year layered rolling hedging strategy for fuel and energy. Royal Mail has hedges in place for 92% of total underlying commodity costs for 2022-23; as a result, a further 10% increase in underlying commodity costs would reduce operating profit by just £2 million. However, a 10% increase in fuel duty/other additional costs would reduce operating profit by £15 million.

Without hedging, diesel and jet fuel costs for 2022-23 would be around £45 million higher, while gas and electricity costs would be around £54 million higher, based upon closing commodity prices at 27 March 2022.

GLS generally out-sources its collection, delivery and line-haul activities to sub-contractors, and therefore is not significantly directly exposed to higher fuel costs. Nevertheless, there is an indirect exposure, as increasing fuel costs for sub-contractors lead to higher rates for their services as they seek to pass on the higher fuel costs incurred.

GLS has very limited direct exposure to diesel costs. GLS does not hedge exposure to energy costs, a further 10% increase in energy costs would increase energy costs by £4 million.

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 interest rate swap with no residual exposure to foreign currency or interest rate risk.

The average exchange rate between Sterling and the Euro was £1:€1.18 (2020-21: £1:€1.12). This resulted in a £16 million decrease in GLS' reported operating profit before tax in 2021-22 (2020-21: £7 million increase). The net impact on Group operating profit before tax was a £16 million decrease (2020-21: £7 million increase).

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 27 March 2022, all the gross debt of £2,213 million (2020-21: £2,051 million) was at fixed rates.

London Development Portfolio
The current year net cash inflows relating to the London Development Portfolio were £99 million, consisting of receipts of £111 million for Nine Elms, offset by the cost of enabling works of £4 million at Mount Pleasant and £8 million at Nine Elms.

In total we have invested £12 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.

1) Mount Pleasant
This development site includes the sale of 6.25 acres to develop c.680 residential units. In 2017 an agreement was reached with Taylor Wimpey UK Ltd (Taylor Wimpey) for the sale of the Calthorpe Street development site, subject to specific separation and enabling works for the site being completed. The sale was completed, and the site handed over to Taylor Wimpey in March 2021, following the successful completion of the separation and enabling works. The combined proceeds for the Calthorpe Street site, and the adjacent Phoenix Place site (sold to Taylor Wimpey in 2017-18) was £193.5 million (including £3.5 million non-cash consideration). For accounting purposes, £39.5 million of the proceeds were allocated to Phoenix Place and £154 million to Calthorpe Street. £115 million of the total combined cash proceeds for both sites has been received as at 27 March 2022 (no proceeds were received in the current year). The remainder of the cash is due to be received through a stage payment in 2023-24 (£66 million) and a final payment in 2024-25 (£9 million).

2) Nine Elms
This site covers the sale of 13.9 acres with planning consent to develop 1,911 residential units, split into various plots:

- Plots B and D sale completed June 2019 for £101 million to Greystar Real Estate Partners, LLC.
- Plot C1 sale completed June 2019 for £22.2 million to Galliard Homes.
- Plot A sale completed December 2020.
- Plots E, F and G sale completed January 2022 for £111.2 million to London Square Developments Ltd.

Further investment by Royal Mail will be required in relation to infrastructure obligations.

Financial Review continued

Pensions

Royal Mail makes contributions to two main schemes in the UK; the Royal Mail Defined Contribution Plan (RMDCP), and the DBCBS of the Royal Mail Pension Plan.

The Group also operates two additional UK defined benefit schemes which are closed to future accrual, the legacy section of the RMPP, and the Royal Mail Senior Executives Pension Plan (RMSEPP).

Royal Mail aims to introduce a new pension scheme, the RMCPP, in the second half of the next financial year, subject to the necessary legislative changes and regulatory approvals being obtained. This will replace the existing DBCBS and the RMDCP, and will comprise a Defined Benefit Lump Sum (DBLS) Section, similar to the existing DBCBS, and a Collective Defined Contribution (CDC) Section – the first CDC scheme in the UK.

The CDC Section will be accounted for as a defined contribution scheme and the DBLS Section as a defined benefit scheme with the accounting treatment expected to be similar to the DBCBS. The new arrangements will have fixed employer contributions of 13.6%, plus an additional 1.0% for employees who choose to save for an additional lump sum payment. Standard employee contributions will be 6.0%.

Cash pension costs

The Group's cash pension costs in respect of all UK pension schemes were £395 million in the 2021-22 financial year, excluding Pension Salary Exchange (PSE).[20]

When the design of the RMCPP was agreed in 2018, the fixed employer contribution rate of 13.6% of pensionable pay was designed to be affordable and sustainable for Royal Mail. The expected cost of RMCPP based on pensionable payroll at that time was approximately the same as the cost of the existing schemes, at around £400 million per year. The new RMCPP is expected to increase cash pension costs by c.£30 million per annum, based on current payroll, when it is introduced. The main reason for the increase is that although the estimated cost of the RMCPP as a percentage of pensionable pay will remain broadly the same as in 2018, payroll costs have increased. In addition, since the RMPP closed to accrual in 2018, the cost of existing plans has been reducing over time relative to overall pay costs, as DBCBS members leave and are replaced by new employees who join the RMDCP, at a lower employer contribution rate.

Defined benefit schemes – balance sheet position

An IAS 19 deficit of £390 million (2020-21: £394 million) is shown on the balance sheet in respect of the DBCBS; however, the scheme is not in funding deficit and it is not anticipated that deficit payments will be required.

The RMPP scheme closed to future accrual in its previous form from 31 March 2018. The pre-withholding tax accounting surplus of the RMPP at 27 March 2022 was £4,182 million (28 March 2021: £3,666 million). The pre-withholding tax accounting surplus has increased by £516 million (28 March 2021: £1,884 million decrease) in the year, largely as a result of a significant increase in the 'real' discount rate (the difference between RPI and the discount rate based on corporate bond yields), which has significantly reduced liabilities. This has been offset by a decrease in the value of the RMPP assets as a result of a large increase in index-linked gilt yields, against which the assets are hedged.

20. Includes £12 million insurance premium costs which are reported within wages and salary costs.

The RMSEPP closed in December 2012 to future accrual and the Group makes no regular service contributions. The Scheme's liabilities are now substantially covered by buy-in insurance policies and the scheme is expected to be wound up imminently. The pre-withholding tax accounting surplus at 27 March 2022 was £8 million (28 March 2021: £9 million).

Further details of all the Group's pension arrangements can be found in Note 11 to the Consolidated Financial Statements.

Dividends

On 12 January 2022, an interim dividend of 6.7 pence per share was paid to shareholders on the register at the close of business on 3 December 2021. On the same date, a special dividend of £199 million was paid. The Board is recommending the payment of a final dividend of 13.3 pence per share in respect of 2021-22. This dividend will be paid on 6 September 2022 to shareholders on the register as at 29 July 2022, subject to approval at the 2022 AGM.

Outlook

The trading environment is uncertain for both Royal Mail and GLS. All of our markets are impacted by the more challenging global economy, including increasingly high levels of inflation and expectations of lower future economic growth. Whilst the positive revenue impacts from COVID-19 such as growth in online retail and test kits are abating, we still have additional COVID-related cost and inefficiency in our networks.

Royal Mail

In Royal Mail, it is clear that the scale of both the revenue and cost headwinds we face now require an acceleration in pace and an extension in scope of our business transformation.

We expect revenue to decline in 2022-23, in particular the first half which has strong comparatives in the prior year, which included a period of lockdown. We anticipate a reduction in test kit volume, and the domestic parcels market in the UK is now expected to decline year on year. For addressed letter volumes excluding elections, our current models suggest a high single digit percentage decline.

Royal Mail will also incur costs associated with an increase in Employer National Insurance (c.£50 million per annum) and flow through costs associated with the 1 hour shorter working week, granted in the middle of 2021-22 (c.£40 million). In addition, we have pay deals to agree this year with both CWU and Unite, the impact of which is currently uncertain. The CWU pay deal is most material in terms of value, with 1% of pay equating to c.£45 million of cost inflation.

In order to offset the revenue and cost headwinds, we have identified a number of cost saving initiatives. Already in deployment, or associated with agreements already made with our trade unions, are initiatives totalling over £350 million. These include the benefits from our ongoing operational management restructuring (£30 million saving in 2022-23 and £40 million annualised, plus the non-recurrence of the £70 million restructuring charge), the next phase of productivity improvements from our Pathway to Change agreement with CWU, removal of residual costs from COVID-19, including rental vans and resource covering absence, and the next phase of non-people cost reduction.

Our three-year rolling hedging strategy for fuel and energy is also mitigating some of the energy cost inflation we are facing, which when combined with fuel surcharges introduced into some contract prices, means we should not see a negative impact year on year.

We are also looking to mitigate the above headwinds through price increases and growth initiatives. We have already increased domestic prices of our letter services by an average of c.7%, and parcel prices by an average of c.4%, in addition to the fuel surcharge.

Overall, assuming a pay deal for change can be agreed broadly in line with our current offer and without material industrial disruption, current analyst consensus of £303 million (as at 18 May 2022)[21] is within our range of potential outcomes for the year, however the level of current headwinds presents risks to the downside. The first half will be more challenging, given the strong comparatives from last year when COVID-19 restrictions were still in force, and benefits from some transformation initiatives more second half weighted.

In the medium term, we still see potential for a 5%+ margin if we can complete our new pay deal with the union and successfully deliver our change agenda.

GLS

In GLS, there are similar inflationary pressures from fuel, energy and wages – in some of our markets (e.g. Germany) we are seeing material minimum wage increases. We also face a challenging GDP backdrop with decreasing consumer confidence and spending in many markets, with stronger comparator periods in the prior year, when lockdown restrictions were still in force. As a result, we expect a slowdown in volume growth and margin pressure in 2022-23.

To mitigate these pressures, we are looking to continuously evaluate pricing during the year ahead, including fuel surcharging, and to improve yield management, alongside the development of further automation and digital tools to optimise efficiency across both final mile and linehaul networks.

Revenue growth is expected to be a high single digit percent, with an operating profit between €370 million – €410 million.

We believe the €500 million 'Accelerate' operating profit target in 2024-25 is still achievable if there is a rebound in GDP growth in 2023-24 to pre-pandemic levels; though if the current challenging macro-economic conditions persist, it may require a longer timeframe to achieve the target.

21. Based on company collated consensus for Royal Mail adjusted operating profit in FY 2022-23 of £303m as at 18 May 2022; based on 10 analysts' estimates, all received after 25 January 2022.

Non-Financial Information Statement

In accordance with sections 414CA and 414CB of the Companies Act 2006, the table below sets out where information can be found in this Annual Report relating to non-financial matters, including our commitment and approach to responsibly managing our relationships with our people, customers, communities and the environment. It also highlights, where relevant, the policies to support our performance in these areas, how we monitor their effectiveness and their outcomes.

Environment

Material policies	How we monitor effectiveness
Environment policy (Royal Mail) **Environmental Standard (GLS)** Outlines our commitments to responsible management of natural resources, climate change mitigation and adaptation, pollution prevention and protection of the environment. Includes engagement with our people, customers and suppliers.	– Measure performance against key environmental metrics. – Monitor the scores and rankings in sustainability benchmarks and indices. – Regular audits against our Environment management systems. – Include environmental criteria in supplier selection frameworks and monitor suppliers' performance (Royal Mail). – Board oversight of performance by the ESG Committee. Pages 107 to 109.

Outcomes	Risk management
– Our environment strategies, approach and policy outcomes. Pages 32 and 33. – Environmental performance against key metrics including carbon emissions and waste generation (pages 33 to 35). – The Board factors the impact of the Group's operations on the community and the environment into its decision making. Page 28.	– Principal risk: Environment and sustainability. Page 59. – Implementation of TCFD recommendations. Pages 46 to 51.

Employees

Material policies	How we monitor effectiveness
Our Business Standards (Royal Mail) **Code of Business Standards (GLS)** Page 45. **People policy (Royal Mail)** A single policy statement which sets out our overarching commitment to colleagues throughout their employment with Royal Mail. **Royal Mail and GLS Speak Up (Reporting) policies** Our commitments to investigating suspected wrongdoing, including the system for raising concerns and our respect for whistleblower confidentiality. **Royal Mail and GLS Health and Safety policies** Our commitments to managing health and safety risks, removing or reducing the likelihood of injury or harm to its employees or others. **Group Equality and Fairness policy** Outlines our principles and approach to promoting equality, diversity and fairness at all stages of employment. Page 97.	– Monitor health and safety performance metrics and undertake regular audits against our SHE management systems. Page 36. – Regular employee engagement forums and surveys allow us to monitor culture and engagement. Pages 26, 38, 84, 85 and 90. – Track workforce diversity across job levels and different business areas against targets. Page 40. – Monitor the contact across our whistleblowing channels and investigate concerns/incidents raised. Pages 45 and 85. – Designated Non-Executive Director for engagement with the workforce. Page 90. – Board oversight of performance by the ESG Committee. Page 107 to 109.

Outcomes	Risk management
– Our people strategies, approach and policy outcomes. Pages 38 to 41. – Our health, safety and wellbeing performance. Page 36 to 38. – Our gender diversity profile. Page 40. – Feedback from employee engagement activities and surveys. Pages 26, 38, 84, 85 and 90. – The Board factors the interests of our employees into its decision making. Page 29.	– Principal risks: Industrial action, Talent – workforce for the future and Health, safety and wellbeing. Pages 58 and 61.

Social and community

Material policies	How we monitor effectiveness
Group ESG policy statement Page 45. **Responsible Procurement Code of Conduct (Royal Mail)** **Supplier Code of Conduct (GLS)** Page 45.	– Annual research of our socio-economic impact in the UK to understand the level of benefit we deliver to the communities we serve. Page 42. – Monitor the scores and rankings in sustainability benchmarks and indices. – Monitor customer feedback. Page 26. – Monitor service performance. Page 26. – Investigating breaches to our supplier codes, plus effective monitoring and auditing of high-risk suppliers (Royal Mail). – Monitor payment practices (Royal Mail). – Board oversight of performance by the ESG Committee. Page 107 to 109.

Outcomes	Risk management
– Our customer-centric strategy, service performance and customer feedback scores. Pages 14 to 17 and page 26. – Our community investment approach and policy outcomes including UK social and economic contribution. Page 42 and 43. – Our supply chain approach and policy outcomes including monitoring of suppliers (monitoring for Royal Mail only). Page 45. – Payment practices, available at www.gov.uk/check-when-businesses-pay-invoices (Royal Mail). – The Board factors the interests of suppliers, customers and other stakeholders into its decision making. Pages 28 and 29.	– Principal risks: Customer expectations and our responsiveness to market changes, Our UK regulatory framework and Business continuity and operational resilience. Pages 57, 59 and 60.

Respect for human rights

Material policies	How we monitor effectiveness
Group ESG policy statement Page 45. **Group Equality and Fairness policy** Page 97. **Recruitment Vetting policy (Royal Mail)** Sets out the policy for Right to Work and vetting checks for all roles within Royal Mail Group to ensure that we meet our legal, regulatory and contractual obligations. **Responsible Procurement Code of Conduct (Royal Mail)** **Supplier Code of Conduct (GLS)** Page 45.	– Embed human rights risks into our compliance risk monitoring programme. – Monitor high-risk supplier categories for evidence of breaches to our standards. – Operate strict resourcing controls that govern the onboarding of new permanent, temporary and contract staff to ensure compliance with vetting standards (Royal Mail). – Board oversight and review of Modern Slavery Act Statement by the ESG Committee. Page 109.
Outcomes	**Risk management**
– Human rights approach and policy outcomes. Page 43. – Number of high-risk suppliers signed up to Sedex. Page 45.	– Our risk management framework governs how we identify, assess and manage such risks. The risk appetite determines the level of risk we are prepared to accept. Pages 52 to 55. – Our Modern Slavery Act Statement available at https://www.royalmailgroup.com/media/11528/modern-slavery-statement-2020-21.pdf

Anti-bribery and corruption

Material policies	How we monitor effectiveness
Policy for the Prevention of Bribery, Corruption and the Facilitation of Tax Evasion (Royal Mail) **Anti-bribery Policy (GLS)** Page 45. **Our Business Standards (Royal Mail)** **Code of Business Standards (GLS)** Page 45. **Responsible Procurement Code of Conduct (Royal Mail)** **Supplier Code (GLS)** Page 45. **Royal Mail and GLS Speak Up (Reporting) policies** Page 45.	– Provision of mandatory compliance training for employees. Page 44. – Require annual manager attestations to maintain our Royal Mail Business Standards. Page 44. – Country Manager attestations as part of Quarterly Compliance Reporting (GLS). – Regular screening of suppliers to check for instances of corruption. – Monitoring the number of contacts made across our whistleblowing channels. Page 85.
Outcomes	**Risk management**
– Our approach to ethics and compliance and policy outcomes. Page 44 and 45. – Completion rate of compliance training against target. Page 44.	Our risk management framework governs how we identify, assess and manage such risks. The risk appetite determines the level of risk we are prepared to accept. Pages 52 to 55.

Other non-financial information	Page
Our Business Model	12 and 13
Measuring Our Performance (non-financial KPIs)	24 and 25
ESG Review	30 to 45

Most of the policies and procedures referred to above are available at www.royalmailgroup.com/en/responsibility/policies-and-reports and www.gls-group.eu/GROUP/en/about-us/our-code-of-conduct.

This Strategic Report was approved by the Board on 18 May 2022 and signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer

Corporate Governance

Chair's Introduction

Keith Williams
Non-Executive Chair

Key priorities

- Ensuring the safety of our people and customers.
- Continuing to provide a vital frontline service to keep our customers, companies and countries connected.
- Monitoring the transformation of Royal Mail and the execution of GLS' Accelerate strategy.
- Overseeing implementation of the Group's capital allocation policy.
- Ensuring that despite different ways of working, the highest levels of governance continue to operate across the Group, including effective risk management measures and controls.

Dear Shareholder,
On behalf of the Board, I am pleased to present this year's Corporate Governance Report.

As explained in my letter on pages 4 and 5, we have continued to face a number of challenges this year. Throughout the year, the Board has focused on a number of key priorities, which are detailed in the adjacent column.

Purpose, culture and values
The importance and relevance of our purpose – connecting customers, companies and countries – and the unique contribution our businesses make to society, have been magnified during the past two years. Our culture, which is shaped by our values, is a key enabling factor in delivering our purpose and strategic ambitions. To ensure that a trusting, inclusive and customer-focused environment is in place across the Group, the Board continues to monitor and review the Group's culture on a regular basis. See pages 84 and 85.

Stakeholders
Our stakeholders are integral to the Group's success, and our purpose demonstrates the importance we place on our relationships with them. To ensure that we understand our stakeholders' views and interests, we engage with them in a number of ways (see pages 26 and 27). Our Directors' duties under section 172 of the Companies Act 2006 underpin our decision-making processes. Our section 172 statement on pages 28 and 29 includes examples of how the Board factored stakeholder views and interests into decisions it made this year.

Environmental, social and governance
As highlighted on page 30 and 31, we have developed new Group-wide ESG Principles which are built around the issues that are most relevant to our stakeholders and our businesses.

Royal Mail has also updated its environmental strategy to target net zero by 2040, and GLS has launched its own strategy, tailored to its business of working with transport partners, to reduce its emissions to zero by 2045. See pages 32 and 33.

Capital return
In the early days of the pandemic, the Board made the decision to not pay a final dividend for 2019-20 whilst the Company determined the impact of the pandemic on its finances. With more visibility on the Group's strategic progress and performance, in November 2021 the Board reviewed the Group's cash holdings. In line with our capital allocation policy, we decided cash was available to return to shareholders and announced our intention to return up to £400 million of cash to shareholders through a share buyback programme and a special dividend. The special dividend of 20 pence per share was paid to shareholders alongside the interim dividend on 12 January 2022 and the share buyback programme was completed in March 2022.

Chair's Introduction continued

Board and Committee changes

There were two additions to the Board in the year. Martin Seidenberg, CEO GLS, joined as an Executive Director on 1 April 2021, and Shashi Verma joined as a Non-Executive Director on 29 September 2021. Shashi also joined the Nomination Committee and ESG Committee. Biographical information about Martin and Shashi is included on pages 82 and 83.

As announced on 1 February 2022, Rita Griffin has decided not to seek re-appointment at our forthcoming AGM, which is scheduled to be held on 20 July 2022, and she will step down from the Board at the end of the meeting. Rita, who has been a Non-Executive Director since December 2016, will also step down as Chair of the ESG Committee and a member of the Nomination Committee at the same time. On behalf of the Board, I would like to thank Rita for her valued contribution and wish her well for the future.

Lynne Peacock joined the ESG Committee on 1 February 2022. Subject to her re-appointment to the Board at our forthcoming AGM, Lynne will succeed Rita as Chair of the ESG Committee at the conclusion of the AGM and, at the same time, step down as Chair of the Remuneration Committee. Subject to her re-appointment to the Board at our forthcoming AGM, Maria da Cunha, who is an existing member of the Remuneration Committee, will take over from Lynne Peacock as Chair of this Committee at the conclusion of the AGM. Maria will continue in her role as Designated Non-Executive Director for engagement with the workforce.

Diversity and inclusion

To effectively fulfil our purpose and deliver long-term value for our stakeholders, we must foster an inclusive culture, employ people with different viewpoints and promote diversity in its broadest sense, including professional, educational, skills, age, gender and ethnicity. This approach enhances our decision making and supports delivery of our strategy. Further information about our current diversity profile and the steps we are taking to improve this are set out on pages 40 and 41.

The composition of the Board aligns with the ambitions set by the Parker Review and the FTSE Women Leaders Review, as well as those announced by the Financial Conduct Authority. As at 27 March 2022, the proportion of women on our Board was 40%. However, when Rita Griffin leaves the Board in July 2022, the proportion of women on our Board will drop to 33%. Our ambition is to further increase gender diversity on the Board, and the Nomination Committee will consider the FTSE Women Leaders recommendations and the FCA targets as part of its annual review of the Board Diversity Policy this coming year.

Female colleagues continue to be under-represented in our senior leadership roles. During the year, recognising that we need to accelerate our progress in this important area, we introduced gender balanced shortlisting for all recruitment into our most senior grades at Royal Mail (see page 97).

Also recognising that ethnic minority colleagues continue to be under-represented in senior management roles, we introduced ethnic diversity targets for Royal Mail (see page 40).

Board evaluation

To ensure that it sets the correct tone and continues to operate effectively, we are committed to annually reviewing the Board's performance. Full details of the internal evaluation undertaken in March 2022, including the methodology and key findings, are set out on page 94. While the overall outcome of the evaluation was positive, to ensure continuous improvement, the Board agreed that a number of actions should be implemented (see page 94).

Compliance with the 2018 UK Corporate Governance Code[1] (the Code)

The Board confirms that for the year ended 27 March 2022 the Company complied with all relevant Provisions in the Code. This governance section explains how we have applied the Code's Principles during the year.

Conclusion

I hope that you find this report useful and I look forward to engaging with shareholders at our forthcoming AGM.

Keith Williams
Non-Executive Chair
18 May 2022

1. The Code is available at www.frc.org.uk.

Application of Code Principles

Information about how we have applied the Code's Principles during the year ended 27 March 2022 can be found as indicated below.

Code Principle	Page
1. Board leadership and company purpose	
A. Effective leadership, promotion of long-term success, value generation and social contribution	**28 and 29** **82 to 86**
B. Purpose, values, strategy and cultural alignment	**2** **14 to 23** **84 and 85**
C. Resources and controls	**52 to 61** **87 and 88** **105**
D. Stakeholder engagement	**26 to 29** **90**
E. Policies and practices and mechanisms to raise workforce concerns	**44 and 45** **90**
2. Division of responsibility	
F. Role of the Chair	**91** **94**
G. Composition of the Board	**91 and 92**
H. Role and time commitment of the Non-Executive Directors	**91** **98**
I. Effective and efficient Board	**91**
3. Composition, succession and evaluation	
J. Appointments to the Board and succession planning	**96 to 98**
K. Skills, experience and knowledge of the Board	**82 and 83** **95**
L. Board evaluation	**94**
4. Audit, risk and internal control	
M. Internal and external audit	**104** **106**
N. Fair, balanced and understandable	**146**
O. Risk management and internal control framework	**52 to 55** **105**
5. Remuneration	
P. Remuneration policies and practices	**115**
Q. Executive remuneration	**126 to 141**
R. Remuneration outcomes and independent judgement	**110 to 113**

Board of Directors

Keith Williams
N R

Independent Non-Executive Chair

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
Non-Executive Chair on 1 February 2021

Skills and experience
- Proven business leader with significant chair and board leadership experience. Keith spent 18 years at British Airways, including five years as CFO, three years as CEO and two years as Executive Chair, during which time he led the transformation of British Airways. Formerly a Non-Executive Director and Deputy Chairman of the John Lewis Partnership, a Non-Executive Director of Aviva plc and an Executive Board member and Chair of the Audit Committee at Transport for London.
- Extensive industrial relations, operational and customer service experience.
- Chartered accountant.

Significant external appointments
- Chair of Halfords Group plc

Simon Thompson
Chief Executive Officer of Royal Mail

Appointed to the Board
Non-Executive Director on 1 November 2017
Chief Executive Officer of Royal Mail on 11 January 2021

Skills and experience
- Extensive experience as a global business leader.
- Proven track record in delivering digital transformation and enhanced customer experience. Simon has held senior positions at HSBC, Ocado plc, Honda Motor Europe Ltd, Motorola Inc, lastminute.com, Apple Inc. and Wm Morrison Supermarkets plc.
- Former Royal Mail Designated Non-Executive Director for workforce engagement.

Significant external appointments
- Member of the Digital Advisory Board of Coca Cola Europacific Partners

Martin Seidenberg
Chief Executive Officer of GLS

Appointed to the Board
1 April 2021

Skills and experience
- Significant international and logistics experience. Martin spent 15 years with Deutsche Post DHL in a variety of senior logistics, parcel-related and strategic roles including CEO of the DACH region at DHL Supply Chain.
- Deep knowledge of GLS, having joined in 2015 as Chairman of GLS Germany, becoming GLS Group CEO in June 2020.

Significant external appointments
- None

Rita Griffin
E N

Independent Non-Executive Director

Appointed to the Board
1 December 2016

Skills and experience
- Significant experience in developing and implementing strategies and leading substantial transformation programmes. During her long career at BP plc, Rita held various roles including Vice President of Downstream Transformation and Chief Operating Officer of Global Petrochemicals.

Significant external appointments
- None

Maria da Cunha
E N R

Independent Non-Executive Director

Designated Non-Executive Director for engagement with the workforce

Subject to her re-appointment at the AGM, Maria will become Chair of the Remuneration Committee at the conclusion of the AGM.

Appointed to the Board
22 May 2019

Skills and experience
- Extensive experience in industrial relations, transformation programmes and employee engagement gained through her 18-year career at British Airways, where Maria was the Director of People, Legal and Government and Industry Affairs, and the Director of People and Legal.
- Qualified solicitor with significant risk, compliance and legal knowledge, having held various positions with Hogan Lovells, Lloyds of London and Law College of Europe.

Significant external appointments
- Non-Executive Director of De La Rue plc
- Panel Member of the Competition and Markets Authority

Michael Findlay
A N R

Independent Non-Executive Director

Appointed to the Board
22 May 2019

Skills and experience
- Extensive strategy, finance and M&A experience. Michael spent 27 years in investment banking at Robert Fleming & Co, UBS and most recently Bank of America Merrill Lynch, where he was Co-Head of Investment Banking and Corporate Broking for the UK and Ireland.
- Significant knowledge of the letters and parcel sector. He is a former Non-Executive Director of UK Mail Group plc, where he was also the Senior Independent Director, Chair of the Remuneration Committee and a member of the Audit Committee.

Significant external appointments
- Chair of Morgan Sindall Group plc
- Chair of London Stock Exchange plc (a subsidiary of London Stock Exchange Group plc)

Mick Jeavons
Group Chief Financial Officer

Appointed to the Board
11 January 2021

Skills and experience
- Significant financial, logistics and industrial relations experience. Mick joined Royal Mail in 1993 and has held various senior roles, including Corporate Finance Director at the time of the IPO in 2013 and Chief of Staff to the then CEO.
- Chartered accountant.

Significant external appointments
- None

Baroness Hogg
A E N

Senior Independent Non-Executive Director

Appointed to the Board
1 October 2019

Skills and experience
- Extensive board and governance experience, having served as Chair of 3i Group plc and as a Non-Executive Director of several companies, including BG Group and GKN plc. Baroness Hogg won the Sunday Times Lifetime Achievement Award for Non-Executive Directors in 2017.
- Significant political and regulatory experience through her former roles as Lead Independent Non-Executive Director of HM Treasury, Chair of the Financial Reporting Council and Head of the Prime Minister's Policy Unit under John Major. She was granted a life peerage in 1995 and sits in the House of Lords as a crossbencher.

Significant external appointments
- None

Committee membership key

A Audit and Risk
E ESG
N Nomination
R Remuneration
Committee Chair

Lynne Peacock
R A E N

Independent Non-Executive Director

Subject to her re-appointment at the AGM, at the conclusion of the meeting, Lynne will cease to serve as Chair of the Remuneration Committee, but will continue to serve as a member of that Committee. At the same time, she will become Chair of the ESG Committee.

Appointed to the Board
1 November 2019

Skills and experience
- Significant board and executive experience, having served as the CEO of National Australia Bank Europe Limited (NAB) and the CEO of Woolwich plc. Lynne was formerly a Non-Executive Director at Standard Life Aberdeen plc, Scottish Water, Jardine Lloyd Thompson Group plc and Nationwide Building Society.
- Transactional experience gained through her involvement in Woolwich plc's IPO and FTSE 100 listing and its sale to Barclays, the disinvestment of NAB's Irish operations and the integration of Clydesdale and Yorkshire Banks.

Significant external appointments
- Senior Independent Director of Serco Group plc
- Non-Executive Director of TSB Banking Group plc
- Senior Independent Director of TSB Bank plc (a subsidiary of TSB Banking Group plc)

Shashi Verma
E N

Independent Non-Executive Director

Appointed to the Board
29 September 2021

Skills and experience
- Proven business leader with extensive experience in developing innovative technology. Shashi is currently the Director of Strategy and Chief Technology Officer at Transport for London (TfL), a role in which he is responsible for the operation of TfL's revenue collection system. He also led the development and implementation of contactless payments on TfL's systems.
- Significant customer service experience gained through his responsibility for integrating TfL's customer-facing activities and for running its customer service operations.

Significant external appointments
- None

Mark Amsden
Group General Counsel and Company Secretary

Appointed
8 April 2019

Skills and experience
- Significant legal and company secretarial experience. Mark was the former General Counsel and Company Secretary of Wm Morrison Supermarkets plc and the interim Company Secretary of Yorkshire Water. Formerly a partner at Addleshaw Goddard LLP, where he specialised in corporate litigation and headed up the national IT litigation practice.
- Data and technological experience. Mark helped oversee Morrisons move online with Ocado and then Amazon, and dealt with the response to Morrisons' employee data theft in 2014.

Significant external appointments
- None

Board Leadership and Company Purpose

An effective Board

As outlined on pages 82, 83 and 88, our Directors have proven capabilities and the right balance of skills and expertise to oversee the delivery of the Group's strategy and its long-term success. In particular, their different backgrounds and experience ensure diversity of thought, constructive debate, due consideration of all relevant stakeholders and an effective decision-making process.

Purpose, values and culture

If we are to achieve long-term success, it is essential that our culture, and the values which shape it, are aligned with our purpose and strategy. We aim to foster a trusting and inclusive culture. In addition, given our societal role and the strategic importance of strong customer relations, it is vital that customer-centricity underpins everything we do. The Board endorses the Royal Mail and GLS values which are described on page 2 and regularly monitors the Group's culture using several mechanisms as detailed below.

How the Board and/or its Committees monitored and assessed culture during the year

Activity	Insight gained	Outcome
Board reviewed feedback from employee surveys	Valuable information about the issues that matter to our people (see page 38). Deepened understanding of the working environment across the Group and the effectiveness of embedding our values in everything we do. Understood how the survey feedback translates into local action plans, leading in turn to improved working environments.	Enabled the Board to assess implementation of the Group's strategy from an employee perspective. Assisted the Board in monitoring the progress of initiatives to improve relationships with our people and unions, and rebuild trust. Feedback from our people about customer reaction to new products and service quality taken into account as part of the Board and Management's review of Royal Mail's new product offerings and plans to improve customer service.
Board considered regular updates from the Designated Non-Executive Director for engagement with the workforce	Direct and immediate feedback from our people and an opportunity to see our operations first-hand. Observations arising from dialogue this year included clear evidence of a cohesive and strong culture across GLS and a committed workforce in Royal Mail. Within Royal Mail colleagues again expressed concerns about having the right tools to do the job.	In response to previous concerns around Royal Mail colleagues having the right tools for the job, almost 80,000 new personal digital devices were rolled out. There is still some work to be done to enable our people to provide a great service and we will explore ways to do so in the coming year.
Health, safety and wellbeing updates reviewed at every ESG Committee and Board meeting	Key information about our health and safety performance which identified a need to improve accident rates and health and safety awareness across the GLS business and improve the health and safety culture across the Royal Mail business. Details of infection and absence rates as a result of the pandemic and the effectiveness of the controls put in place in response to the pandemic.	Discussed and monitored the roll out of the awareness and training programme to improve safety across the GLS business (see page 37). Discussed initiatives to improve health and safety culture across the Royal Mail business, including moving to a culture of reporting near misses, appointing a dedicated Health and Safety leader, reviewing 10% of safety assessments for postie walks each month, and providing the Board and Royal Mail Executive Board with health and safety training to ensure awareness of their responsibilities. Considered level of pandemic-related absences in discussions about Royal Mail service quality issues in January and February 2022, along with ways to address them. Board level ongoing monitoring and review to ensure that effective health and safety processes and procedures are in place.

Activity	Insight gained	Outcome
ESG Committee reviewed Royal Mail absence levels	Information on frontline absence rates for the year to date with a comparison against prior year and pre-pandemic levels, which identified a need to reduce absence levels. Information on the split of long-term and short-term absence and what the leading causes are for each. The scale of pandemic-related absence levels. In relation to long-term sickness, the effectiveness of actions taken to support people coming back into the workforce.	Discussed initiatives to drive a reduction in sickness-related absences including launching a taskforce to look at short-term absence and launching a communications campaign to increase awareness of the support available for employees.
ESG Committee reviewed Royal Mail frontline employee turnover and the findings of a new exit survey	Information on employee turnover in 2021-22 including the rate of employees who had left within one year and a comparison against pre-pandemic levels. The exit survey provided a deeper understanding of why people are leaving us, particularly in areas where the workforce is under-represented such as female, minority ethnic and younger colleagues, and identified three themes focused on relationships with management, job expectations and working hours.	Reviewed and discussed a range of initiatives to increase employee retention including improving the onboarding process, the role of workplace coaches and working with hiring managers to ensure that recruitment levels are in line with business needs and to monitor the hours worked compared with the contracted hours of new entrants.
Royal Mail whistleblowing reports reviewed at ESG Committee or ARC meetings	Information on the total number of whistleblowing reports being registered on a quarterly basis, which rose above the UK benchmark for the first time, suggesting an increase in trust in the process and the drive from within the business from the top down to an open and transparent culture. Information on the anonymous reporting rates, which had decreased and was at the lowest rate since 2019 but remained high overall, suggesting fears around retaliation and confidentiality remain. Updates on key cases and actions being taken to address issues raised.	Considered initiatives to reduce anonymous reporting and build greater trust in the whistleblowing process, including publishing more redacted case studies and implementing and publicising an anti-retaliation process. Reviewed proposals to proactively monitor the timeliness of investigations and their escalation and plans to increase resources to reduce the time taken to review reports prior to their closure.
Royal Mail and GLS whistleblowing processes reviewed by the ARC and the Board	The end-to-end process of Royal Mail and GLS' whistleblowing process, which demonstrate that both businesses operate a robust and effective process that enable our workforce to raise issues of concern. Content of whistleblowing reports for Royal Mail and GLS.	Considered minor improvements to enhance Royal Mail's whistleblowing process including introducing performance measures into different elements of the whistleblowing process in the coming year to track timeliness of dealing with issues raised. The ARC and the Board will continue to monitor the effectiveness of the whistleblowing processes on a bi-annual basis.

Board Leadership and Company Purpose continued

Governance framework

Our governance framework, which is set out below, assists us in the exercise of our duties and responsibilities, including setting and monitoring the Group's strategic direction and creating long-term value for our shareholders and other stakeholders.

Governance framework

The Board

- Responsible for the stewardship of the Group and its long-term success.
- Sets the Group's values and standards, making sure that they align with its strategic aims and the desired business culture.
- Oversees and has accountability for stakeholders' interests.
- Sets the objectives and strategy, and monitors performance and risk management.
- Approves major contracts, investments, internal controls and key policies.

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 Group's diversity policy.

See pages 95 to 98.

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 Group's overall risk appetite, tolerance and strategy, and reviews the policies and processes for identifying and assessing the risks to which the Group is exposed and the management of those risks.
- Satisfies itself that internal controls and risk management processes generally work effectively, including the Group's whistleblowing arrangements.
- Oversees the financial performance of the Group.
- Oversees the relationship with the external auditor, ensuring the effectiveness of the external audit process.

See pages 99 to 106.

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, the Executive Board of Royal Mail and GLS and the Company Secretary.
- Agrees targets for any performance-related incentive schemes.

See pages 110 to 141.

Environmental, Social and Governance Committee

Committee Chair:

Rita Griffin

- Oversees the Group's performance in relation to ESG matters and standards to ensure that they are in alignment with the Group strategy.
- Reviews, and recommends for the Board's approval, the Group's ESG policies and practices.
- Focuses its efforts on the ESG issues that are of most importance to the Group and its stakeholders and remains attuned to the changing needs and expectations of society.
- Monitors and reviews the Group's culture.
- Monitors and reviews health and safety and wellbeing arrangements.
- Monitors and reviews the Group's community efforts and its help for vulnerable customers.

See pages 107 to 109.

Matters reserved for the Board's approval are available at www.royalmailgroup.com/en/about-us/governance.

The responsibilities the Board has delegated to its Committees are available at https://www.royalmailgroup.com/en/about-us/management-and-committees.

Board and Committee agendas

The Board's annual plan is designed to ensure that enough time is allocated to address all necessary matters, and meeting agendas are adjusted to prioritise relevant issues and ensure focused consideration of strategic priorities.

Committee meeting agendas are informed by a forward planner which is developed from each Committee's Terms of Reference and reviewed and updated regularly to reflect areas identified by Committee members for additional focus.

Board meetings and attendance

The Board met on nine scheduled occasions during the year in addition to a number of ad hoc meetings. Each Director has committed to attending all scheduled Board meetings and would only fail to do so in exceptional circumstances. Similarly, every effort is made by Directors to attend ad hoc meetings. On the rare occasion that a Director cannot attend a meeting, they are provided with the papers in advance of the meeting and are given the opportunity to provide comments to the Chair. The table below shows the number of scheduled Board meetings each Director attended and the number of meetings they were entitled to attend during the year ended 27 March 2022. As pandemic restrictions eased during the year, Board meetings were held in person where appropriate and possible in accordance with guidance at the time. Whilst the Board welcomes the return of physical meetings, it is keen to continue to harness the benefits of virtual meetings and will continue to invite some colleagues to present virtually and will also hold Committee meetings virtually where appropriate.

Governance at a glance

The Non-Executive Directors and the Chair meet regularly 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 also meet regularly with Senior Management, and spend time increasing their understanding of the business. These meetings also enable Senior Management to benefit from the Non-Executive Director skill set and experience. These meetings help to 'open out' discussions, enabling formal Board meetings to be more focused. It also helps the Non-Executive Directors recognise that attendance at Board meetings is only one part of their role.

Board activities

The specific areas the Board focused on during the year and up until 18 May 2022 are outlined on pages 88 and 89. In addition, at every Board meeting a number of standing items are reviewed, including health and safety and wellbeing reports, customer service, regulatory updates and market developments. At each Board meeting, Committee Chairs update the Board on the recent work of their Committee. Individuals from relevant business areas, as appropriate, present on key items, which enables the Board to debate and challenge Management's proposed initiatives and plans and meet key individuals from the businesses. During the year, over 60 Royal Mail and GLS Senior Managers presented at or attended one or more Board or Committee meetings.

Effectiveness of risk management and internal control

The Board has overall accountability for the Group's risk management and internal control systems and has delegated to the ARC a number of activities, including objectives related to risk control, governance, financial control and statutory reporting. Information about the ARC's activities is included on pages 99 to 106.

During the year, the Board reviewed the Group's risk management and internal control systems, covering all material controls including financial, operational and compliance controls, and determined they were generally effective in the year. The Board also considered recommendations from the ARC to improve the effectiveness of the control environment in light of the increasing global risk facing the business as it transforms. See page 105 for further information of the key activities underway.

The Board also determined the Group's risk appetite and carried out a robust assessment of the Group's principal and emerging risks. Information about the Group's principal risks is included on pages 56 to 61.

Conflicts of interest

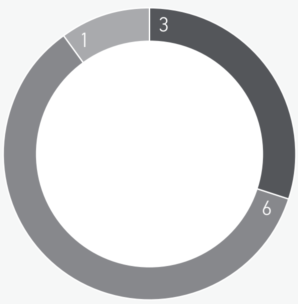
The Group operates a policy to identify and, where appropriate, manage Directors' potential conflicts of interest. Any potential conflict must be notified to and authorised by the Board. Each Director abstains from approving their own potential conflicts. Directors also have an ongoing obligation to 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.

Board attendance

Director	Joined	Attendance (scheduled meetings)
Keith Williams	Chair	9/9
Baroness Hogg	Senior Independent Director (SID)	9/9
Rita Griffin	Non-Executive Director	9/9
Michael Findlay	Non-Executive Director	9/9
Maria da Cunha	Non-Executive Director	9/9
Lynne Peacock	Non-Executive Director	9/9
Shashi Verma[1]	Non-Executive Director	5/5
Mick Jeavons	Group Chief Financial Officer	9/9
Simon Thompson	CEO of Royal Mail	9/9
Martin Seidenberg	CEO of GLS	9/9

1. Shashi Verma joined the Board as a Non-Executive Director on 29 September 2021.

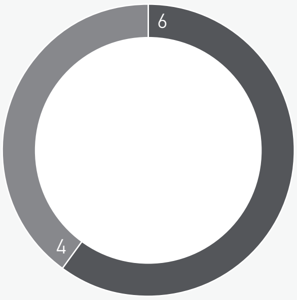
Board composition



Executive Directors	3
Independent Non-Executive Directors	6
Non-Executive Chair	1

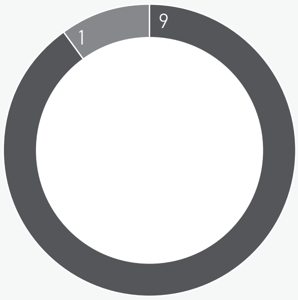
Board Leadership and Company Purpose continued

Board gender balance



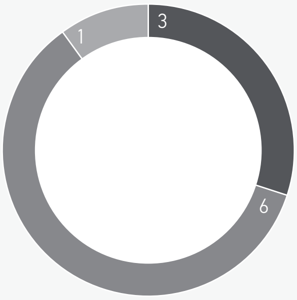
Male	6
Female	4

Board ethnicity



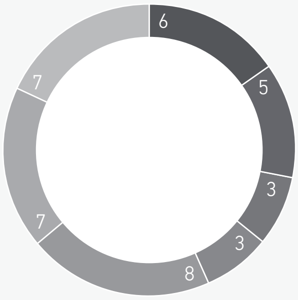
White	9
Indian	1

Board tenure



0-2 years	3
2-5 years	6
5+ years	1

Board key skills and experience



Industrial relations/ employee engagement	6
Customer	5
Transformation	3
Finance	3
Regulated industries	8
Corporate governance	7
Audit, risk management and compliance	7

Board activities

Matter considered	Activity
Strategy and business plan	
Strategy	– Dedicated a significant amount of time to discussing, monitoring and reviewing the implementation of Royal Mail and GLS' respective strategies, including participating in a dedicated strategy day. – Considered and approved GLS' acquisition of Rosenau Transport. – Reviewed and the approved the GLS medium and longer-term strategy plans and GLS Accelerate. – Discussed and reviewed the implementation of Royal Mail's transformation programme and approved proposals to further streamline operational management to improve performance at local levels. – Received updates on Royal Mail's pricing strategy.
Business plans	– Reviewed and approved business plans and budgets. – Monitored progress against the annual budgets and the Group's financial targets. – Considered and approved the capital allocation framework.
COVID-19	– Received regular COVID-19 updates, including impact assessments, contingency plans and the measures being deployed to protect the Group's workforce and customers.
Leadership	
Board composition and succession planning	– Considered and approved the appointment of Shashi Verma as a new Non-Executive Director. – Continued to consider Board membership, including Board succession planning and Committee composition, with a focus on diversity and ethnicity. – Considered and approved changes to membership of the Remuneration and ESG Committees. – Received updates on the talent work conducted by Korn Ferry (see page 96).
Organisational change	– Considered and approved a corporate restructure to reflect the new Group management structure.

Board activities continued

Matter considered	Activity
ESG	– Reviewed and approved the Group's ESG Principles (see page 31). – Discussed and reviewed the Group's culture (see page 84 and 85) including the role to be played by the ESG Committee in monitoring culture. – Approved the 2020-21 Corporate Responsibility Report. – Undertook in-depth review of Royal Mail diversity, equality and inclusion programmes and associated targets.
Stakeholders	– Regularly reviewed the Directors' section 172 duties and responsibilities. – Considered the feedback from employee surveys and oversaw the development of an action plan to address several issues (see page 84). – Considered reports covering employee feedback provided by the Designated Non-Executive Director for engagement with the workforce and from the Chair of the ESG Committee. – Received regular updates on shareholder sentiment and the Group's investor relations programme. – Received regular updates on discussions with unions and the industrial relations environment. – Reviewed regular updates including updates in relation to Management's engagement with Ofcom about the Universal Service Obligation, and Ofcom's regulatory review.
Operational	– Reviewed and discussed operating performance reports prepared by the CEOs of Royal Mail and GLS, including the impacts arising from the war in Ukraine. – Received updates on aspects of the Group's property portfolio. – Reviewed and discussed Royal Mail's plan for the Christmas peak.
Financial	
Performance	– Regularly discussed and considered the Group's financial performance. – Regularly reviewed the cost-control initiatives being implemented across the Group.
Dividend	– Reviewed the dividend and capital allocation policies, taking into account the continued pandemic. – Considered and approved the decision to pay an interim and final dividend for 2021-22. – Considered and approved the decision to pay a special dividend.
Share buyback	– Reviewed and approved a £200 million share buyback programme.
Reporting	– Considered and approved full-year results, interim results and trading updates. – Considered and approved this Annual Report, including the going concern and viability statements on page 63.
Risk and internal controls	
Health and safety	– Received regular updates on health, safety and wellbeing matters, including absence levels.
Principal and emerging risks	– Received regular updates on the Group's principal and emerging risks. – Considered and reset the Group's risk appetite position.
Cyber security	– Received updates on cyber security and the associated risks, including in relation to operational technology. – Participated in cyber security training.
Whistleblowing	– Reviewed reports in relation to the whistleblowing helplines.
Governance	– Considered findings of the Board evaluation and agreed actions to improve and enhance a number of areas (see page 94). – Reviewed and approved changes to the Matters Reserved for the Board and the Committees' Terms of Reference. – Reviewed and approved, upon recommendation from the relevant Committee (where appropriate), the Group's Modern Slavery Act Statement, Treasury Policy, Anti-bribery and Corruption Policy, the Board's Diversity Policy and the ESG Policy.

Board Leadership and Company Purpose continued

The Board's engagement with stakeholders
To deliver our strategy and create long-term sustainable value, we need to build constructive relationships with our stakeholders. By understanding their issues and concerns, we can factor their views into our Boardroom discussions to help drive our long-term success as well as assess the potential impact our decisions have on our various stakeholders.

Our stakeholders and the channels we use to engage with them are described on pages 26 and 27. Our section 172 statement is on pages 28 and 29 together with examples of principal decisions and how the Board considered the section 172 matters.

Workforce engagement
Many of the decisions we make could impact our colleagues and it is therefore important that we engage with them and understand their views. As our people are pivotal to our long-term success, it is also important that they understand our strategy and objectives and have an opportunity to share their insights, particularly about our customers who they engage with daily.

Ordinarily the Board visits at least one operational site a year; however, as a result of the pandemic, the Board was unable to undertake any visits during the year and several planned visits were cancelled due to the pandemic. It is hoped that site visits will resume later this year. Maria da Cunha is the Designated Non-Executive Director for engagement with the workforce and has held this role since January 2021. While the continued pandemic has prevented travel to GLS' operations, Maria has held five virtual Employee Voice Forums with GLS colleagues, and seven face-to-face Employee Voice Forums with Royal Mail colleagues. Colleagues from operational and central functions, including delivery, fleet and engineering, property and facility solutions and our Parcelforce business participated in these forums. Maria submits a periodic written report to the Board covering key observations and themes arising from her discussions.

Engagement with customers
Our customers rely on the service we provide, and it is therefore important that we engage with them about any decisions that will impact them. As we seek to ensure that the Universal Service stays relevant and sustainable, the Board felt it was appropriate to gather feedback on Royal Mail's proposals from its customers via consumer roadshow events, which were held from January to March 2022. The findings were then shared with Ofcom.

Engagement with Regulator
We have regular contact with Ofcom (see page 27). We are participating in its current Review of Postal Regulation and we have called for tracking on USO services. This is a subject that the Board regularly discusses and feels strongly about, particularly in light of customer demand for more visibility. As part of our recent response to Ofcom consultations, we have put in a detailed, evidence based submission demonstrating the importance of allowing tracking in the USO, supporting better customer outcomes.

Engagement with investors
We operate a comprehensive investor relations programme. The Director of Investor Relations, John Crosse, provides a monthly report to the Board which covers feedback from this programme and updates on the investor landscape. Our corporate brokers also provide updates to the Board as required.

Keith Williams and, separately, Mick Jeavons and John Crosse, met with major shareholders to understand their views on governance and performance against strategy. The AGM is a key forum for the Board to engage with shareholders. After holding a closed meeting for our AGM in 2020, we had hoped to welcome shareholders in person to our 2021 AGM, but unfortunately in light of the uncertainty around restrictions on social contact, we strongly encouraged shareholders not to attend the AGM in person but instead to attend and participate electronically. Further, following a positive COVID-19 test result by an employee at the proposed venue, the Board decided, in the interests of health and wellbeing, that only a limited number of Company representatives should attend. Accordingly, other than the Chair, Group CFO and the CEO of Royal Mail, who attended in person, all Directors participated in the meeting virtually. Reflecting our commitment to constructive engagement, shareholders were invited to submit questions in advance of the meeting, in person or via a virtual platform during the meeting. We responded to any questions not answered at the AGM via email after the meeting. In general, those were questions specific to that shareholder, not questions of wider shareholder interest. We look forward to welcoming shareholders in person at our forthcoming AGM.

Division of Responsibilities

The role of each Director, which is summarised below, ensures a clear division of responsibility between executive and non-executive Board members, which supports the integrity of the Board's operations.

Non-Executive

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 that the Board determines the nature and extent of the significant risks that the Group 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 that 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 that there is appropriate succession planning in place at both Executive and Board level.
- Engage with internal and external stakeholders and feedback insights as to their views in relation to Group culture.

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 Group culture.
- Develops, implements and feeds back on employee engagement initiatives in conjunction with 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.

Executive

Group Chief Financial Officer

- Responsible for providing strategic financial leadership of the Group and the day-to-day management of the Group finance function.
- Develops and monitors the control systems designed to preserve Group assets and report accurate financial results.
- Ensures commercial focus across all business activities.
- Supports and advises the CEOs and CFOs of both Royal Mail and GLS.
- Oversees the Group's treasury, investor relations, tax and pension arrangements and monitors regulation.

Chief Executive Officer – Royal Mail

- Responsible for the executive leadership and day-to-day management of Royal Mail.
- Leads the Royal Mail Executive Board.
- Responsible for implementing the delivery of the Royal Mail strategy and commercial objectives as agreed by the Board and in accordance with the Group's risk appetite and business plans.
- Responsible for promoting Royal Mail's culture, values and behaviours and engagement with employees and key stakeholders.
- Provides support to the Chairman and Group CFO with shareholder relationships.

Chief Executive Officer – GLS

- Responsible for the executive leadership and day-to-day management of GLS.
- Leads the GLS Executive Board.
- Responsible for implementing the delivery of the GLS strategy and commercial objectives as agreed by the Board and in accordance with the Group's risk appetite and business plans.
- Responsible for promoting GLS' culture, values and behaviours and engagement with employees and key stakeholders.
- Provides support to the Chairman and Group CFO with shareholder relationships.

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 that due regard is paid to their interests.
- Ensures that 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.
- Considers the appropriateness of risk management.
- Otherwise overviews the policies needed across the Group, to keep it safe, legal and compliant.

Composition, Succession and Evaluation

Board composition
The delivery of the Group's strategy and long-term success depends on attracting and retaining the right skills across the Group. This starts with the Board. The Board comprises six independent Non-Executive Directors, an independent Non-Executive Chair and three Executive Directors. They have wide-ranging backgrounds and relevant and complementary skills and experience. Biographical information for each Director is included on pages 82 and 83.

Board appointments
The Nomination Committee leads the process for Board appointments and seeks to construct an effective, robust, well-balanced and complementary Board, with the appropriate balance of skills, experience, independence and knowledge of the Group to enable duties and responsibilities to be discharged appropriately.

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. They also take account of a range of diversity factors together with the need to balance the composition of the Board and Committees and refresh them over time to meet the changing needs of the Group. Further details on the Nomination Committee's work in this area are included on pages 95 to 96.

Board terms of appointment
Copies of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available for inspection by appointment at the Company's registered office during normal office hours and at the AGM.

Board induction programme
We develop a tailored and comprehensive induction programme for each externally appointed Director which aims to ensure that new appointees are equipped to fulfil their role and participate in Board discussions as quickly as possible. The programme includes one-to-one meetings with the Chair, the Group CFO, the CEO Royal Mail, the CEO GLS, the Company Secretary and the Non-Executive Directors. It also includes various meetings with Senior Management, visits to our key operational sites and postie walks. Shashi Verma joined the Board in September 2021 and a summary of his key induction meetings and visits is set out in the adjacent column.

Shashi Verma's induction programme

September 2021
- Individual meeting with the CEO GLS.

October 2021
- Individual meeting with the CEO Royal Mail.
- Individual meeting with the Director of Investor Relations.

December 2021
- Individual meetings with various members of the Royal Mail Executive Board.
- Site visit to the Mount Pleasant delivery office and meeting staff.
- Overview of regulation with the Director of Regulation and Competition Policy.
- Individual meetings with the Company's brokers.
- Overview of IT and cyber security with the Chief Information Security Officer.
- Overview of pensions with the Director of Pensions.
- Individual meeting with the external auditor.
- Site visit to the Hammersmith delivery office and meeting staff.
- Postie walk in Hammersmith.
- Overview of competition law with the Assistant General Counsel of Competition, Regulation and Data.

February 2022
- Site visit to the North West Hub with the Company Secretary.

April 2022
- Individual meetings with Royal Mail's newly appointed Chief Information Officer, Chief Finance Officer, Chief Information Security Officer and interim Safety Director.
- Site visit to the Heathrow Worldwide Distribution Centre and meeting staff.

"Despite restrictions imposed due to the pandemic, my induction programme has been very informative and well organised. I have particularly valued meeting employees across various parts of our UK business, and I look forward to visiting GLS operations later this year as overseas travel constraints are removed."

2020-21 Board evaluation progress report

During 2020-21, the Board's performance and effectiveness were evaluated with the assistance of Independent Board Evaluation, an independent consultancy that had no other relationship with the Group or its individual Directors. Details of how the evaluation was conducted can be found in the Annual Report and Financial Statements 2020-21. The key actions arising from the evaluation and progress to date are set out below.

Actions	Progress
Board focus and discussion	
– Concentrate the Board's agenda on strategic or tactical matters and overseeing the Group's performance. – Ensure that sufficient time is allowed for discussions in relation to strategy, succession and talent management, ESG and culture change.	– The Board has spent more time discussing strategic matters and overseeing performance during the year, with an increased focus on the Board Committees doing the heavy lifting and avoiding duplication by the Board. – Board and Committee meetings have devoted more time to considering matters related to strategy, succession and talent management, ESG and culture change.
Composition	
– Recruit two additional Non Executive Directors, including at least one from a minority ethnic background, with skills complementary to those of the existing Board members.	– Shashi Verma joined the Board in September 2021. His skills complement those of the existing Board members and his appointment fulfils our commitment to the Parker Review.
Expectations around running a plc	
– Develop a programme for incoming Directors and Royal Mail and GLS Executive Board members to supplement their understanding of the Board and stakeholders' expectations. – Agree a revised set of performance measures aligned to the Group's key strategic objectives. – Schedule a Board session to discuss and further develop the Group's stakeholder engagement activities.	– A comprehensive induction programme was provided to Shashi Verma (see page 92). – The Royal Mail Executive Board has been refreshed to include executives with previous listed plc experience gained outside Royal Mail. – The Director of Investor Relations presented the 2021 investor perception study to the Board in July 2021. This has helped supplement the Company's depth of understanding of investor needs and plc expectations. Our investor engagement plan was updated to take account of relevant perception study feedback. – Maria da Cunha, as Designated Non-Executive Director for engagement with the workforce, has kept the Board updated on employee stakeholder views in both Royal Mail and GLS. When pandemic restrictions permitted and, in accordance with safety guidance, the CEOs of both companies have continued to meet colleagues, seeking to better understand their views. – Royal Mail and GLS have both continued to review and enhance their respective reporting regimes, taking into account the Board's request to see more emphasis on lead indicators including appropriate ESG metrics. As part of the drive to take a more data driven approach to reporting, the Royal Mail Executive Board now has a Chief Data and Analytics Officer, an Executive Board appointment. – The KPIs used to assess Group performance were revised during the year (see pages 24 and 25).
Talent and succession planning	
– Conduct a comprehensive talent assessment across the Royal Mail and GLS Senior Management teams and develop plans to create a strong talent pipeline.	– The Nomination Committee oversaw a comprehensive talent assessment for key critical management roles in both Royal Mail and GLS. The assessment was conducted by Korn Ferry and coordinated by the Company Secretary and the Interim Chief People Officer of Royal Mail. This has resulted in a refresh of talent in some key roles, the introduction of a comprehensive psychometric recruitment evaluation process for new senior hires and documented succession plans. Since we introduced our two CEO reporting structure, 30% of our senior roles within our Royal Mail business have been replaced. Further details are included on page 96.

Composition, Succession and Evaluation continued

2021-22 Board and Committee evaluation

In March 2022, the Board's effectiveness and performance were evaluated through the process detailed below, which was facilitated by the Company Secretary. The evaluation considered the Board's composition, diversity and how effectively Board members work together to achieve objectives.

2021-22 evaluation process

Stage 1

Evaluation development

Questionnaires for Board, Committee and individual Director evaluations developed by the Company Secretariat team.

Stage 2

Evaluation process and review

Questionnaires issued in March 2022 to Board members and Senior Management who regularly attend Board and/or Committee meetings. Completed questionnaires returned to the Company Secretary, who then prepared draft reports of the findings for discussion. Reports shared with, and reviewed by, relevant Board and Committee Chairs for feedback and comment.

Stage 3

Actions agreed

Reports presented, and actions agreed at, the relevant Board and Committee meetings in May 2022.

The key findings from the Board evaluation and the priority actions agreed for 2022-23 are detailed below. Key findings from each of the Committee evaluations and the actions agreed for 2022-23 are set out in the respective Committee Reports across pages 95 to 141.

Key findings and priority actions arising from 2021-22 Board evaluation

Key findings	Actions
Strategy	– Revisit the wider Company strategy, ensuring more regular discussions take place. – Ensure that Royal Mail develops, in conjunction with its stakeholders, a clear, longer term plan for its transformation. – Reconsider the key KPIs used in both businesses, to determine that they remain appropriate in current market conditions, and especially with Royal Mail's move to being a parcels-led business.
Workforce and unions	– Be cognizant of the views of our workforce and of the negotiations with our unions. – Increase the time spent on employee engagement, particularly within GLS now that international travel has become easier.
Reporting	– Develop more standardised and consistent ways for reporting to the Board. – Further improve the quality of papers, particularly the executive summaries.
Composition	– Recruit two additional Non-Executive Directors, preferably one with audit and finance experience and one with international logistics experience.

Individual Director performance

Individual Director performance was considered by Board members via a questionnaire and to help facilitate one-to-one meetings with the Chair and each individual Director. The findings, in combination with the individual skills and time commitment of each Director, confirmed that all Directors are considered to contribute effectively, and support the proposal for those Directors to stand for re-appointment at the 2022 AGM.

Chair performance

The performance of the Chair was evaluated by the Senior Independent Director, with feedback also provided by the rest of the Board. The feedback confirmed that Keith Williams provided strong leadership to the Board throughout the year, facilitated constructive and inclusive Board discussions and helped to call on individual Non-Executive Director experiences to support the Executive as appropriate. It also confirmed that he devoted sufficient time to the role.

Nomination Committee Report

Keith Williams
Non-Executive Chair

Main objectives for 2021-22

- Complete a talent assessment for key critical management roles in both Royal Mail and GLS and oversee a development programme in respect of these roles.
- Map short, medium, and long-term succession planning for critical roles in Royal Mail and GLS.
- Recruit up to two additional Non-Executive Directors to the Board, one of which should have appropriate finance and audit experience, and deliver on the Board's aspiration to appoint at least one Director from an ethnic minority background by 2024.
- Understand and address issues to facilitate the career development of female colleagues.

Key activities in 2021-22

- Concluded an extensive external search leading to the appointment of Shashi Verma as a Non-Executive Director in September 2021.
- Completed a senior leaders' development assessment programme with the support of Korn Ferry.
- Mapped short, medium, and long-term succession plans for Royal Mail Executive Board roles.

2022-23 priorities

- Accelerate progress in female and ethnic representation across our Senior Leadership population.
- Review talent capability and development and succession planning within Royal Mail and GLS, particularly with a view to longer range succession planning.
- Consider succession plans for the CEO Royal Mail, CEO GLS and Group CFO.
- Recruit up to two additional Non-Executive Directors, preferably one with audit and finance experience and one with international logistics experience.

Committee membership and attendance

Director	Joined	Attendance (scheduled meetings)
Keith Williams (Chair since 22 May 2019)	19 April 2018	2/2
Maria da Cunha	25 September 2019	2/2
Michael Findlay	25 September 2019	2/2
Rita Griffin	19 April 2018	2/2
Baroness Hogg	1 October 2019	2/2
Lynne Peacock	1 November 2019	2/2
Shashi Verma[1]	29 September 2021	1/1

1. Joined as member with effect from 29 September 2021.

Dear Shareholder,
I am pleased to update you on the Committee's activity for the year ended 27 March 2022.

Committee composition and meetings
The table in the adjacent column contains information about the Committee's membership and the number of scheduled meetings each Director attended and was entitled to attend during the year ended 27 March 2022.

During the year, several additional meetings took place, including to consider an externally facilitated talent assessment, set up and then later progress the appointment of Shashi Verma, and to discuss Committee changes in light of Rita Griffin's decision not to seek re-appointment at our forthcoming AGM.

Formal Committee meetings were attended by the Company Secretary, the Chief People Officer and other members of the Senior Management team, where relevant. In line with our Conflicts of Interest Policy, Directors are asked to absent themselves from any discussions regarding their own re-appointment or succession. The Committee is supported by the Company Secretary.

Role of the Committee
The Committee's role and responsibilities are summarised on page 86.

Committee activity
The key activities of the Committee during 2021-22 are set out on pages 95 to 98.

Board composition
During the year, the Committee reviewed Board composition, assessing the tenure, experience, skills, knowledge and the re-appointment and independence of each Director. In response to the findings of the 2020-21 Board evaluation (see page 93), the Committee oversaw the external search for two new Non-Executive Directors, and as a result of that search, the Committee recommended to the Board the appointment of Shashi Verma, which was subsequently approved by the Board and announced on 30 September 2021. Details on Shashi's induction programme can be found on page 92.

Following Rita Griffin's decision not to seek re-appointment at our forthcoming AGM, discussions also took place in relation to the composition of the Board's Committees. Following consideration and review, the changes outlined on page 80 were approved.

Non-Executive Director succession and re-appointments
The Committee monitors the tenure of Non-Executive Directors to ensure that it plans sufficiently in advance of retirements from the Board to ensure orderly succession of Non-Executive Directors.

All Directors are required to stand for appointment or re-appointment at each AGM. Ahead of the 2022 AGM, the Committee considered the performance and effectiveness of each Director as well as their skills and time commitment. The Committee concluded that all Directors were valuable members of the Board and subsequently recommended to the Board that all Directors, with the exception of Rita Griffin who will retire from the Board at conclusion of the AGM, should stand for re-appointment at our forthcoming AGM. Biographical information for each Director is included on pages 82 and 83.

Nomination Committee Report continued

Keith Williams, Michael Findlay and Maria da Cunha all reached three years' service in their current roles in May 2022. Following their confirmation that they were willing to continue to serve for a further three-year term, the Committee considered and recommended to the Board that their terms be extended for a further three years, subject to annual re-appointment by shareholders at the 2022 AGM.

The Committee reviewed the Board's skills matrix during the year, and re-affirmed its wish to appoint at least one additional Non-Executive Director with audit and finance experience, and identified further international logistics experience would be useful. The Committee is currently engaged in an external search for a Non-Executive Director with audit and finance experience and a Non-Executive Director with international logistics experience.

Executive and Senior Management succession

Given the critical importance of the Royal Mail transformation programme to the Group's success, during the year the Committee spent significant time considering talent requirements and succession planning across the senior levels of the Royal Mail business.

The Committee considered the findings of a succession mapping exercise for the Royal Mail Executive Board. This exercise was co-ordinated by the Interim Chief People Officer at the request of the CEO Royal Mail and asked Royal Mail Executive Board members to identify their emergency covers and short, medium, and long-term successors.

The Committee identified that there was a lack of female and ethnic minority successors and very few successors available in the short and medium term. In order to strengthen the pipeline, a new talent identification and development programme, 'Royal Mail Diamonds', will be launched shortly.

At the same time, in response to the findings of the 2020-21 Committee evaluation, the Committee launched a senior leaders' development assessment programme with the support of Korn Ferry aimed at identifying, nurturing and developing the Group's future leaders. Korn Ferry was selected as it was thought its effective diagnostics would help the Company assess a larger cohort in the effort to manage career development and spot talent.

The Company agreed a success profile with Korn Ferry which set out what competencies, experiences, traits and drivers our 'leaders of the future' should possess to deliver our strategy. Each individual was then assessed against the success profile via psychometric testing and interviews with Korn Ferry coaches and market partners.

Korn Ferry presented its final report to the Committee in June 2021 which provided a gap analysis of what talent the Company needed versus what talent it currently had and identified what actions needed to be taken to develop or recruit the talent needed to deliver Royal Mail's strategy.

Following presentation of the report, individuals met with their Korn Ferry coach to discuss their report and feedback, how best to achieve their future aspirations and what this meant in terms of their personal and professional development. Discussions then took place between the individuals, their line manager and HR to explore ways that they could support the individual in achieving their future aspirations.

As a result of the senior development assessment programme, and to support the operational and strategic needs of Royal Mail as it delivers its transformation programme, there has been a refresh of talent in levels 1 to 5 at Royal Mail, with around 30% of those roles having been replaced with external hires. A new recruitment process has also been implemented which involves putting all new senior and mid-level hires through a comprehensive psychometric evaluation process.

Board Diversity Policy objectives	Implementation and results
Maintain 33% female representation on the Board.	Female representation on the Board as at 27 March 2022 was 40%.
Place emphasis on developing diversity within the Group and achieve 33% female representation in senior leadership positions.	Female senior leadership representation within the Group as at 27 March 2022 was 28%.
Compliance with the Parker Review.	Following the appointment of a new Non-Executive Director, the composition of the Board aligns with the Parker Review.
Signatories of the Voluntary Code of Conduct for Executive Search Firms.	See page 97.
Consider the Policy when recruiting Non-Executive Directors.	See page 97.
Consider candidates for Non-Executive Director positions from a wider pool.	Appointed a new Non-Executive Director with no prior FTSE board experience.

Diversity and inclusion

We recognise the importance of fostering a diverse and inclusive culture across the Group. To fulfil our purpose and support the delivery of Royal Mail and GLS' growth strategies, it is essential that our workforce reflects the broad diversity of the customers and communities we serve. We must offer an inclusive, fair and accessible workplace where all our people can grow, develop and succeed.

Our Board Diversity Policy aims to ensure that the Board has the appropriate balance of skills, experience and background to deliver the Group's purpose, strategy and values. The table below sets out the Diversity Policy's current objectives, how the Committee has implemented them and the outcomes as at the date of this Annual Report. A copy of the Policy is available at www.royalmailgroup.com/en/about-us/governance.

The Committee is aware of the recommendations set out in the FTSE Women Leaders 'Achieving Gender Balance' report, which was published in February 2022, and will consider these, and the FCA targets, as part of its annual review of the Board Diversity Policy this coming year.

During the year Royal Mail updated its strategy to increase diversity across the business and improve inclusivity. The business has also set new targets in these key areas which will be monitored and reviewed on a regular basis by the ESG Committee. GLS' Diversity and Inclusion Programme, which is currently being developed, will be considered by the ESG Committee in the coming year.

Our Group Equality and Fairness Policy outlines our approach to promoting equality, diversity and fairness at all stages of employment. A copy is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

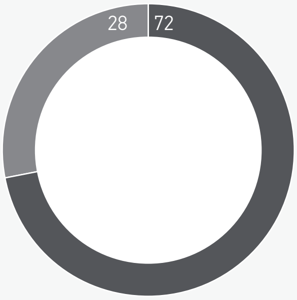
Senior leadership diversity

The gender diversity profile of our Senior Management and their direct reports as at 27 March 2022 is set out below.

We are disappointed that we have not yet met our current target of 33% female representation in senior leadership roles. We need to intensify our efforts if we are to achieve this and have therefore introduced gender balanced shortlisting for all recruitment into our most senior grades at Royal Mail.

The Board recognises that ethnic minority colleagues are still under-represented in Senior Management roles. During the year, Royal Mail introduced ethnic diversity targets (see page 40).

Senior Management* and direct reports gender diversity



Male	72%
Female	28%

* For these purposes, Senior Management is defined as the first layer of management below Board level, including the Company Secretary, in accordance with the Code.

Recruitment process

In response to the 2020-21 Board evaluation (see page 93), the Committee oversaw the external search for up to two additional Non-Executive Directors during the year.

The Committee agreed the candidate specification and engaged an external search agency, Audeliss, to undertake the search on behalf of the Committee. Audeliss has specialist expertise in sourcing candidates from diverse backgrounds and the Committee determined that the firm had the relevant skills and experience to successfully undertake the brief. Audeliss is a signatory to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate Board recruitment searches. Audeliss has no other connection to the Group or any of its Directors.

A long list of candidates was prepared and compared against the Committee's latest Board composition, diversity and skill set review. Due consideration was given to the Board Diversity Policy and the fact that the Company wished to deliver on its aspiration to appoint at least one Non-Executive Director from an ethnic minority background.

A short-list of candidates was then prepared and those shortlisted attended interviews with the Chair and the Directors.

Following those interviews, feedback was gathered and Shashi Verma was identified as the preferred candidate due to his track record of successful technology-led innovation and transformation gained in his current role as Director of Strategy and Chief Technology Officer for Transport for London. The Committee noted the key role technology and automation has to play in the Group's customer offering and the transformation of Royal Mail, and considered that the Group would benefit greatly from Shashi's experience. Further information about Shashi's background is included on page 83 and details about his induction programme are set out on page 92.

Nomination Committee Report continued

Following successful completion of background checks and references, the Committee considered Shashi's time commitments and potential conflicts of interest and confirmed that, in their opinion, Shashi would be able to devote sufficient time to the Company and did not have any current conflicts of interest.

Following a recommendation from the Committee, the Board approved the appointment of Shashi and it was announced on 30 September 2021. Shashi is subject to re-appointment by shareholders at the 2022 AGM.

Time commitments

The terms of appointment of each Non-Executive Director require them to devote, on average, a minimum of two days a month to the Group's business. In practice, they tend to devote considerably more time than this, supporting projects where their areas of expertise contribute to specific initiatives.

The Committee has reviewed the time each of the Non-Executive Directors has spent discharging their duties to the Company and confirms that each has demonstrated that they have sufficient time to fulfil their role properly.

Each Non-Executive Director is 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.

Committee evaluation

The Committee's annual evaluation of its performance was undertaken as part of the Board effectiveness evaluation (see page 94). The key actions identified for implementation in 2022-23 are set out below.

Actions
Review talent capability and development and succession planning within Royal Mail and GLS, particularly with a view to longer range succession planning.
Consider succession plans for the CEO Royal Mail, CEO GLS and Group CFO.
Recruit two additional Non Executive Directors, preferably one with international logistics experience and one with audit and finance experience.

Keith Williams
Chair of the Nomination Committee
18 May 2022

Audit and Risk Committee Report

Michael Findlay
Chair

Main objectives for 2021-22

- Ensure that further progress is made in relation to improving financial controls.
- Prepare for changes in the corporate reporting and control landscape.
- Further integrate GLS risk and control processes into the Group framework.
- Integrate emerging risks monitoring into reporting processes, including creating a rolling emerging risks prioritisation as new information becomes available.
- Continued focus on cyber security risk.
- Ensure that risk is managed appropriately at Group level, including use of consistent measures across the Group.

Key activities in 2021-22

- Assessed the impact of proposals contained within the Business, Energy and Industrial Strategy White Paper 'Restoring trust in audit and corporate governance' (the BEIS White Paper).
- Reviewed the BEIS White Paper and the Group's plans to conduct a detailed review of its processes, controls and remediation activity in preparedness for any changes that may be implemented as a result of the BEIS White Paper proposals.
- Reviewed recommendations following an independent external quality assessment of Internal Audit and reviewed and approved a response plan.
- Monitored and reviewed the Group's principal and emerging risks with a focus on cyber security, industrial relations, efficiency and supply chain risks.
- Oversaw the development of a new three-year strategy for the Risk Assurance function (previously named Internal Audit and Risk Management function).

2022-23 priorities

- Monitor developments in relation to the BEIS White Paper proposals and build a response plan.
- Continue to focus on strengthening and monitoring financial controls.
- Monitor progress made against Risk Assurance's three-year strategy.
- Continue to enhance the quality of financial reporting including the application of accounting judgements.
- Monitor the effectiveness of actions in place to mitigate risks with a particular emphasis on cyber risk.
- Establish a regional risk management process within GLS and integrate it within the Group Framework.
- Develop a framework to provide further clarity and more effective management of key fraud risks.

Committee membership and attendance

Director	Joined	Attendance (scheduled meetings)
Michael Findlay (Chair since 30 May 2019)	30 May 2019	5/5
Baroness Hogg	1 October 2019	5/5
Lynne Peacock	1 November 2019	5/5

Dear Shareholder,
I am pleased to update you on the Committee's activity for the year ended 27 March 2022.

Committee composition and meetings

The table in the adjacent column contains information about the membership of the Committee and the number of scheduled meetings each Director attended and was entitled to attend during the year ended 27 March 2022. An additional meeting was held in June 2021 to consider and approve the 2020-21 regulatory financial statements.

The Board considers that I have recent and relevant financial experience, having spent nearly 30 years in investment banking. I was also previously a Non-Executive Director of UK Mail Group plc and a member of its audit committee. The Board considers the Committee as a whole has competence relevant to the Company's businesses (see pages 82 and 83). To further strengthen the Committee, we are engaged in an external search for a Non-Executive Director with relevant finance experience.

Committee meetings were routinely attended by the Non-Executive Chair, the CEO Royal Mail, the CEO GLS, the Group CFO, the Director of Risk Assurance, the Director of Financial Control, the Group General Counsel and Company Secretary, and representatives from the external auditor, KPMG. Other members of Senior Management were invited to attend certain meetings as appropriate.

The Committee meets regularly with the external auditor and the Director of Risk Assurance, independent of the Executive Directors, to ensure that reporting, forecasting and risk management processes are subject to rigorous review throughout the year.

Role of the Committee and its advisers

The Committee's role and responsibilities are summarised on page 86.

To support the Committee in carrying out its responsibilities, it receives independent assurance from the Risk Assurance and Compliance functions. The Committee is also supported by the Risk Management Committee, the GLS Audit and Risk Committee (GLS ARC) and the Group General Counsel and Company Secretary. I regularly attend the GLS ARC, along with the Director of Risk Assurance and the Group General Counsel and Company Secretary.

The Committee is also supported by the external auditor, which provides regular reports across a wide range of issues in support of the Committee's oversight responsibilities, as well as the Group's actuary, Willis Towers Watson Limited, which provides expert opinion and long-term assumption advice with respect to pension accounting, and Aon Limited, which provides similar expertise in relation to other long-term liabilities.

Audit and Risk Committee Report continued

Committee activity

The key activities of the Committee during 2021-22 are set out in the table below.

Matter considered	Activity
Financial Reporting	
Half-year and full-year results Significant matters and judgements	– Reviewed and satisfied itself on the integrity of the half-year and full-year results, including consideration of the significant accounting judgements, legal claims, contingent liabilities and contingent assets, the policies being applied, and the statutory audit findings.
Fair, balanced and understandable	– Reviewed and assessed the Annual Report and Financial Statements to be fair, balanced and understandable (see page 101).
Going concern and viability statement	– Considered the going concern basis of preparation of the Financial Statements (see page 101). – Considered the Viability Statement (see page 101).
Pension assumptions	– Reviewed the Group's key pension assumptions for the half-year and full-year Financial Statements.
Covenant compliance	– Reviewed covenant compliance at the half year and full year.
Regulatory accounts	– Reviewed and approved the regulatory financial statements 2020-21.
Alternative Performance Measures	– Reviewed the APMs (see page 101).
External Auditor	
Re-appointment	– Recommended to the Board the re-appointment of KPMG as external auditor. – Reviewed and approved the external auditor's engagement letter. – Reviewed and recommended to the Board the approval of the external auditor's letter of representation.
KPMG reports	– Reviewed KPMG's control findings and audit findings, including significant judgements, and the audit opinion for the half-year and full-year results. – Reviewed and approved KPMG's audit plan and strategy.
Effectiveness	– Conducted a review of the effectiveness of the external audit process (see page 104).
Independence and objectivity	– Reviewed the independence and objectivity of the external auditor (see page 104).
Audit and non-audit services and fees	– Reviewed and approved the external audit fee including any non-audit services fees.
Audit cycle	– Reviewed the external audit cycle and identified improvements for future audits.
Internal Control and Risk Management	
Financial control	– Received regular updates on internal financial controls and the Company's programme of activity to further enhance the controls environment.
Risk Management Committee	– Received regular updates on the proceedings of the Risk Management Committee meetings.
Risk appetite	– Reviewed and monitored the Group's risk appetite.
Principal and emerging risks	– Assessed the risks that might impact the achievement of the Group's strategy, including consideration of whether these should be categorised as a principal risk to the business. – Reviewed the final principal risks and uncertainties statement for the Annual Report and Financial Statements. – Discussed new and emerging risks and the interrelationships between the principal risks.
Risk profile	– Reviewed changes to the Group's risk profile on a bi-annual basis and held deep-dive discussions on principal risk areas including industrial relations.
Cyber security	– Received regular cyber security updates. – Participated in three deep-dive discussions. – Reviewed the control environment around systems access, operational technology and customer scams.
Effectiveness	– Reviewed the effectiveness of the risk management and internal control systems (see page 105).
BEIS Consultation	– Discussed the BEIS White Paper proposals. – Considered a BEIS White Paper impact assessment.
Internal Audit	
Strategy	– Oversaw the development of a new three-year strategy for the Risk Assurance function, including the development of a global risk management and audit approach and plans to build the function's technology audit and data analytics capabilities.
Internal Audit	– Reviewed and approved the Internal Audit plan. – Received regular updates on Internal Audit activity.
Effectiveness and strategy	– Reviewed progress against the Risk Assurance strategy and external quality assessment response plan (see page 106).
Risk Assurance Charter	– Reviewed and approved changes to the Risk Assurance Charter.
Independence and objectivity	– Reviewed the independence and objectivity of Internal Audit.

Matter considered	Activity
Treasury and Taxation	
Treasury Policy	– Reviewed and recommended to the Board the approval of changes to the Group's Treasury Policy.
Tax strategy and risk	– Reviewed and recommended to the Board the approval of the revised tax strategy for 2022-23. – Reviewed bi-annually the Group's tax risks.
Pensions	
Pensions Committee	– Received Pensions Committee meeting updates.
Pension schemes	– Received an update on the governance of the Company's pension schemes. – Received an update on the progress for the launch of the proposed Royal Mail Collective Plan.
Whistleblowing, Compliance and Fraud	
Whistleblowing	– Reviewed regular whistleblowing reports. – Reviewed the end-to-end process of Royal Mail and GLS' whistleblowing process.
Compliance	– Received regular updates from the Compliance Director.
Fraud	– Reviewed the Company's procedures for detecting fraud.
Bribery	– Reviewed the Company's systems and controls for the prevention of bribery. – Reviewed recommendations and progress on actions from a bribery risk assessment conducted by an external consultant.
Governance	
Forward planner	– Reviewed the Committee's 2022 forward planner.
Terms of Reference	– Reviewed and recommended the Board approve changes to the Committee's Terms of Reference. – Approved changes to the Terms of Reference for the GLS ARC, the Pensions Committee and the Risk Management Committee.
Risk management	– Reviewed and approved changes to the Risk Management Policy.
Payment practices	– Received an update on duty to report payment practices and performance for the half year and full year.
ARC report	– Approved the Committee's report for the Annual Report and Financial Statements 2021-22.
Evaluation	– Received updates on the status of actions identified in the 2020-21 Committee evaluation. – Reviewed the findings from the 2021-22 Committee evaluation and agreed priority actions for 2022-23 (see page 106).

Going concern and viability statements

The Board's going concern and viability statements are set out on page 63.

The Committee considered the basis of preparation of the Financial Statements as a going concern, as set out in Note 1 to the Financial Statements. The Committee also reviewed the form and basis of conclusion underlying the long-term Viability Statement.

In undertaking these assessments, the Committee reviewed the business plan, taking account of the Group's principal risks (see pages 56 to 61), capital structure and the severe but plausible downside scenarios (see pages 62 to 63). The Committee reviewed and challenged the appropriateness of the scenarios modelled, the mitigating factors, and the three-year viability assessment period reflecting the Group's outlook and the effects of the macro-economic uncertainties faced by the Group.

As a result of the procedures performed, and the responses received from Management on the challenges raised, the Committee satisfied itself that the going concern basis of preparation is appropriate and that the Group is commercially viable over the duration of its assessment period.

Fair, balanced and understandable

At the request of the Board, the Committee assessed whether the Annual Report and Financial Statements 2021-22, taken as a whole, were fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Committee's assessment took into account:

- Internal verification of factual content.
- Comprehensive reviews undertaken by the Group's legal team and key members of the Senior Management team.
- Consistency checks against the Group's market disclosures and strategy.
- External reviews undertaken by advisers and external auditor.

The Committee concluded that the Annual Report and Financial Statements 2021-22 were fair, balanced and understandable, and the Board confirmed this view. The Board's statement is contained on page 146.

Alternative performance measures

Following guidance in the FRC's 2021 Thematic Review of APMs, the Committee reviewed the Group's APMs to ensure that they remain relevant, are given no more than equal prominence to GAAP measures, have a reasonable materiality threshold and have good quality reconciliations between the APM and the closest GAAP measure. The Committee challenged the use of 'pre' and 'post' IFRS 16 measures and was satisfied with Management's response that both pre and post IFRS 16 disclosures were provided in relation to cash flow and net debt, given the pre IFRS 16 measures are used for capital markets and for loan covenant purposes.

Significant matters and application of judgements

During the year, the Committee considered and discussed a number of significant matters and/or judgements made by Management. The table below details the key issues discussed and the actions taken.

Matter	Action taken by the Committee
Deferred revenue – advance customer payments The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not used at the balance sheet date. The majority of the balance is made up of stamps sold to the general public. Consistent with the previous reporting period, Management has used a number of different data sources to calculate the estimated deferred revenue liability. These data sources include: revenue data related to stamp sales through the Post Office network, historic trends of deferred revenue balances, changes to the number of working days during the period, price rises and adjustments to reflect posting patterns around key events close to the reporting year end, e.g. Mothering Sunday and Easter. Management uses judgement in applying a weighting to the components of the data sources. This judgement impacts revenue, profit and net assets. At 27 March 2022 the Group recognised £160 million (March 2021: £218 million) of deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date.	The Committee examined a report from Management summarising the deferred revenue calculation. We compared the level of deferred revenue recognised by Management at each reporting date to ensure a consistent approach. Separately, the external auditor reviewed the statistical processes and assessed the judgemental assumptions made. The Committee concluded that the level of deferred revenue remained appropriate. Royal Mail has now introduced barcoded stamps to replace non-barcoded stamps. The majority of non-barcoded stamps will be valid until 31 January 2023. A Stamp Swap Out scheme was launched on 31 March 2022 where non-barcoded stamps can be swapped for stamps with barcodes. The Committee has requested that Management considers the impact that this change may have on the SITHOP balance going forward.
Pensions – defined benefit obligations The valuation of the defined benefit pension plan obligations relies on the estimation of long-term assumptions, i.e. discount rate, inflation, mortality and pension increases. Small movements in these assumptions can lead to material impacts on the balance sheet. The valuation of certain unquoted pension scheme assets also includes a high degree of estimation uncertainty. 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 (pages 186 to 195) to the Financial Statements. Changes in the assumptions were summarised for the Committee, including changes in demographic assumptions resulting from mortality studies undertaken for the recent triennial valuation, and explanations were provided for the movements in returns on scheme assets, particularly as a result of the liability hedging strategy. The results of the assumption benchmarking were also discussed. The external auditor used its own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate. The Committee was also satisfied with the approach taken to verify third-party valuations for unquoted scheme assets and the associated disclosures.
Accounting for GLS acquisition: Rosenau Transport The Group acquired the business of Rosenau Transport on 1 December 2021. IFRS 3 required the purchase price to be allocated between tangible assets, intangible assets and goodwill (see Note 12 to the Financial Statements).	GLS Management reviewed the purchase price allocation exercise which was undertaken with advice from an independent external consultant. A summary of this exercise was presented to the Committee who concluded that the accounting and valuation conclusions were appropriate.

Matter	Action taken by the Committee
Impairment testing During the year an impairment test was carried out in respect of: *Parent Company, Royal Mail plc (see pages 169 and 170)* The carrying amount of the Parent Company's investments in, and amounts due from, subsidiaries represents 83% (2020-21: 70%) and 17% (2020-21: 30%) of the Parent Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the Parent Company Financial Statements, this is considered to be the area that has the greatest effect on the Parent Company balance sheet.	The Committee received confirmation from Management that it had adequately assessed the recoverability of investments in subsidiaries and intercompany indebtedness, by assessing and confirming that the net assets of the relevant subsidiaries (being an approximation of their minimum recoverable amount) were in excess of their carrying value at the balance sheet date.
Provisions for liabilities The Group has significant provisions in relation to voluntary redundancy, compensation and associated costs of £70 million, mainly as a result of an operational reorganisation announced in January 2022. The Group has also recognised provisions for industrial diseases claims, property decommissioning costs and litigation claims. Judgement is exercised in making the assumptions that form the basis of the provisions calculations (see Notes 1 and 25 to the Financial Statements).	The Committee reviewed the methodology and key assumptions used in determining significant provisions, including the basis for any release of provisions. The Committee considered the past utilisation of each provision, when reviewing the appropriateness of the provision. The Committee concluded that the amounts recorded in respect of provisions were appropriate, represented the current best estimate of each liability, and that associated disclosures were appropriate.

Audit and Risk Committee Report continued

External auditor
KPMG was appointed by shareholders as the Group's statutory auditor at the 2015 AGM following a formal tender process undertaken in 2014. The firm's re-appointment was confirmed by shareholders at the 2021 AGM. The current lead audit partner, Ian Griffiths, has served for two years but has been in the Company's audit team for seven years. To ensure an independent and objective audit process, Ian Griffiths will be replaced by Andrew Bradshaw at the end of the 2021-22 audit process. The external audit contract will be put out to tender at least every 10 years in line with the provisions of the UK Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the CMA Order). The Committee therefore considers that it would be appropriate to conduct an external audit tender by no later than the 2025-26 reporting year, by which time KPMG will have been the Group's external auditor for 10 years.

We have complied in all material respects throughout the year with the CMA Order.

Effectiveness of the external audit process
The Committee is responsible for the relationship with the external auditor, including examining the effectiveness of the audit process.

At its meeting in May 2022, the Committee carried out its annual review of the external auditor's performance and the effectiveness of the external audit process, taking into account:

- The terms and scope of the external auditor's engagement, as set out in its engagement letter.
- The audit work plan for the financial year 2021-22.
- The effectiveness of the working relationship and interactions with the Committee.
- The quality of the audit, the handling of significant judgements by the external auditor and responses to questions from the Committee.
- A report from KPMG on its own internal quality procedures.
- Feedback from the Committee evaluation process which confirmed that KPMG's performance during the year was good.
- Feedback from the external auditor effectiveness survey, which was completed by key stakeholders involved in the external audit process and confirmed that the KPMG audit team had sufficient experience and technical and industry knowledge, was well resourced with sufficient continuity of people within the team, communicated clearly and constructively, and displayed adequate professional scepticism.

Based on its review, the Committee concluded that the external audit process had been completed effectively, that KPMG's engagement had been managed well and that there had been an appropriate level of challenge from the audit team. To ensure a continuous improvement in the audit process, the Committee identified a number of areas which could be enhanced, including the provision of more insight and added value in terms of communicating future potential risks; providing updates on best practice and industry trends, including on controls; and providing regular updates on accounting and governance developments. These matters will be discussed with KPMG and addressed as part of the overall 2022-23 audit planning.

Assessment and safeguarding the independence and objectivity of the external auditor
The Committee considered the independence and objectivity of the external auditor through:

- Assurances provided by the external auditor on the safeguards in place to maintain independence.
- Oversight of the Non-Audit Services Policy (see below).
- Reviewing the external auditor's non-audit services and fees (see below).
- Oversight of the Ex-Auditor Employment Policy.

The Committee concluded that it is satisfied with the independence and objectivity of KPMG.

Non-Audit Services Policy
Our Non-Audit Services Policy governs the process for approving certain non-audit services provided by the external auditor. The purpose of the Policy 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. The Policy is overseen and was reviewed by the Committee during the year to ensure that it remained fit for purpose. As a result, the Policy was updated to provide a list of permitted non-audit services and to explicitly state that fees must be on a fixed fee basis.

In general, the external auditor is not approached to perform non-audit work. The Committee does, however, currently permit the external auditor to provide non-audit-related services, insofar as permitted by auditor independence rules, and the external auditor may be engaged to perform such 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 has delegated authority to the Group CFO to pre-approve assignments up to £25,000, with an annual limit of £500,000.

External auditor fees
The Committee keeps under review the services and fees incurred by the external auditor. Total fees for audit and audit-related work during the year amounted to £3,453,000, and total fees for non-audit services during the year amounted to £420,000, which represented around 12% of the external audit fee. Non-audit services primarily related to a review of opinion on the half year Financial Statements and a regulatory audit. The Committee was satisfied that the non-audit work was best handled by the external auditor because of its knowledge of the Group, and that undertaking the work did not put under threat the independence of the external auditor. All non-audit services were approved in accordance with the Non-Audit Services Policy.

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 £146,000 in 2021-22.

Re-appointment of external auditor

The Committee concluded that it is satisfied with the independence and objectivity of KPMG. This, together with the findings that the external audit process was effective, supports the Committee's recommendation to the Board that it seeks shareholder approval at the 2022 AGM for the re-appointment of KPMG as the external auditor for the year ending 26 March 2023.

Risk management and internal control

The Board believes that effective risk management and a sound internal control environment are fundamental to the Group's success. It has established a risk management framework to ensure that we identify, assess and manage risks that could impact our business (see pages 52 to 55) and reviews the effectiveness of this framework annually. The Committee supports the Board through its ongoing review of the Group's principal and emerging risks (see pages 54 to 61) and by advising the Board on the Group's overall risk appetite and the effectiveness of risk management and internal control systems.

In relation to the Group's financial reporting process, the Committee relies on a number of specific internal control mechanisms to ensure that the Group provides accurate, timely financial results and implements accounting standards and judgements effectively including in relation to going concern and viability. The Committee receives:

- Regular updates on the evolving regulatory environment including FRC advice, best practice guidance and the requirements of the Code and the Disclosure Guidance and Transparency Rules. The Committee also receives reports on proposed changes to legislation and regulatory reviews and the potential impacts.
- Management reports including analysis of results, forecasts and comparisons against last year's results, and assurance from the external auditor.

Review of risk management and internal control systems

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems. This covered all material controls including financial, operational and compliance controls.

The evaluation process is ongoing throughout the year. An annual paper is presented to the Committee and Board providing a summary of risk and assurance activity to support their annual assessment. The assessment included consideration of the following:

- Output from the key functions that implement the Group's risk framework (see page 52).
- Deep-dive discussions of principal risks with their respective Executive Board member risk owners scheduled throughout the year focused on existing controls and additional actions required.
- Quarterly reporting from Compliance and Ethics on the operating effectiveness of compliance controls.
- Progress made against the Internal Audit plan and the conclusions provided by the independent audit reports issued in the year.
- Timeliness of implementation of actions agreed to mitigate the risks and control gaps identified in internal audits.
- The findings of the external quality review of the effectiveness, independence and objectivity of Internal Audit.
- Year-end finance letters to the Group CFO to confirm compliance with relevant legislation, financial reporting and controls requirements.
- The opinion and reports of the external auditor.

Whilst the Committee considered the system of risk management and internal control to be generally effective in the year, in light of the increasing global risks facing the business as it transforms, there is recognition of the need to improve its effectiveness. Key activity underway and planned to be performed in 2022/23 includes:

- Formalising, systemising and strengthening our financial controls.
- Further improving our cyber security controls in response to increasing external threats.
- Developing a formalised assurance map across the Group's principal risks.
- Integrating risk management and Internal Audit activity across the Group.

Audit and Risk Committee Report continued

Internal audit

Internal Audit provides independent assurance to the Committee and the Board on the effectiveness of the internal control systems and elements of the risk management process. Internal Audit sits within the Risk Assurance function which is led by the Director of Risk Assurance, who joined the Group in August 2021. He has direct access to me and the Board Chair, which ensures the independence of the function.

At each Committee meeting, an update on Internal Audit activity is provided, including an overview of audits completed in the period, with a focus on unsatisfactory audits; progress made against the Internal Audit plan; and the status of actions arising from completed audits.

An Internal Audit plan aligned to the Group's principal risks is developed annually and updated for changes in risks and priorities with the Committee's approval. Prior to the start of the new financial year, the Committee reviewed and approved the Internal Audit plan, which incorporates thematic audits that encompass both the Royal Mail and GLS businesses.

During the year, the Committee oversaw the development of, and approved, a new three-year strategy which will enhance the effectiveness of the Risk Assurance function and supports the Group's strategic development. The strategy reflects the findings of an independent external assessment (see below) and insights from the Director of Risk Assurance's first 100 days. The Committee will regularly monitor progress made against the strategy.

Effectiveness of Internal Audit

In accordance with the Chartered Institute of Internal Auditors Standards (CIIA Standards), during the year, Deloitte, on behalf of the Committee, conducted an independent external quality assessment (EQA) on the effectiveness of Royal Mail Internal Audit (RM IA) and GLS Internal Audit (GLS IA). The EQA findings concluded that:

- RM IA was an established team within the context of a mature organisation, with a clearly defined remit and policies and procedures.
- RM IA's ways of working demonstrate a high degree of conformance to the CIIA Standards and display many attributes of a high-performing team.
- Opportunities to enhance the effectiveness of RM IA were identified, including digitising ways of working; increasing skills in digital and IT audit; building closer relationships with second-line assurance teams; and building greater business knowledge within the team.
- GLS IA was assessed to be at a developing state of maturity with reference to CIIA Standards, with opportunities to improve quality assurance, independence and objectivity, and evolve the nature and performance of audit work to a pure third-line assurance function that aligns to principal risks.

The Committee considered the EQA findings and recommendations and, as part of the development of the Risk Assurance function's new strategy (see above), ensured that processes were in place to address the recommendations.

Committee evaluation

The Committee's annual evaluation of its performance was undertaken as part of the Board effectiveness evaluation (see page 94). The key actions identified for implementation in 2022-23 are set out below.

Actions
Further integrate GLS issues into the agenda.
Increase focus on risk mitigation.
Schedule updates on internal controls improvement programmes.

Michael Findlay
Chair of the Audit and Risk Committee
18 May 2022

Environmental, Social and Governance Committee Report

Rita Griffin
Chair

Main objectives for 2021-22

- Development, approval and implementation of Royal Mail and GLS environmental strategies.
- Focus on health, safety and wellbeing performance.
- Focus on culture, diversity and building trust.
- Review ESG governance, including supporting documentation.

Key activities for 2021-22

- Reviewed the development, implementation and impact of both the Royal Mail and GLS environmental strategies and targets.
- Oversaw the delivery of health and safety initiatives to drive a reduction in accidents and injuries across the Group.
- Reviewed Royal Mail's target culture, with specific focus on effectiveness of culture, engagement programmes and progress on rebuilding trust.
- Reviewed ongoing COVID-19 precautions, support for employee wellbeing and sickness absence levels.
- Oversaw the development and adoption of overarching Group ESG Principles and supporting governance framework.

2022-23 priorities

- Oversee development of detailed plans to implement effectively and communicate the Royal Mail and GLS environment strategies, including monitoring progress against stated ambitions.
- Oversee and monitor health, safety and wellbeing performance to ensure that we keep our employees and customers safe and well.
- Continue to monitor Royal Mail's culture and engagement performance against values and target culture.
- Monitor diversity, equality and inclusion programmes, and monitor progress against published Royal Mail targets.
- Monitor the development and implementation of an ESG framework across GLS.
- Enhance engagement with investors in relation to ESG matters.
- Ensure that ESG is a fundamental part of business decision making and governance.

Committee membership, meetings and attendance

The table below shows the number of meetings each Director attended and the number of meetings they were entitled to attend during the year ended 27 March 2022.

Director	Joined	Attendance (scheduled meetings)
Rita Griffin (Chair since 25 September 2019)	25 September 2019	4/4
Maria da Cunha	25 September 2019	4/4
Baroness Hogg	4 February 2021	4/4
Shashi Verma[1]	29 September 2021	2/2
Lynne Peacock[2]	1 February 2022	1/1

1. Joined as a member with effect from 29 September 2021.
2. Joined as a member with effect from 1 February 2022.

Dear Shareholder,

I am pleased to update you on the Committee's activity for the year ended 27 March 2022. Given the increase in the use of ESG terminology across the Group and amongst our key stakeholders, in December 2021 the Committee recommended to the Board that the Corporate Responsibility Committee should be renamed the ESG Committee. The Board approved this recommendation in March 2022.

Information about the Group's ESG programme and performance during the year is included on pages 30 to 45. Our ESG programme supports the delivery of the Group's purpose – to 'connect customers, companies and countries' – and defines what we do and how we do it.

As announced on 1 February 2022, I am not seeking re-appointment to the Board at the forthcoming AGM. In recent years we have made good progress in developing responsible, sustainable practices in both our businesses. And this year I am particularly pleased that we have established the foundations for a new Group-wide ESG framework which is built around the issues that are most relevant to our stakeholders and our business. Lynne Peacock, who joined the Committee on 1 February 2022, will succeed me as Chair at the end of our forthcoming AGM. I wish her, the other members of the Committee and everyone across the Group the very best for the future.

Committee composition and meetings

The table in the adjacent column contains information about the membership of the Committee and the number of scheduled meetings each Director attended and was entitled to attend during the year ended 27 March 2022.

Committee meetings were also attended by the CEOs Royal Mail and GLS and, as required, by the Royal Mail Director of Corporate Affairs, Chief People Officer and the Director of Safety. The Committee is also supported by the Company Secretary and members of the ESG teams for both Royal Mail and GLS. I would like to thank the members for the open and constructive discussions that take place during our meetings and their personal commitment to our wide-ranging and impactful agenda.

In September 2021, Shashi Verma joined the Committee. Shashi brings specific logistics and customer service operations expertise, which the 2020-21 Committee evaluation process noted would enhance the Committee's overall skills and experience.

Committee activity

The Committee's key objectives for the year are outlined on the adjacent column. Performance in each of these areas is tracked using an ESG dashboard tool which is a standing item at every Committee meeting.

The main areas the Committee focused on during the year are also detailed in the adjacent column and below. The Committee is also responsible for keeping abreast of emerging ESG issues and addressing any areas of concern in relation to the Group's culture and issues raised by its internal stakeholders.

Environmental, Social and Governance Committee Report continued

Group ESG Principles

During the year, the Committee oversaw the development of overarching ESG Principles for the Group. The establishment of these Principles reflects the Group's aspiration to be a leader in ESG matters. It also addresses feedback from the 2020-21 Committee evaluation process, which highlighted the need for the Committee to create a strategic framework and review priorities.

Aligned to key UN Sustainability Development Goals, and material ESG issues identified for the business, the Principles set out commitments across the full ESG agenda.

Environment

With growing expectations from customers and investors, this is a strategically important area for the business.

The Committee spent a considerable proportion of its time focusing on the detailed plans being developed to support delivery of the Royal Mail and GLS environmental strategies (see pages 32 and 33). Throughout the year, the Committee monitored the implementation of activities to reduce emissions along with performance against key metrics.

The Committee also reviewed each business' environmental strategy to ensure alignment to the overarching ESG Principles, and integration with the respective business strategies. The Committee discussed the different approaches set out within the two environment strategies, and the reasons for them. The Committee concluded that both strategies were currently suited to their relevant stakeholder needs and would continue to be reviewed as stakeholder expectations and other requirements develop.

In relation to the development of Royal Mail's environmental strategy, the Committee undertook a detailed review of the business' current net zero ambition from 2050 and considered aligning it to a 1.5-degree pathway and the Science Based Target Initiative Net Zero standard. Following this review and discussion, the Committee recommended to the Board that it approve an updated ambition of Net Zero by 2040. The Board approved this recommendation and Royal Mail has now brought forward its net zero target to 2040.

The Committee also reviewed GLS' environmental strategy and supporting targets, which included the intention to become climate neutral in Europe from 2022 through the compensation of emissions, with a longer-term ambition to reduce scope 1, 2 and 3 emissions to zero by 2045.

Social

Health, safety and wellbeing

The health, safety and wellbeing of the Group's workforce, and those impacted by our operations, is a key priority and is a standing Committee agenda item. Throughout the year, the Group continued to implement measures to protect and support our people through the COVID-19 pandemic, ensuring that necessary safety precautions, wellbeing and mental health support were available. The Committee monitored the utilisation and effectiveness of these measures and regularly reviewed employee absence rates.

The Committee also discussed the roll out of the GLS Occupational Health and Safety (OHS) awareness and training programme designed to improve safety across the GLS business. The Committee noted that the roll out of the programme included management training and development of specific content for transport partners. The Committee discussed the metrics developed to monitor the effectiveness of the OHS programme.

Culture

The Committee is responsible for monitoring the Group's culture and works with Management to ensure that culture is aligned to the Group's strategy. Culture and engagement are standing items on the Committee's agenda, and at each Board meeting I provide an update to the Board.

The Committee monitored the development of the Royal Mail culture target and supporting canvas which set out the journey towards the business' target culture and the key activities to deliver it. The Committee continued to monitor Trust pulse survey results and employee feedback, and discussed the actions being taken in response to key findings and areas for improvement. More information can be found on pages 84 and 85.

During the year, the Committee reviewed in detail the levels and causes of sickness absence within Royal Mail. Sickness absence is a key metric which forms part of the KPI dashboard reviewed by the Committee. Understanding the trends and the impact of COVID-19 was a key area of focus. In addition, the Committee was provided with an overview of employee turnover and how this had changed since the pandemic. In an increasingly competitive labour market, understanding and addressing why people leave is another key area of focus for the Committee.

The Committee also undertook an in-depth review of the Royal Mail diversity, equality and inclusion programmes and associated targets, and suggested potential areas of focus for the design of the Culture aspects of the future GLS ESG Framework.

All these activities provide the Committee with an understanding of the current culture and performance across the Group.

Governance
In addition to developing the Group's ESG Principles, the Committee reviewed and updated its Terms of Reference to align with an ESG structure, commitments of the ESG Principles, and the Committee focus areas. The Committee also confirms the appointment of John Crosse, Group Director, Investor Relations as Executive Group Sponsor for ESG.

In February 2021, all members of the Committee, together with other members of the Board and members of the Royal Mail and GLS Executive Boards, participated in a programme of ESG briefings. The programme incorporated presentations by external experts on the ESG landscape, stakeholder expectations, the importance of a strong culture and climate risks and opportunities, including the requirements of the TCFD reporting framework. In addition, key legislation updates, government consultations, best practice and emerging themes were presented to the Committee at each meeting as part of a horizon scanning and consultations paper. An induction plan for new Committee members will be developed in early 2022-23.

Stakeholder engagement and reporting
The Committee is regularly briefed on feedback and dialogue with the Group's stakeholders, including investors, customers and regulators, and factors this information into its discussions and decision-making process.

During the year, the Committee reviewed and approved the updated Group CR policy which sets out the standards to which the Group commits, as well as the standards expected of its business partners and supply chain. The Committee recommended to the Board that the Policy should be retitled ESG Policy, and its content restructured to align with the Group's ESG Principles.

In line with its responsibility to review and approve key public disclosures, during the year, the Committee reviewed the 2021-22 Annual Report ESG content, the Royal Mail 2021-22 ESG Report and the Group Modern Slavery Act Statement. These disclosures were all recommended to the Board for approval.

Committee evaluation
The Committee's annual evaluation of its performance was undertaken as part of the Board effectiveness evaluation (see page 94). The key actions identified for implementation in 2022-23 are set out below.

Actions
Ensure there is appropriate time on the agenda to discuss the key subject areas for both Royal Mail and GLS.
Ensure papers are better and more focused, making it clearer what Management expect of, and from, the Committee.
Schedule sessions on supply chain for both Royal Mail and GLS.

Rita Griffin
Chair of the Environmental, Social and Governance Committee
18 May 2022

Directors' Remuneration Report

Lynne Peacock
Chair

2022-23 priorities

Specific priorities for the Remuneration Committee (Committee) in the forthcoming year, in addition to its usual scheduled activities, will include:

- Review of the Directors' Remuneration Policy ahead of its renewal at the Annual General Meeting in 2023.
- Review of Remuneration Committee advisers.
- Explore how workforce engagement can be strengthened in relation to the development of executive remuneration policy.
- Review the ongoing alignment between the Group's incentives and any changes in the strategic priorities of GLS and Royal Mail, including considering the future types of ESG measures in the Group's incentive plans.

Committee membership, meetings and attendance

The table below shows the number of scheduled meetings each Director attended, and the number of meetings they were entitled to attend during the year ended 27 March 2022.

Director	Joined	Attendance (scheduled meetings)
Lynne Peacock (Chair since 1 November 2019)	1 November 2019	5/5
Maria da Cunha	25 September 2019	5/5
Michael Findlay	25 September 2019	5/5
Keith Williams	4 February 2021	5/5

Dear Shareholder,
On behalf of the Board, I am pleased to present our 2021-22 Remuneration Report, my third and final as Chair of the Committee. As announced in January 2022, I shall be stepping down as Committee Chair in July 2022 when I assume responsibility for chairing the ESG Committee. I am delighted that Maria da Cunha, who has been a Committee member since September 2019, will succeed me.

2021-22 has been yet another challenging and difficult year. It is, therefore, important to set out in more detail relevant context and information on the activities and decisions we have made as a Committee.

Setting the scene and the context within which remuneration decisions have been made
The Committee remains acutely aware of the adverse impact that the pandemic has had on our stakeholders, including customers, shareholders, and broader society. This was, as last year, a factor in this year's remuneration decisions.

- No direct UK Government pandemic support (such as the receipt of furlough payments) was utilised by the Group during the pandemic, although it is acknowledged that UK Government intervention to support the economy has mitigated some of the risks resulting from the pandemic.
- We have worked hard to deliver the most comprehensive service possible to all our customers during the pandemic. However, there have been a number of factors that have impacted our service levels, including COVID-19-related absence, meaning Quality of Service in Royal Mail has not been as we would have liked. Absence increased over Christmas and into early January 2022 to peak at around 12% (c.15,000 people), double pre-pandemic levels. This has resulted in increased costs and impacted Quality of Service in some areas of the country.
- Royal Mail remained a key partner for the UK Government's COVID-19 testing programme, continuing to deliver personal protective equipment to care homes, GP surgeries and social care providers. We continued to deliver and collect COVID-19 tests across the UK and we responded quickly to UK Government requests to increase capacity for the delivery of testing kits in December 2021 after the Omicron variant was identified.
- In November 2021, the Board announced that it was returning £400 million of capital to shareholders through a £200 million share buyback and £200 million special dividend paid alongside our interim dividend.
- As part of Royal Mail's transformation programme, we began a formal consultation in January 2022 on a reorganisation to streamline operational management to improve focus on performance at a local level. This is expected to deliver a £40 million annualised benefit. However, this has resulted in a voluntary redundancy charge of £70 million in 2021-22. Projects such as these are always difficult as we lose colleagues from the business and we have taken all necessary steps to ensure that the process is conducted sensitively, working closely with impacted employees and their representatives.

Group performance

We made some good progress during the year:

- Group adjusted operating profit increased 8.0% year-on-year to £758 million. Group revenue increased 0.6% to £12.7 billion, with parcels making up 71% of Group revenue.
- GLS continued to perform well, driven by a combination of higher volumes, better pricing and the contribution from the Rosenau Transport business acquired in Canada. Revenue increased by 4.4% to £4.2 billion (2020-21: £4.0 billion) with revenue in Germany, the largest GLS market by revenue, growing by 8.1%. Revenue was driven by volume and price/mix, but inflationary cost pressures resulted in a decline in adjusted operating profit margin by 80 basis points to 8.1%. GLS adjusted operating profit was £342 million, down 4.5% on 2020-21.
- Royal Mail revenue decreased 1.6% to £8.5 billion. This was driven by a 6.5% decline in parcel revenue after a very strong performance in the prior year as a result of national and local lockdowns. This was partially offset by a 5.6% increase in letter revenue which had declined sharply during the pandemic. Revenue from parcels accounted for 56% of total Royal Mail revenue (2020-21: 59%). Adjusted operating profit was £416 million (2020-21: £344 million) and adjusted operating profit margin was 4.9%, up 90 basis points.

2021-22 remuneration outcomes

Short-term incentive plan (STIP)

In reviewing the formulaic outcome of STIP measures against the targets set for Executive Directors, the Committee considered broader aspects of the Company's performance during the year, including the outcomes for shareholders and customers as described above.

In terms of the Royal Mail STIP scorecard, financial measures account for 75% of the potential payout. In assessing the profit element under the scorecard, the Committee determined that it was appropriate to exclude the £70 million cost of reorganisation to streamline operational management to reflect that the restructure had not been envisaged at the time the target was set. This resulted in an adjusted operating profit for STIP purposes of £486 million. Notwithstanding the above, there was no payout under the element of the scorecard for the CEO Royal Mail and Group CFO, as threshold performance was not achieved. Revenue performance resulted in an outturn above threshold.

Quality of Service levels in Royal Mail were not as we would have liked in 2021-22. As Quality of Service is one of the Royal Mail scorecard measures, there is no payout under this particular measure as threshold performance was not achieved.

Financial performance in GLS were good and there was strong progress against the non-financial measures (which had a 25% weighting). This resulted in a payout between target and maximum under the scorecard for the CEO GLS.

The Group CFO has a Group STIP scorecard with a combination of GLS and Royal Mail financial measures (amounting to 75% of the scorecard). Non-financial measures (ESG and strategic priorities) made up the balance of the scorecard.

The Committee considered that the formulaic outcomes under the respective scorecards for Executive Directors were reflective of the underlying performance, and decided against exercising discretion (positive or negative) beyond that outlined above.

This means that the respective payouts are:

Executive Director	Scorecard	STIP payout (as a % of maximum)
Mick Jeavons – Group CFO	Group	48.50%
Martin Seidenberg – CEO GLS	GLS	95.00%
Simon Thompson – CEO Royal Mail	Royal Mail	17.97%

In Royal Mail, members of its Executive Board share the same STIP scorecard as the CEO Royal Mail, meaning that the STIP payout for them was 17.97%. In GLS, the Committee decided that STIP payments should be made to its Executive Board in light of the good financial performance during 2021-22: each of the area managing directors in GLS have STIP scorecards which are aligned to their individual areas of geographical responsibility.

Long-term incentive plan (LTIP)

The performance period for the 2019 Royal Mail LTIP concluded at the end of March 2022. Only Mick Jeavons had a 2019 Royal Mail LTIP. Following an assessment of the performance conditions, the aggregate level of awards vesting is 100%, broken down as follows:

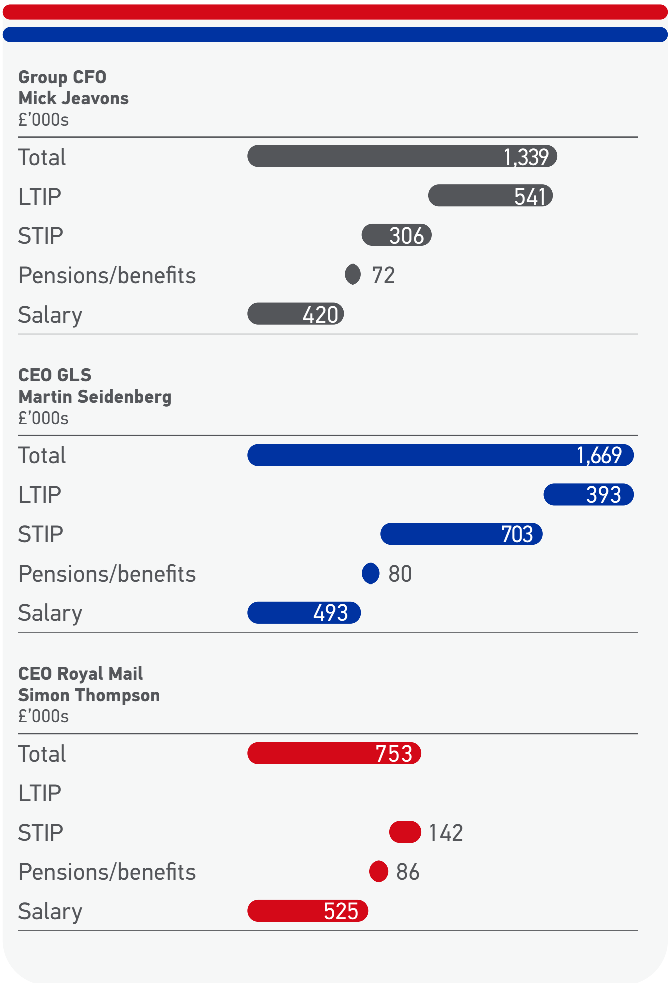
- Relative Total Shareholder Return (TSR): 100% vesting (40% weighting).
- Group EBITDA: 100% vesting (40% weighting).
- Group parcel revenue: 100% vesting (20% weighting).

The Committee considered the outcome fair and appropriate in the context of the Group's wider performance over the last three years, and decided against exercising discretion to alter this formulaic outcome. The value delivered by the 100% vesting outcome and included in the single total figure of remuneration is based on a share price of £4.28 (the 13-week average to 27 March 2022) compared with the share price at grant in 2019 of £2.06. This increases the award outcome value by 107%.

Martin Seidenberg was granted cash and share-based GLS LTIP awards prior to his appointment as an Executive Director. These are subject to GLS financial performance and in respect of the performance period ending 31 March 2022 the awards vested in full. The Committee felt this outcome fair and appropriate in the context of the GLS's good performance over recent years. More information is set out on page 129.

Directors' Remuneration Report continued

Total remuneration
Based on the above STIP and LTIP each Executive Director's 2021-22 remuneration is shown below. The Committee believes the respective single figures of total remuneration are appropriate in the context of the wider stakeholder experience.



2021 LTIP grants
As outlined in the 2020-21 Annual Report, the Committee delayed the grant of the 2021 LTIP awards until August 2021, due to the uncertainty around the ability to set long-term financial targets. The measures and targets were confirmed at the time of grant via a stock exchange announcement and full details of the targets are set out in this report. The terms of these awards also provide the Committee with the ability to review the outcome at vesting, taking into account the underlying performance of the Group.

Supporting colleagues during the pandemic and ensuring fairness in their pay
Throughout the year we have supported our colleagues, prioritising their wellbeing, safety and security.

Our UK colleagues are classified as key workers and form part of the country's essential infrastructure, keeping parcels and mail moving during the pandemic. We prioritised putting in place interim arrangements to mitigate the risks associated with this important role, for example enhancing our employee sick pay provision and updating our operating procedures to limit contact between colleagues and customers.

Royal Mail actively helped to address potential financial hardship for its colleagues and their dependants via the Rowland Hill Fund, contributing £750,000 since April 2020 which has been used to provide any required support. Financial education support also continues to be made available.

In June 2021, Royal Mail reached an agreement with the CWU on 'top up' holiday pay arrangements for all colleagues at grades represented by CWU within Royal Mail Group Limited. We recognise that many colleagues perform regular overtime (over and above scheduled attendance) and, with effect from April 2021, such overtime will now be included in the calculation of holiday pay.

Board changes and implications for remuneration
Martin Seidenberg, CEO GLS, was made an Executive Director and joined the Board on 1 April 2021. Details of his remuneration were disclosed in last year's Annual Report. The remuneration decisions made in respect of his appointment were in accordance with the Policy approved by the shareholders.

2022-23 executive remuneration
Executive Director salary changes
The Committee reviewed the salaries of its Executive Directors in the context of increases for the wider workforce.

The Committee decided to apply a 3.6% increase for UK-based Executive Directors, effective 1 April 2022 in line with the 3.6% effective increase in 2021-22 for frontline colleagues represented by the CWU (who are the majority of the UK workforce), which comprised a 1% increase and, following implementation of local revisions, a reduction in the working week from 38 to 37 hours a week. An increase of 5.7% was agreed in respect of the CEO GLS, Martin Seidenberg, who is based in continental Europe and oversees GLS operations throughout Europe and North America. The Committee noted that the weighted average salary increase (effective April 2022) in GLS' eight largest markets was 5.7%.

Pension arrangements
All Executive Directors receive a pension of 13.6% of salary, which is aligned with the benefit that will be provided to all eligible employees under the proposed Royal Mail Collective Pension Plan which will be launched after all the relevant enabling regulations have been passed and The Pensions Regulator has authorised the plan. The 13.6% is less than the 15.6% of salary benefit currently received by the majority of Royal Mail colleagues in the UK.

Continued use of ESG measures in our 2022-23 incentive plans
ESG-related measures are included within the STIP scorecard. 25% of the scorecard for the CEO Royal Mail and his management team is based on health and safety, customer service and environmental metrics.

Health and safety is an important priority for the Company and it, together with customer service, has been a key measure in Royal Mail's incentive plans for a number of years (not just for the CEO Royal Mail and his leadership team, but the broader management population in the UK).

During recent months, the Committee reviewed emerging best practice in relation to the use of ESG performance measures in incentive plans and considered whether to adapt or extend the use of ESG measures to our long-term incentive plans, with specific environmental quantitative targets.

The Committee is aware of investor sentiment for ESG measures to be relevant to strategy, measurable and quantifiable. During the year, Royal Mail and GLS' respective environmental strategies were updated (see pages 32 and 33). In the coming year, the Committee will consider whether to further amend the Group's incentive plans to align with the refreshed strategies. Such review will form part of the broader review of the Directors' Remuneration Policy (the Policy) scheduled for renewal next year.

However, for the 2022-23 STIP the following changes are being introduced:

- The CEO GLS and Group CFO will continue to have a 10% weighting assigned to health and safety, mirroring that in Royal Mail. However, a safety measure has been extended to GLS executives for the first time as part of their STIP arrangements.
- The CEO GLS and his leadership team will have a 7.5% weighting assigned to sustainability.

2022 LTIP awards

The measures that will apply to the 2022 LTIP awards are set out on page 137. These follow the principle of ensuring that Executive Directors are incentivised to deliver the key long-term priorities relevant for their role, with 40% of the award based on Group TSR to ensure alignment with overall Group performance.

The Committee wishes to ensure that financial targets for the 2022 LTIP awards are set appropriately in the context of an uncertain outlook especially relating to the impact of ongoing geopolitical uncertainty in Europe and the status of pandemic restrictions in our markets. Given this continuing uncertainty around the long-term business environment, the Committee has agreed to delay the target setting for these awards. The associated targets will be therefore confirmed at the time of grant via a stock exchange announcement. The grant of the 2022 LTIP awards is likely to be made no later than August 2022.

At 27 March 2022, the Company's share price was 360.10 pence, which compares to the 2021 LTIP grant price of 500 pence: a reduction of 28%. However, over the last two financial years until 27 March 2022, the share price has been as low as £1.46 and the average share price during this period was £3.76 and therefore the current share price is within the range over this period. As the stock markets remain unsettled in light of the on going geopolitical environment, the Committee will monitor share price performance up to the point of grant of the 2022 LTIP to ensure award levels are appropriate. As in previous years, the Committee will retain the discretion to review vesting outcomes to ensure that these are reflective of the underlying performance during the period.

Shareholder engagement

We remain committed to maintaining an open and transparent engagement with our shareholders. We were very pleased that the Remuneration Report was very strongly supported in July 2021, with over 99.7% voting in favour. This was on the back of the strong endorsement of our Policy by shareholders in September 2020. I would like to thank shareholders again for their constructive feedback over recent years (including during the adoption of the former policy in 2019), 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 this year's AGM.

As the Policy is due for renewal in 2023, we anticipate engaging with shareholders about any changes to our remuneration approach in late 2022 and early 2023.

Consideration of the wider workforce views

In addition to its primary role of reviewing Executive Directors' remuneration and the remuneration of other executives in GLS and Royal Mail, 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. As in previous years, the Committee reviewed the gender pay gap reporting and remuneration practices across the Group. In 2021-22 the ARC discussed the operation of Royal Mail's pension plans (all Committee members were invited to this session). As a Board, we also discuss details of any pay arrangements for the UK workforce represented by the CWU and Unite/CMA.

The Board and the Committee recognise the importance of seeking feedback from colleagues to inform decision-making in addition to the regular consultations members of the Royal Mail Executive Board have with the CWU and Unite/CMA.

In April 2022, 69% of colleagues responded to the Royal Mail's annual trust survey, which sought to understand colleague sentiment in respect of range of matters including a range of people-related topics. Key insights are presented to the Royal Mail Executive Board and ESG Committee for discussion, and team results shared with the workforce so that local action plans can be developed. Maria da Cunha is Committee member which allows any insights she has from her role as the designated Non-Executive Director for engagement with the workforce, to be fed directly into Committee discussions.

Further information on our workforce engagement is included on pages 26 and 90.

Summary

Our colleagues across the Group continue to work tirelessly to support our customers during yet another challenging year. As a Committee, we have sought to make decisions which recognise their efforts, balanced with our desire to reflect the Group's performance and an uncertain outlook.

I trust that you find the Remuneration Report clear and informative. We hope that you will support our Remuneration Report at the forthcoming AGM.

Lynne Peacock
Chair of the Remuneration Committee
18 May 2022

Our Remuneration at a Glance (unaudited)

2022-23 Executive Directors' remuneration structure

The table below summarises the implementation of the Policy for Executive Directors in 2022-23.

Financial year	2022-23	2023-24	2024-25	2025-26	2026-27	Implementation for 2022–23
Salary						– Mick Jeavons – £435,000. – Martin Seidenberg – €613,050. – Simon Thompson – £543,750. – Salaries may be reviewed during the year.
Benefits						– No change in how Remuneration Policy operated. – Pension contribution and or allowance 13.6%. – Other benefits may include healthcare and car allowance (or car).
STIP	**Performance Period**	**Deferral period Malus and clawback provisions apply**				– Maximum remains 150% of salary (100% cash and 50% deferred in shares for three years). – Target 75% of salary (50% cash and 25% shares). – Measures 75% financial and 25% ESG or other strategic priorities.
LTIP	**Performance period Malus provisions apply**			**Holding period Clawback provisions apply**		– Maximum remains 150% of salary. – Shares vest after three years subject to performance, with a further two-year holding period. – Relative TSR 40% and financial measures 60%.

Aligning our remuneration approach to business strategy and stakeholder interests
To generate value for stakeholders, we are focused on building a more balanced and diverse parcels-led, international business. Recognising that Royal Mail and GLS have different market positions, strengths and opportunities, we have developed separate strategies to drive sustainable growth in each business and at all times meet changing customer needs.

Our remuneration approach is aligned to our strategy, thereby incentivising, as appropriate, great customer service and the creation of long-term value for all of our stakeholders.

The following table provides a summary of how our incentive framework in 2022-23 is aligned with our business strategy and the results that it delivers. Many of the incentive measures are key performance indicators (KPIs) (see pages 24 and 25).

	Financial measure			ESG measure			Other measure	
	RM profit/ GLS EBITA	RM revenue/ parcel revenue	GLS cashflow	RM service quality	Health & safety	Environmental	Relative TSR	Individual priorities
Short-term incentive plan	✓	✓		✓	✓	✓		✓
Long-term incentive plan	✓	✓	✓				✓	
Link to strategy								
Royal Mail	Trust, Growth	Trust, Growth		Customer, Trust	Customer, Trust	Customer, Trust	Trust	Trust, Growth
GLS	Connect Europe, Inspire the market, 2C 2B	Inspire the market, 2C 2B	Inspire the market, 2C 2B			2C 2B	2C 2B	Connect Europe, Inspire the market, 2C 2B

Strategic icon key

Royal Mail
- Customer
- Trust
- Growth

GLS
- Connect Europe
- 2C 2B Strengthen 2C parcel market position and lead in 2B
- Inspire the market

The Committee believes that its executive remuneration policies and practices support the respective strategies in Royal Mail and GLS and promote long-term sustainable success, with reward linked to the successful delivery of such long-term strategy. The remuneration, including incentive arrangements for the respective executive teams, is aligned to our purpose and values (see page 2), with a focus on customers and other stakeholders an integral part of our executive remuneration approach.

Executive Directors' variable remuneration in 2021-22
As a result of the Company's FY2021-22 performance (against financial, ESG and strategic measures), STIP awards are payable to Executive Directors as shown below. The Committee considered that these outcomes were appropriate in the context of the Group, GLS and Royal Mail's overall performance and that of the Executive Directors during the year.

The performance period for the 2019 RM LTIP concluded at the end of March 2022. The outcome is shown below and more details on the progress against individual measures is show on pages 127 and 128.

	M Jeavons	M Seidenberg	S Thompson
2021-22 RM STIP (% of salary)	72.8%	142.5%	27.0%
2019 RM LTIP vesting (% of salary)	100%	N/A	N/A

Executive Directors' total single figure of remuneration	M Jeavons	M Seidenberg	S Thompson
2021-22 total remuneration (£'000s)	1,339	1,669	753

Our Remuneration at a Glance (unaudited) continued

Additional information	Percentage/Ratio
UK CEO (and other Executive Directors) shareholding requirement (% of salary)	200%
UK CEO's actual shareholding as a proportion of his salary (note: appointed 11 January 2021)	9.6%
Mean gender pay gap	+1.4%
Mean gender bonus pay gap	-5.1%
CEO pay ratio	23:1

How does our Directors' Remuneration Policy address the key features set out in the UK Corporate Governance Code?
The table below details how the Committee addressed Provision 40 of the Code in respect of Directors' remuneration:

Provision	Approach
Clarity	– The Committee undertook extensive shareholder engagement during the development of its Remuneration Policies in 2019 and 2020, and redesigned the relevant annual reports to ensure that both the changes to the Policy, and decisions taken on Directors' pay, were transparent and in line with best practice. – The Committee consults annually with shareholders to seek their views on the operation of the Policy in the year. – 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	– The Policy consists of a) fixed remuneration and b) variable remuneration comprising one Short-Term Incentive and one Long-Term Incentive only. The objective of each element, as well as how they operate, is included in the Policy. – The Short-Term Incentive Plan was simplified as part of the Remuneration Policy adopted in 2019, 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 incentive measures covering shareholder returns, financial and non-financial elements, ensures that the incentives drive the right behaviours for the Group, its shareholders, employees and customers. Incentive plans include non-financial risks such as health and safety and environmental protection. – Our incentive plans are also subject to malus and clawback provisions.
Predictability	– Threshold, target and maximum pay scenarios are set out in the Remuneration Report 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 business performance and individual rewards through our incentive plans. – The Committee retains the discretion to adjust formulaic outcomes of incentive plans if they do not reflect the underlying performance of the Group.
Alignment with culture	– The Committee has worked hard to design the 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 ESG measures. These ESG measures focus on our customers, health and safety and environment. – All Royal Mail 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.

In accordance with Code Provision 41, the Directors' Remuneration Report describes the work of the Committee, including those areas mentioned in that Provision. The table below highlights some of those areas:

Provision	Approach
Operation of policy	– The Committee believes that the Remuneration Policy operates as intended in terms of Company performance and the quantum of remuneration delivered.
Shareholder engagement	– We undertook substantial engagement with our shareholders as part of the development of a new remuneration policy in 2019 and then again in the run up to the 2020 AGM when we made further changes to the policy. We are grateful for this feedback and input received over the last 36 months that has shaped our thinking and decision making. – During 2021-22, we consulted leading investors in the run up to the AGM on our remuneration approach and prior to the end of the year we provided an update on executive remuneration matters to our 15 largest investors (who represented over 60% of our share register), inviting their feedback.
Workforce engagement	– An outline of our approach to workforce engagement in set out on pages 26 and 90. – The Committee will be exploring in the coming years how such engagement can be strengthened in relation to the development of executive remuneration policy.

Directors' Remuneration Policy (unaudited)

The Company's Remuneration Policy was approved by 99% of shareholders at the AGM on 8 September 2020. The following tables summarise the key elements of our Remuneration Policy. The Policy is not subject to a shareholder vote this year. The Policy is set out in full on pages 133 to 140 of the Annual Report and Financial Statements 2019-20.

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.	
M Jeavons (Group CFO) – £435,000 M Seidenberg (CEO GLS) – €613,050 S Thompson (CEO Royal Mail) – £543,750	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.	
For newly appointed Executive Directors the pension allowance will be in line with 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).

Directors' Remuneration Policy (unaudited) continued

Executive Director variable remuneration

At a glance – maximum opportunity	Operation	Performance measures
Short-Term Incentive Plan (or 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% of salary, split between two plans: an annual cash bonus award of up to 100% of salary and a deferred share bonus award of up to 50% of salary. Target opportunity of 75% 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 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% 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. – 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.
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.		

Application of malus and clawback

At a glance – maximum opportunity	Operation
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. 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.
Shareholding guidelines – during employment	
Purpose and link to strategy To ensure alignment between remuneration and long-term shareholder value creation.	
Shareholding guideline of 200% of salary.	Executive Directors 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% of salary to be held in granted shares for two years after leaving.	On cessation, Executive Directors 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% 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.

Information on remuneration for new Executive Directors, what happens when an Executive Director leaves, or what happens in case of a takeover is included in the full Policy, published in last year's Annual Report and Financial Statements for 2019-20.

Directors' Remuneration Policy (unaudited) continued

Remuneration Policy for Non-Executive Directors (including the 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 the 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 12 months' notice. Copies of the Executive Directors' service contracts will be available for inspection at our forthcoming 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.

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 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 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 respective Royal Mail and GLS Executive Boards. The Committee is also given regular updates and, as required, takes 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 Royal Mail organisation is set out below.

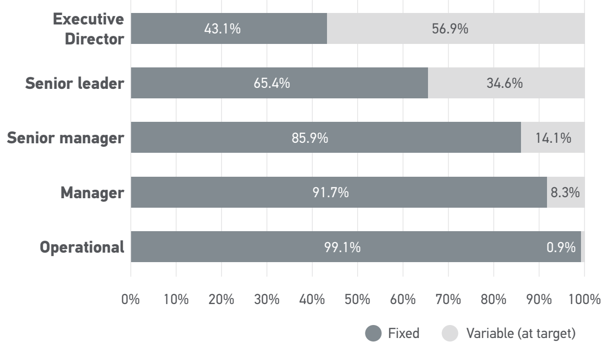
	Operational	Managers	Senior managers	Senior leaders
Salary	Based on role, location and service, progression typically based on service. Salary increases negotiated with the CWU and applied to the pay scales. No personal or performance-related element.	Middle and junior managers typically have a similar 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 and 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 (DBCBS), with a Royal Mail contribution at 15.6% of salary, into which participants transferred after the closure of the final salary pension plan. New hires are eligible for the Royal Mail Defined Contribution Plan (DCP), with Company contributions up to 10% of salary. However, on the launch of the new Royal Mail Collective Pension Plan, all eligible colleagues will participate in this plan (rather than the current DBCBS and DCP). Company contributions will be up to 13.6% 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.	
Short-term incentive (STIP)/bonuses	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 STIP based on corporate and personal performance.		Eligible for annual management STIP with a cash and deferred share element based on corporate and personal performance.
LTIP	Not eligible.	Not eligible.	Not eligible.	Royal Mail Executive Board eligible.

All Employee Remuneration (unaudited) continued

The chart shows an indicative summary of the relationship between fixed and variable pay across Royal Mail. There is no discretionary 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.

Illustration of typical split of fixed and variable remuneration



Transforming company car provision

Royal Mail announced in July 2021 its 2025 roadmap for the decarbonisation of its company car and business mileage allowances policies. These changes are part of Royal Mail's commitment to reduce its environmental impact and achieve net zero by 2040 and should ensure we deliver an all-electric company car fleet by 2030.

The roadmap consists of three key dates:

- 1 October 2021: from this date, the 1,500 most senior managers have only been able to order EVs through MyDrive.
- 1 April 2023: from this date, only hybrid and electric vehicle (EV) cars will be available to order through MyDrive (Royal Mail's all employee salary sacrifice car plan). Business mileage reimbursed (in a private or company car) will only be available at the appropriate hybrid and EV rates even if the vehicle is diesel or petrol.
- 1 April 2025: from this date, only EVs will be available to order through MyDrive. Business mileage reimbursed (in a private or company car) will only be available at appropriate EV rates.

We are delighted with the uptake since the announcement last summer, with the CEO Royal Mail participating in the plan. Colleagues are able to acquire a company car (leased with our partner, Zenith) through our salary sacrifice arrangement. As at March 2022, there were 3,167 company cars in the fleet, of which 620 were EV. Of the orders placed between October 2021 and March 2022, 83% were EV.

Alignment between our approach to Directors' remuneration and other colleagues

In developing the 2019 Remuneration Policy and the subsequent updated Remuneration Policy in 2020, the 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 that 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 for Royal Mail, 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.
- 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 Royal Mail executives are typically set at levels which mirror those being applied for managerial populations which in turn are set in the context of pay levels agreed with our trade unions for employees whose pay is collectively bargained. In addition, the different incentive and commission plans in operation across Royal Mail support the delivery of the Company-wide priorities which are part of the STIP, 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, Maria da Cunha 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 about our workforce engagement activities is set out on pages 26 and 90.

Board level 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. There was also a detailed overview of how frontline remuneration is structured and managed in Royal Mail.

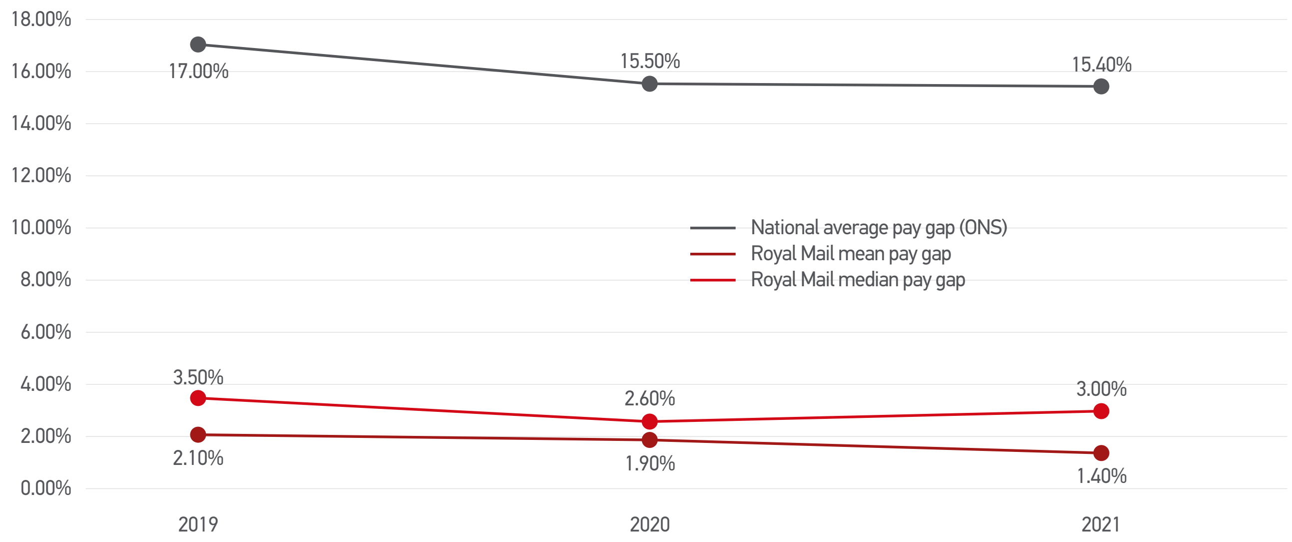
In addition, the ARC was updated on proposals to implement a Collective Pension Plan and the Board discussed remuneration arrangements in respect of the workforce represented by both the CWU and Unite/CMA.

Gender pay gap reporting

The Company's 2021 Gender Pay Gap Report, published during 2021-22, continues to show that average pay for men and women is broadly the same. On a median basis, our gender pay gap is 3.0%. This compares with a national average gender pay gap on a median basis of 15.4% across all industries, calculated by the Office of National Statistics (ONS) in October 2021. On a mean basis, the pay gap has fallen for a second consecutive year to 1.4%.

We 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 as shown below.

Gender pay gap – multi year view
Royal Mail and national average (ONS survey)



Most frontline colleagues in the UK are eligible, as part of their agreed contractual terms, to receive up to £200 payable at Christmas. This means we pay incentives (as defined under the gender pay gap regulations) to the vast majority of our employees: in 2021, 98% of men and 98% of women received bonuses (in 2020, this was 98% and 96% respectively). Those who are ineligible have typically not reached the minimum service requirement or not obtained a minimum personal performance threshold. In the year to April 2021, on a median basis bonuses were slightly higher for men but in favour of women on a mean basis (i.e. –5.1% in 2021). Year-on-year, there was a reduction in the mean bonus gap in favour of women. Two reasons for the year-on-year movement in the bonus gap were, firstly, the one-off COVID-19 recognition payment paid to all staff (other than senior leaders) in July 2020 and, secondly, lower discretionary bonus payments to senior managers and senior leaders: there is a higher proportion of women in senior managerial positions, compared with the operational population.

2021	Total pay gap	Bonus gap
Mean	1.4%	-5.1%
Median	3.0%	7.9%

A negative percentage means the gap is in favour of females whereas a positive percentage means a gap in favour of males.

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.

CEO pay ratio

The CEO pay ratio is set out below, 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. The CEO pay ratio for 2019 and 2020 is based on the remuneration of the former Group CEO. Since 2021 it has been based on the remuneration of the CEO Royal Mail.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2022	Option A	26:1	23:1	20:1
2021	Option A	22:1	20:1	17:1
2020	Option A	31:1	28:1	24:1
2019	Option A	28:1	26:1	22:1

All Employee Remuneration (unaudited) continued

The table below sets out the salary, full pay and benefits value received by UK employees identified at the 25th, 50th and 75th percentiles, during 2021-22. There are over 83,000 operational colleagues on the salary of £23,884 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 2021-22.

2021-22	25th percentile	50th percentile	75th percentile
Salary	£23,884	£23,884	£23,946
Total pay and benefits	£28,803	£32,465	£38,388

There has been a small percentage point increase in the pay ratio between 2020-21 and 2021-22.

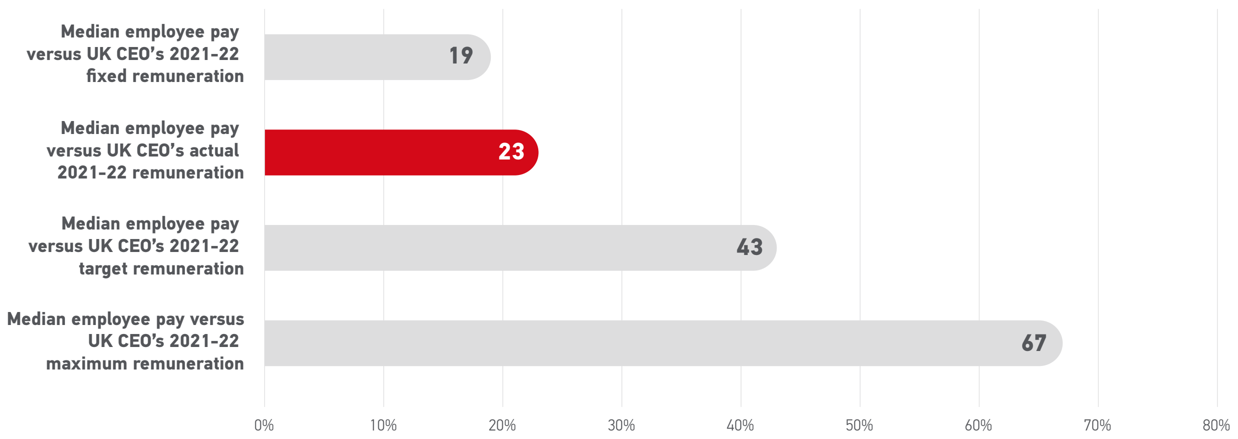
The primary reason for this is the increase in the CEO Royal Mail's remuneration in 2021-22. The headline amount of fixed remuneration for the CEO Royal Mail is unchanged year-on-year. However, he received a STIP payment in respect of 2021-22 in contrast to 2020-21 when no STIP was payable, as he was ineligible because he joined towards the end of the financial year. Although the amount of the STIP was significantly less than target, the STIP payment has the effect of increasing the ratio to 23:1.

The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies.

Pay relativities are just one of many factors that we take into consideration in developing a fair remuneration framework in Royal Mail.

We have also detailed the potential ratios based on the CEO Royal Mail's theoretical fixed, target and maximum pay as set out in the Policy. It is important to note that a high proportion of the CEO Royal Mail's pay is based on performance against the short- and long-term incentive plans, and that payouts can vary significantly year-on-year, affecting the ratio going forward.

Illustrative pay ratios based on different remuneration outcomes for the CEO Royal Mail



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 with the total remuneration of the CEO as set out in the single figure of total remuneration 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 2021-22 remuneration. 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 Royal Mail. At Royal Mail, over 47,000 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.
Employer pension contributions	Actual employer pension contributions have been included (not 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. The calculation also includes: – A projected short-term incentive plan payment for frontline managers and other managers payable in June 2022. – Payments of up to £200 to frontline colleagues made annually before Christmas. – The projected value of awards vesting under the 2019 Royal Mail LTIP based on a performance outcome of 100% and a share price of £4.28 (being the 13-week average to 27 March 2022).

Annual Report on Directors' Remuneration (audited)

This part of the Directors' Remuneration Report sets out how the Policy has been applied for 2021-22. This detailed information, set out below, has been audited by the Company's independent auditor, KPMG LLP.

Single figure table – Executive Directors (audited)

£'000	Salary[2]		Benefits[3]		Pension[5]		Total fixed		Short-term incentive[6]		Long-term incentive[7,8]		Total variable		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Mick Jeavons	**420**	94	**15**	3	**57**	13	**492**	110	**306**	0	**541**	0	**847**	0	**1,339**	110
Martin Seidenberg[1,4]	**493**	–	**13**	–	**67**	–	**573**	–	**703**	–	**393**	–	**1,096**	–	**1,669**	–
Simon Thompson	**525**	117	**15**	3	**71**	16	**611**	136	**142**	–	**–**	–	**142**	0	**753**	136

Notes

1. Martin Seidenberg's remuneration in the table above reflects the period from his appointment as an Executive Director on 1 April 2021.
2. The Committee reviewed the Executive Directors' salaries and decided against making any increases during 2021-22 as the salaries had only recently been reviewed on their respective appointments to the Board.
3. Benefits in the case of UK-based Executive Directors include healthcare provision with notional annual premium of up to £2,300 and the cash allowance of £13,160 which can be used to fund (under a salary sacrifice arrangement) the lease of an electric company car. Martin Seidenberg is based in Germany and has elected to take a company car, which had an annual cost of €15,203.
4. Under the Remuneration Policy the Company may provide to Executive Directors, in certain circumstances, additional benefits, including 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. At the time of this report, Martin Seidenberg's relevant country tax returns covering the period to 31 March 2022 had not been finalised. If the Company has to make additional payments in respect of related tax liabilities for this period, details will be disclosed in next year's Annual Report.
5. For 2021-22, the pension amount shown for Mick Jeavons and Martin Seidenberg was paid as a cash allowance in lieu of pension. For Simon Thompson, up to £4,000 (on an annualised basis) was paid into the Royal Mail Defined Contribution Plan, with the balance paid as a cash allowance.
6. Any STIP has one third deferred into shares subject to continued employment for three years. No further performance conditions are attached. Details of the 2021-22 STIP outturn are set out on pages 127 to 129.
7. Mick Jeavons' RM 2019 LTIP has a 100% performance vesting outcome (see page 129 for more detail). Based on a share price of £4.28, the 13-week average to 27 March 2022, the estimated value of the 2019 LTIP to be delivered to Mick Jeavons is £540,795. As the grant price was £2.06, the amount relating to share price appreciation is £280,506 (see below). The final value will be restated in the 2022-23 Directors' Remuneration Report based on the share price at vesting in August 2022.
8. The 2022 LTIP figure shown for Martin Seidenberg relates to historic grants under the GLS LTIP with performance period(s) ending in 2021-22. More information on the GLS LTIP is shown on page 129. There is no element attributable to share price appreciation for the 2019 GLS LTIP as this is a cash-based award. Part of the 2020 LTIP is delivered in shares. Based on a grant price of £1.8002 and a 13-week average price of £4.28, the amount relating to share price appreciation is £96,645, i.e. 238% (see below).

LTIP vesting and share appreciation

Recipient	Mick Jeavons	Martin Seidenberg
Award	2019 RM LTIP	2020 GLS LTIP (shares)
Value at award	£260,289	£70,159
Value lapses	–	–
Adjusted value at award	**£260,289**	**£70,159**
Share price growth	£280,506	£96,645
Current estimated value	**£540,795**	**£166,804**

2021-22 short-term incentive outcome (unaudited)
The Committee followed a four-step process for determining STIP awards.

1. Assess the earnings (financial) gateway: The Committee concluded that a minimum level of financial performance had been attained in Royal Mail and GLS and that the payment of STIPs was affordable.

2. Consider eligibility: The Committee considered that each Executive Director had exhibited an appropriate level of personal performance and conduct and was deemed to have met the gateway requirement to be eligible for an incentive.

3. Evaluate performance against the relevant business scorecard for the Executive Director: Details of the scorecard outcomes can be seen below. Setting STIP targets at the outset of 2021-22 was challenging in the context of an uncertain and fluid outlook, especially given many countries had not yet begun easing pandemic restrictions. Notwithstanding this, the Committee set targets at the outset of the year, considering internal and external forecasts. The Committee was satisfied that the ranges set out in the table below represented challenging but realistic targets, and that significant out-performance of internal reference points at the time they were set would be required to achieve a maximum payout.

4. Review broader business performance and finalise awards: The Committee can make an upwards or downwards adjustment to the scorecard outcome for broader performance. In line with the provisions of the Code, the Committee carefully considered whether the respective formulaic outcome could be justified in the context of Royal Mail and GLS' overall performance. In so doing the Committee reviewed the following:

- Business performance during 2021-22, including progress against operational and strategic goals.
- The quality of underlying earnings and whether any significant one-off factors influenced the results.
- The experience of our shareholders and customers over the year.

2021-22 STIP scorecards

Measure	Weighting	Targets	Assessment	Outcome
CEO Royal Mail – Simon Thompson				
Adjusted Royal Mail UK operating profit[1]	37.5%	Threshold – £500m Target – £600m Maximum – £700m	£486m[1]	0.0/37.5
Royal Mail UK revenue	37.5%	Threshold – £8,475m Target – £8,737m Maximum – £8,999m	£8,514m	14.22/37.5
Health and safety	10.0%	20% reduction in Total Accident Frequency Rate year-on-year	7.2% reduction	0.0/10.0
First Class Retail Quality of Service	7.5%	Target – 93% Maximum – 93.2%	81.8% in 2021-22. Service not as we would have liked it	0.0/7.5
Environment	7.5%	Committee assessment of: – Progress around defining and executing a strategy on the sustainable impact of our business. – In-year progress towards environment commitments (evidenced through progress against agreed Board emission targets).	Refreshed strategy developed. Much activity achieved in year (see pages 32 to 35) Tonnes CO_2e per £1m revenue – 62.0 (2020-21: 62.1) Energy Consumption kWh ('000) – 2.346m (2020-21: 2.353m)	3.75/7.5

1. Alternative performance measures are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 228 to 232. For STIP purposes, adjusted operating profit excludes £70 million cost of reorganisation to streamline operational management (see explanation below).

In terms of the Royal Mail STIP, scorecard financial measures account for 75% of the potential payout. In assessing the profit element under the scorecard, the Committee determined that it was appropriate to exclude the £70m cost of reorganisation to streamline operational management to reflect that the restructure had not been envisaged at the time the target was set. This resulted in an adjusted operating profit for STIP purposes of £486m. Notwithstanding the above, there was no payout under the profit element of the scorecard for the Royal Mail CEO and Group CFO, as threshold performance was not achieved.

Annual Report on Directors' Remuneration (audited) continued

2021-22 STIP scorecards (continued)

Measure	Weighting	Targets	Assessment	Outcome
CEO GLS – Martin Seidenberg				
Adjusted GLS EBITA[1]	75%	Threshold – €366.6m Target – €381.9m Maximum – €397.2m	€401.6m	75.0/75.0
Health and safety	10%	Successfully develop and implement new health and safety programme across GLS.	The Occupational Health and Safety awareness and training programme now rolled-out, which Included management training and development of specific content for transport partners. However, safety levels need to improve further for both employees and our transport partners. Details of GLS' employee safety and accident record is set out on page 37.	5.0/10.0
Strategic priorities	15%	Committee assessment of: – Satisfactory progress against the Accelerate GLS strategy in 2021-22. – Improvement in external perceived value of GLS (such as through a change in EBIT multiple). – Strengthening of governance standards within GLS.	Continued to execute successfully Accelerate, generating over €500m of free cash flow in the first two years against the €1 bn target by 2024-25. International capabilities strengthened e.g. Rosenau Transport acquisition in Canada. Improved GLS valuation: analyst notes generally positive on GLS, highlighting that GLS is considered to be a strong, stable and well managed business. Reliable and good financial results of GLS underpin this development and valuation strength. Strengthened governance consistent with Group standards, such as information security. Improved operating rhythm and Group interaction in terms of business performance reviews and formal supervisory board and GLS audit and risk committee meetings.	15.0/15.0
Group CFO – Mick Jeavons				
Adjusted Royal Mail UK operating profit[1]	37.5%	Threshold – £500m Target – £600m Maximum – £700m	See above	0.0/37.5
Adjusted GLS EBITA[1]	37.5%	Threshold – €366.6m Target – €381.9m Maximum – €397.2m	See above	37.5/37.5
Health and safety	10%	20% reduction in Total Accident Frequency Rate year-on-year	See above	0.0/10.0
Strategic priorities	15%	Committee assessment of: – Progress against milestones relating to Royal Mail transformation. – Continuing to optimise financial management and reporting to drive benefits across the Group. – Effective management of Tax and Treasury across the Group including optimising benefits in relation to cash flow.	Achieved 50% parcel automation and over 1,700 revisions and realignment activities deployed, but delivery below expectations. £59m benefits delivered from Pathway to Change which was at low end of revised £55 to £80m range. Improved governance and changes to internal processes and leadership helped delivered positive financial benefits. Strong cash generation: £519m in-year trading cash flow, including increased capex of £257m. Group's reported effective tax rate 7.6% (2020-21: 14.6%). 11.4% lower than the UK statutory rate of 19%. See pages 70 to 71 for more information.	11.0/15.0

Notes
1. Alternative performance measures are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 228 to 232.

2021-22 STIP outturn

	M Jeavons	M Seidenberg	S Thompson
Maximum award (% of salary)	150%	150%	150%
Salary	£420,000	€ 580,000	£525,000
Committee assessment on performance under the relevant scorecard	48.5%	95.0%	17.97%
Discretion applied (+/- % pts)	0.0%	0.0%	0.0%
Final outcome for 2021-22			
– as a % of maximum	48.5%	95.0%	17.97%
– as a % of salary	72.75%	142.5%	26.96%
– as an amount	£305,550	€ 826,500	£141,514

Royal Mail LTIP (unaudited)

2019 LTIP outcomes

The 2019 LTIP was based on performance against a relative TSR measure, with a performance period from 1 April 2019 to 31 March 2022 and financial performance, as set out below:

		Performance vesting		
Measure	**Weighting**	**Threshold**	**Maximum**	**Achievement**
TSR vs FTSE 50-150 (excluding mining and financial companies)	40%	Median 10%	Top quartile 40%	88th percentile 40/40
Group EBITDA[1,2]	40%	£925m 10%	£1,200m 40%	£1,358m 40/40
Group parcels revenue	20%	£7.0bn 5%	£7.8bn 20%	£8.85bn 20/20
Total vesting				100/100

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.
2. Performance measure assumes £160 million impact from the adoption of IFRS 16 'Leases'.

The Committee agreed that the level of vesting (100%) was a fair and reasonable outcome, having reviewed Royal Mail's wider performance (both financial and operational) and the share price performance over the three-year period. It concluded that the level of vesting was justified and, therefore, no discretion was exercised to adjust the formulaic outcome. Due to the above performance, 100% of the 2019 LTIP will vest in full in August 2022.

GLS LTIP outcomes

Martin Seidenberg was granted cash and share-based GLS LTIP awards prior to his appointment as an Executive Director. These awards continue to vest on their normal schedule. Since 2021, Martin Seidenberg has been eligible for the Royal Mail LTIP and has not received any further grants under the GLS LTIP. Under the GLS LTIP, the maximum possible award was 98% of salary.

The performance conditions are based on adjusted GLS profit performance with a separate target set for each of the three financial years of the vesting period: 25% of the award is based on achievement in year one; with 37.5% based on achievement in years two and three respectively. Although performance is assessed annually, awards vest after three years subject to continued employment.

The single figure table includes the second and third tranche of Martin Seidenberg's 2020 and 2019 GLS LTIP award, respectively, for which the performance period ends in FY2021-22. The 2020 and 2019 awards vest in July 2023 and August 2022, respectively subject to continued employment.

Award	**Outcome (% of max)**	**Value vesting (€)**	**Shares vesting**	**Value vesting (£)[2,3]**
2019 GLS LTIP – tranche 3	100%	150,675	–	128,125
2020 GLS LTIP – tranche 2 (cash)	100%	115,763	–	98,438
2020 GLS LTIP – tranche 2 (shares)	100%	–	38,973	166,804

1. The single figure table in 2022-23 Annual Report will include the final tranche of Martin Seidenberg's 2020 GLS LTIP award.
2. Cash awards converted for reporting purposes using the year end exchange rate of £1:€1.176.
3. Share awards converted for reporting purposes using the average 13 week share price to 27 March 2022 (£4.28).

Annual Report on Directors’ Remuneration (audited) continued

Other outstanding LTIP awards (unaudited)

The following grants under the 2020 and 2021 Royal Mail LTIP remain outstanding at 27 March 2022. The performance conditions are set out below:

Measure		Weighting	Threshold Performance	Threshold Vesting (% of award)	Maximum Performance	Maximum Vesting (% of award)
2020 RM LTIP						
TSR vs FTSE 51-150 (excluding mining and financial companies)		40%	Median	10%	Upper quartile	40%
Group EBITDA		40%	£1,070m	10%	£1,380m	40%
Group parcels revenue		20%	£7.65bn	5%	£8.45bn	20%
Total		100%		25%		100%
2021 RM LTIP						
Total Shareholder Return vs FTSE 51-150 (excluding mining and financials) comparator group		40%	Median	10%	Upper quartile	40%
Adjusted Royal Mail UK operating profit	Simon Thompson	40%	£656.1m	10%	£801.9m	40%
	Mick Jeavons	20%		5%		20%
Royal Mail UK parcels revenue	Simon Thompson	20%	£5,344.7m	5%	£5,907.3m	20%
	Mick Jeavons	10%		2.5%		10%
Adjusted GLS EBITA	Martin Seidenberg	40%	€410m	10%	€449.9m	40%
	Mick Jeavons	20%		5%		20%
GLS cashflow	Martin Seidenberg	20%	€281.2m	5%	€310.8m	20%
	Mick Jeavons	10%		2.5%		10%
Total		100%		25%		100%

The amount of the LTIP share awards outstanding for each of the Executive Directors is shown in the following table, as at 27 March 2022.

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
Mick Jeavons					
2019 RM LTIP[1]	–	–	–	2021–22	126,354
2020 RM LTIP[2]	150%	390	37.5%	2022–23	128,108
2021 RM LTIP[3]	150%	630	37.5%	2023–24	125,831
Martin Seidenberg					
2019 GLS LTIP[4]	–	342	–	2021–22	-
2020 GLS LTIP (cash)[4]	–	262	–	2022–23	-
2020 GLS LTIP (shares)[4]	–	–	–	2022–23	103,929
2021 RM LTIP[3]	150%		37.5%	2023–24	147,098
Simon Thompson					
2021 RM LTIP[3]	150%	788	37.5%	2023–24	157,289

1. The 2019 RM LTIP award was granted on 8 August 2019 at a price of £2.06 per share. The level of vesting is 100%. Shares will vest in August 2022.
2. The 2020 RM LTIP award was granted on 27 November 2020 at a price of £3.0443 per share.
3. The 2021 RM LTIP award was granted on 12 August 2021 at a price of £5.0067 per share.
4. The 2019 GLS LTIP was granted on 8 August 2019. The 2020 GLS LTIP, granted on 24 July 2020, comprises a cash-based award and a share-based award. The maximum cash award value of the 2019 and 2020 LTIP is €401,800 and €308,700 respectively. The values in the table above have been converted using an illustrative FX rate of £1:€1.176. The aggregate level of vesting for the 2019 GLS LTIP is 100%.

Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. The Group's share plans contain limits that govern the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Investment Association's Principles of Remuneration. The Group operates employee benefit trusts that are administered by independent trustees and which hold shares to meet various obligations under the Group's share plans. As each Executive Director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

Shareholding levels (audited)

Directors' shareholdings

The table below sets out details of the shareholdings of the Directors as at 27 March 2022 (except where noted below). There has been no change in the Directors' interests in the Company's ordinary share capital between 27 March 2022 and 18 May 2022 (being the latest practicable date prior to the publication of this Annual Report) except as noted below.

	Number of shares owned on 27/03/22[1]	Number of shares owned on 28/03/21	Policy shareholding requirement	Current shareholding (as a % of salary)[2]	Share awards not subject to performance	Share awards subject to performance (LTIP 2019, 2020, 2021)
Chair of the Board						
Keith Williams	56,800	56,800	–	–	–	–
Executive Directors						
Mick Jeavons	62,963	47,376	200%	36.3	22,862	380,293
Martin Seidenberg	9,800	–	200%	4.8	-	251,027
Simon Thompson	20,892	–	200%	9.6	-	157,289
Non-Executive Directors						
Maria da Cunha	15,000	15,000	–	–	–	–
Michael Findlay	16,690	16,690	–	–	–	–
Rita Griffin	20,000	20,000	–	–	–	–
Sarah Hogg	12,000	12,000	–	–	–	–
Lynne Peacock	11,309	11,309	–	–	–	–
Shashi Verma	–	–	–	–	–	–

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, excludes any unvested share awards and includes (if appropriate) any shares held by persons closely associated with the Directors.
2. Value of beneficial shareholding based on the average share price during FY2021-22 (484 pence) and where required converted using an illustrative FX rate of £1:€1.176. Values include any vested LTIP shares subject to a holding period but exclude any unvested Deferred Share Bonus Plan (DSBP) awards. Mick Jeavons, Martin Seidenberg and Simon Thompson were appointed Executive Directors on 11 January 2021, 1 April 2021 and 11 January 2021 respectively. Each is expected to build their shareholding over time. As at 27 March 2022, none have met their shareholding requirement.

Annual Report on Directors' Remuneration (audited) continued

Payments for loss of office and payments to former Executive Directors (audited)

Rico Back

As disclosed in both last year's and the FY2019-20 Remuneration Report, Rico Back stepped down from the Board on 15 May 2020 and left the Group on 15 August 2020. In line with his contractual entitlements, he was due to receive nine monthly payments in lieu of notice (PILON) totalling £480,000, which represented the balance of his 12-month notice period. The final two PILON instalments were made in April and May 2021, each totalling £53,333.

Rico Back retained a deferred share bonus award granted in 2018 (52,243 shares). This award vested in full on 21 June 2021 and the closing share price on vesting was 582.20 pence.

Further details of the treatment of his share awards and his post-employment shareholding requirement were set out in the 2020-21 Annual Report.

Stuart Simpson

As disclosed in last year's Remuneration Report, Stuart Simpson stepped down from the Board on 11 January 2021 and left the Group on 31 January 2021. In line with his contractual entitlements, he was due to receive twelve monthly PILONs totalling £450,000, which represented his 12-month notice period. His termination arrangements with Royal Mail provided that his PILON payments are reduced from any amounts he receives from alternative paid employment. Stuart Simpson was appointed to a new role on 21 September 2021. As consequence of this new role, no further PILONs are payable from October 2021. During 2021-22 six PILON instalments were made, five of £37,500 each and a final pro rata payment of £25,000 in September 2021.

Stuart Simpson retained a deferred share bonus award granted in 2018 (56,350 shares). This award vested in full on 21 June 2021 and the closing share price on vesting was 582.20 pence. Stuart Simpson's 2018 Royal Mail LTIP award over 98,474 shares lapsed on 9 August 2021 as the performance conditions were not met.

Further details of the treatment of his share awards and his post-employment shareholding requirement were set out in the 2020-21 Annual Report.

Executive Director fees from external positions (unaudited)

The Executive Directors are entitled to receive fees from external appointments.

Mick Jeavons, Martin Seidenberg and Simon Thompson did not hold any external appointments at other listed companies for the last reported financial year during the period they were appointed to the Board.

Executive Director terms of employment (unaudited)

The Executive Directors are employed under service contracts with an indefinite term.

	Date of contract	Notice period from RMG (months)	Notice period from employee (months)
Mick Jeavons	10 January 2021	12	6
Martin Seidenberg	25 June 2020	12	6
Simon Thompson	10 January 2021	12	6

Copies of the Executive Directors' service contracts will be available for inspection at our forthcoming AGM.

Relative importance of spend on pay (unaudited)

The table below shows the percentage change in ordinary dividends and overall expenditure on people compared with the previous financial year. The Company considers overall expenditure on colleague remuneration 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.

	2021-22	2020-21	% change
Ordinary dividend per share (pps) – paid in the year[1]	16.7	–	N/A
People costs (£m)[2]	6,491	6,470	0.3
Group revenue (£m)	12,712	12,638	0.6

1. Dividends paid in 2021-22 include FY2020-21 final dividend of 10 pence and the H1 2021-22 interim of 6.7 pence. The special dividend of 20 pence paid in January 2022 is not included.
2. Group adjusted people costs include £115 million transformation costs of which £81 million relates to voluntary redundancy (2020-21: £149 million of which £109 million relates to voluntary redundancy costs). Excludes any pension adjustments. See page 67 and pages 178 to 180 for more commentary.

Comparison of change in Directors' remuneration versus employee remuneration (unaudited)

We monitor year-on-year changes between the movement in remuneration for executives between performance years compared with the wider workforce. The relevant disclosure requirement is for this comparison to be made against the employees of the Parent Company. On the basis that Royal Mail plc (the Parent Company) does not employee any staff, we have voluntarily disclosed the comparisons against a UK managerial population (internally graded level 2-9) as the Committee considers this provides a representative comparison (with remuneration that is structured similarly, e.g. all managers are eligible for annual bonuses and are eligible for employee benefits). The table below sets out the year-on-year percentage change in salary, benefits and annual incentives for the Directors of the Board against an average full-time equivalent UK manager.

	Salary/fee % change		Benefits % change		STIP % change		
	21-22 vs 20-21	20-21 vs 19-20	21-22 vs 20-21	20-21 vs 19-20	21-22 vs 20-21	20-21 vs 19-20	Commentary in respect of 21-22 vs 20-21
Executive Directors							
Mick Jeavons	346.8	N/A	351.0	N/A	N/A	N/A	Part year in 2020-21 Headline salary and benefits unchanged
Martin Seidenberg	N/A	–	N/A	–	N/A	–	Executive Director from 1.4.21 No comparative period
Simon Thompson	348.7	N/A	359.1	N/A	N/A	N/A	Part year in 2020-21 Headline salary and benefits unchanged
Company Chair and Non-Executive Directors							
Keith Williams	–	11.9	–	–	–	–	
Maria da Cunha	16.9	27.5	–	–	–	–	Became Designated Non-Executive Directors for the workforce from 2.21 ESG Committee fee increased from 4.21
Michael Findlay	–	33.9	–	–	–	–	
Rita Griffin	7.8	-1.5	–	–	–	–	ESG Committee fee increased from 4.21
Sarah Hogg	6.9	87.1	–	–	–	–	Joined ESG Committee from 2.21 ESG Committee fee increased from 4.21
Lynne Peacock	1.3	141.9	–	–	–	–	Joined ESG Committee from 2.22
Shashi Verma	N/A	N/A	N/A	N/A	N/A	N/A	Appointed 29.9.2021 so no comparative period
Royal Mail managers	4.6	-0.1	-6.2	4.2	-22.9	0.2	

Executive Directors

Percentage change figures for 2020-21 to 2021-22 are calculated using the respective figures in the single total figure for the remuneration.

Non-Executive Directors

Fee levels were unchanged between 2020-21 and 2021-22, other than the introduction of a fee for being Designated Non-Executive Director for the workforce and an increase in the ESG Committee fees. The percentage increases in the above table reflect changes in responsibilities, e.g. Committee memberships, or that the individual was not a Director for the whole year.

Manager

Employee data is based on full-time equivalent Royal Mail managers as at the relevant March year end, with calculations on a mean basis. As the manager population will change yearly and the mean average (as opposed to median) considers the full range of data, it is expected that this will provide a more consistent year-on-year comparison.

The salary percentage change calculation considers the full-time equivalent mean employee annual salary at March year end plus allowances, such as for temporary promotions, paid during the respective years. The very small reduction between 2019-20 and 2020-21 reflects the decision not to review manager salaries in 2020 and employee headcount changes.

Employee benefits are calculated on a per capita basis covering the car allowance or a cash equivalent and value of the medical cover. Changes in the percentage will primarily be caused by two factors: changes in population and changes in employee benefit choices (including more electric company cars being selected which have a lower taxable benefit value). The reduction in the average benefit value in 2021-22 also reflects changes in the operation of benefits including the removal of cash alternative allowance, a move which was introduced to promote take up of the medical cover.

For the 2021-22 STIP, a uniform forecast scorecard has been assumed for all eligible managers (as the year-end performance management process for managers remains ongoing as at the date of this report with individual STIPs not yet determined). In 2020-21, the Committee decided not to make any payments to managers under the discretionary STIP. In recognition of managers' ongoing commitment to the business, a flat rate payment was made to eligible managers at levels 6-9 but no recognition payment was made to managers at levels 2-5.

Annual Report on Directors' Remuneration (audited) continued

CEO pay over the last 10 years (unaudited)

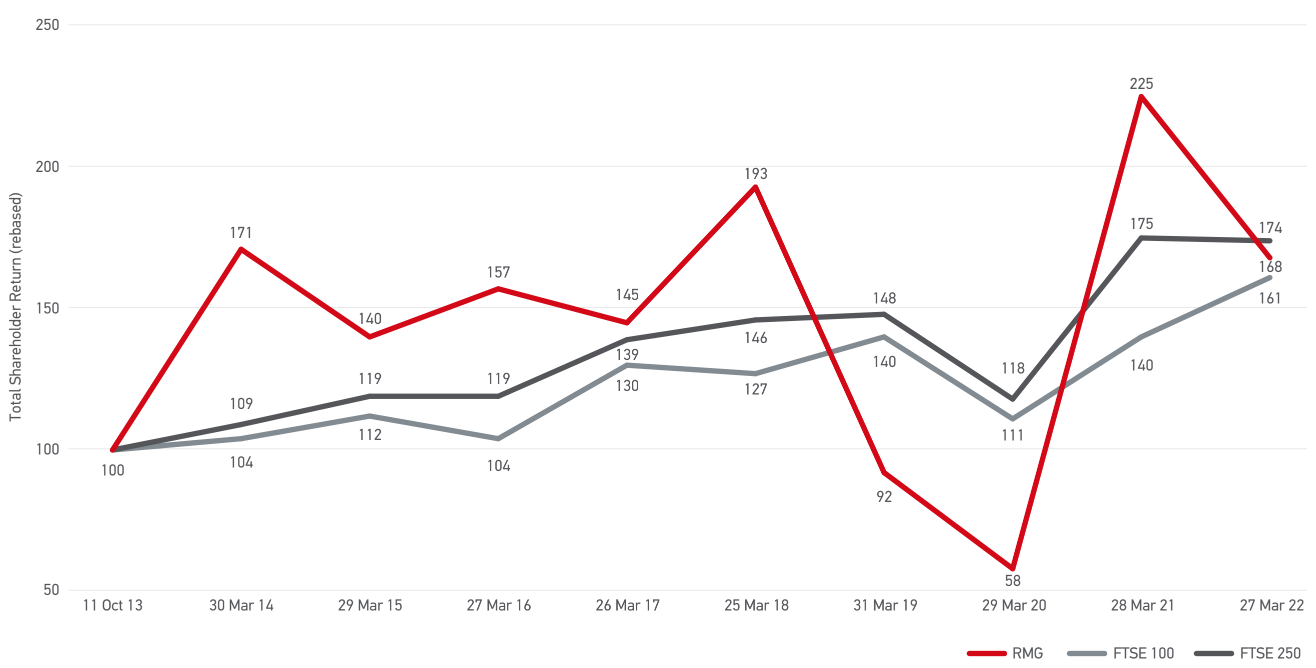
The total remuneration figure for the Group CEO and/or CEO Royal Mail over the last 10 years is shown in the table below. The STIP payout and the LTIP vesting level as a percentage of the maximum opportunity are also shown.

Chief Executive Officer	Financial year	Single figure of total remuneration (£'000)	STIP awarded as % of maximum	Royal Mail LTIP vesting as % of maximum
Simon Thompson	2021-22	753	18	N/A
Rico Back	2020-21	94	N/A	N/A
Stuart Simpson		462	0%	0%
Simon Thompson		136	N/A	N/A
Rico Back	2019-20	868	0%	N/A
Moya Greene	2018-19	647	N/A	0%
Rico Back		235	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%

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 Company's TSR, since the date of the first day of trading. During the performance period, the Company has been a constituent of both the FTSE 100 Index and the FTSE 250 Index, therefore both indices are shown for comparison.

TSR chart



Policy implementation in 2022-23 (unaudited)

The following tables set out how the Committee proposes to operate the Policy for Executive Directors next year.

Element	Implementation of Policy in 2022-23
Base salary	No change in approach. We will continue to review the salary of each Executive Director annually and will do the same in 2022-23. Salaries effective from 1 April 2022 shall be as follows: CEO Royal Mail (Simon Thompson) £543,750, an increase of 3.6% CEO GLS (Martin Seidenberg) €613,050, an increase of 5.7% Group CFO (Mick Jeavons) £435,000, an increase of 3.6%
Benefits	No change in approach to benefit provision for 2022-23.
Pension allowance	No change in approach and pension allowance remains 13.6% of salary. This is lower than the current employer contribution rate for the majority of the UK workforce (which is 15.6% of salary). However, it is in line with the anticipated contribution rate under the new Proposed Collective Pension Plan.
Short-Term Incentive Plan	No change in maximum STIP opportunity of 150% of salary, split between a cash award of up to 100% of salary and a deferred share award of up to 50% of salary. Target opportunity remains 75% of salary. A minimum of 75% of the targets shall be financial, based on the performance of the business for which the executive is responsible, with the remainder including robust operational KPIs and strategic objectives. The measures are set out below. Targets for these measures will be disclosed retrospectively in next year's Annual Report.
Long-Term Incentive Plan	No change in maximum award of 150% 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. – The satisfaction of the performance conditions. Threshold performance will equate to no more than 25% of the award vesting. The Committee has reviewed the measures used for the 2021 LTIP and is comfortable that they remain appropriate, and so is not proposing any change. The measures (and approach to targets) are set out below. The Committee will evaluate the positioning of the share price when it comes to grant the 2022 LTIP awards. In the event that the share price is significantly below the 2021 LTIP grant price, the Committee will consider the appropriate course of action (such as scaling back the 2022 LTIP awards or an adjustment on vesting). As appropriate, details will be included in a stock exchange announcement at the time of grant. As in previous years, the Committee will retain the discretion to review vesting outcomes to ensure that these are reflective of the underlying performance during the period
Shareholding guideline	200% of salary for Executive Directors. Post-cessation requirement: 200% of salary (or holding at the point of departure) to be held in granted shares for two years after leaving.

Annual Report on Directors' Remuneration (audited) continued

Incentive measures 2022-23

Following the changes to the Executive Director population in 2020-21, the Committee sets separate incentive scorecards for each of the Executive Directors, reflecting their areas of responsibility (i.e. Group, Royal Mail or GLS). Details of the measures and targets (where not considered commercially sensitive) set for 2022-23 awards are provided below.

2022-23 Short-Term Incentive Plan: measures and weightings

The 2022-23 scorecard reflects our strategic priorities. The targets are set annually by the Committee considering the relevant business' annual financial plan, strategy and its priorities for the next few years within the context of the economic environment. The Committee considers financial and operational targets to be commercially sensitive and that it would be detrimental to the Group's interests to disclose them before the end of the financial year. Financial measures make up 75% of each Executive Director's scorecard. Non-financial and strategic measures are assessed by the Committee using a combination of quantitative and qualitative assessment.

As in previous years, the Committee will, prior to reviewing scorecard performance assess whether an earnings gateway has been met and that the payment of STIP awards is affordable.

Measure	Weighting	Measure type	Targets
CEO Royal Mail – Simon Thompson			
Adjusted Royal Mail UK operating profit	37.5%	Financial	Disclosed retrospectively.
Royal Mail UK revenue	37.5%	Financial	Disclosed retrospectively.
Health and safety	10.0%	ESG	Disclosed retrospectively.
First Class Quality of Service	5.0%	ESG	Disclosed retrospectively.
Environment	5.0%	ESG	Committee assessment of progress around the execution of a strategy on the sustainable impact of our business and in-year progress towards environment commitments.
Strategic priorities	5.0%	Strategic	Committee assessment of progress to optimise the benefits (financial and non-financial) from increased best practice and knowledge sharing between Royal Mail and GLS.
CEO GLS – Martin Seidenberg			
Adjusted GLS EBITA	75%	Financial	Disclosed retrospectively.
Health and safety	10%	ESG	Disclosed retrospectively.
Environmental	7.5%	ESG	Committee assessment of progress in the roll-out of the GLS Environmental programme.
Strategic priorities	7.5%	Strategic	Committee assessment of: – Progress to optimise the benefits (financial and non-financial) from increased best practice and knowledge sharing between Royal Mail and GLS. – Progress against the main pillars of the Vision 2031 strategy: digitalisation, geographic expansion, moving into adjacent segments and development of global cross border.
Group CFO – Mick Jeavons			
Adjusted Royal Mail UK operating profit	37.5%	Financial	Per CEO Royal Mail scorecard.
Adjusted GLS EBITA	37.5%	Financial	Per CEO GLS scorecard.
Health and safety	10%	ESG	Per CEO Royal Mail scorecard.
Strategic priorities	15%	Strategic priority	Committee assessment of: – Progress to optimise the benefits (financial and non-financial) from increased best practice and knowledge sharing between Royal Mail and GLS. – Progress against Royal Mail transformation milestones. – Continuing to optimise a) financial management and reporting to drive benefits across the Group and b) tax and treasury management for cashflow benefit.

2022 Long-Term Incentive Plan (unaudited)

The measures that will apply to the 2022 LTIP awards are set out below.

The Committee wishes to ensure that any LTIP financial targets are set appropriately in the context of an uncertain macro-economic outlook and the Group's performance in Q1 2022-23. The associated targets will be confirmed at the time of grant via a stock exchange announcement. The grant of the 2022 LTIP awards is likely to be made no later than August 2022.

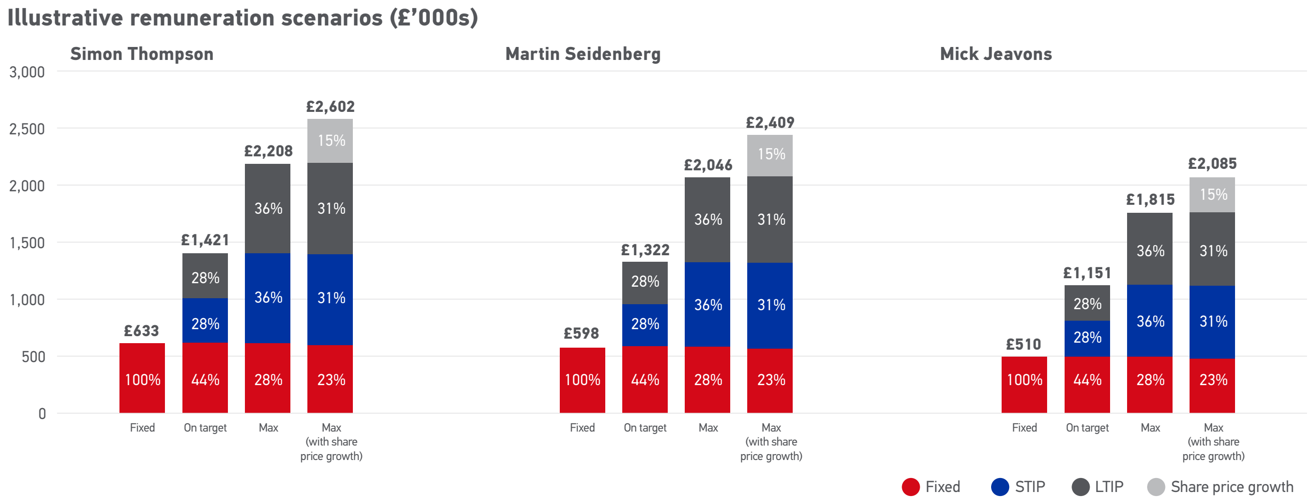
2022 LTIP measure		Weighting	Threshold Performance	Threshold Vesting (% of award)	Maximum Performance	Maximum Vesting (% of award)
Total Shareholder Return vs FTSE 51-150 (excluding mining and financials) comparator group[1]		40%	Median	10%	Upper quartile	40%
Adjusted Royal Mail UK operating profit	Simon Thompson	40%		10%		40%
	Mick Jeavons	20%		5%		20%
Royal Mail UK parcels revenue	Simon Thompson	20%		5%		20%
	Mick Jeavons	10%		2.5%		10%
Adjusted GLS EBITA	Martin Seidenberg	40%		10%		40%
	Mick Jeavons	20%		5%		20%
GLS cashflow	Martin Seidenberg	20%		5%		20%
	Mick Jeavons	10%		2.5%		10%
Total		100%		25%		100%

1. TSR will be measured using a three-month averaging (at the start and end) over a three-year measurement period. Threshold vesting will occur for median ranked performance, rising on a straight-line basis to full vesting for upper quartile performance or above.

Annual Report on Directors' Remuneration (audited) continued

Remuneration scenarios under the Policy

The charts below set out the remuneration scenarios for the Executive Directors in 2022-23, including an indication of maximum remuneration receivable assuming Company share price appreciation of 50% during the LTIP performance period.



Assumptions

Fixed remuneration: Includes current salary, pension allowance at 13.6% and, in the case of the Group CFO and CEO Royal Mail, a benefits value of £15,400 and, in the case of the CEO GLS, a benefits value of €15,203.

On target: STIP is 75% of salary (including the deferred element) and LTIP is 75% of salary.

Maximum: STIP is 150% of salary (including the deferred element) and LTIP is 150% of salary under the Policy.

Maximum with 50% 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% over the performance period.

No dividend equivalents on share-based incentives have been applied in any of the above scenarios.

Martin Seidenberg's remuneration converted using a rate of £1:€1.201 for the purposes of this illustration.

Single figure table – Non-Executive Directors (audited)

	Fees		Other		Total	
£'000	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Keith Williams	**300**	300	0	0	300	300
Maria da Cunha	**76**	65	0	0	76	65
Michael Findlay	**75**	75	0	0	75	75
Rita Griffin	**69**	64	0	0	69	64
Sarah Hogg	**76**	71	0	0	76	71
Lynne Peacock	**76**	75	0	0	76	75
Shashi Verma[1]	**30**	–	0	–	30	–

1. Shashi Verma was appointed a Non-Executive Director from 29 September 2021 and his fees in the table above reflect the period from that date.

Non-Executive Director fee levels (unaudited)

Non-Executive Directors are paid an annual fee and additional fees for being Chair or a member of Board Committees and, if appropriate, other additional time commitments. During 2021-22, the Chair of the Board did not receive any additional fees for membership of Board Committees. The fees remained unchanged during 2021-22 and are set out below, together with the relevant fees effective from 1 April 2022 (representing a 3.6% increase). This is the first increase in fees since 2019 (other than an adjustment last year to the ESG Committee rates).

Non-Executive Director fees	Until March 22	From April 22
Chair of the Board	£300,000	£310,800
Base fee	£50,000	£51,800
Senior Independent Director	£10,000	£10,360
Designated Non-Executive Director for engagement with the workforce	£10,000	£10,360

Committee fees		Until March 22	From April 22
Audit and Risk Committee	Chair	£15,000	£15,540
	Membership	£6,000	£6,216
Remuneration Committee	Chair	£15,000	£15,540
	Membership	£6,000	£6,216
Nomination Committee	Chair	£0	£0
	Membership	£4,000	£4,144
Environmental, Social and Governance Committee	Chair	£15,000	£15,540
	Membership	£6,000	£6,216

Non-Executive Chair of the Board and Non-Executive Director terms of appointment (unaudited)

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, with the exception of the Non-Executive Chair for whom the notice period is four months. The dates of the Non-Executive 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 27 March 2022 (months)
Keith Williams	22 March 2019	3
Maria da Cunha	6 June 2019	3
Michael Findlay	6 June 2019	3
Rita Griffin	8 June 2020	16
Sarah Hogg	9 August 2019	16
Lynne Peacock	16 September 2019	16
Shashi Verma	13 October 2021	40

Non-Executive Director Policy implementation in 2022-23 (unaudited)

The applicable Non-Executive Director fees for 2022-23 are shown in the table above.

Annual Report on Directors' Remuneration (audited) continued

Remuneration Committee (unaudited)

Remuneration Committee members and meetings

The members of the Committee and their attendance at meetings during FY2021-22 is shown on page 110.

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 members of the respective GLS and Royal Mail Executive Boards.

Committee activities in the year	May	July	Oct	Jan	Mar
Directors' remuneration					
Review of the Directors' Remuneration Policy and implementation	✓				
Review of fixed and variable remuneration	✓			✓	
Senior management remuneration					
Contractual terms, recruitment and termination	✓	✓			✓
Review of fixed and variable remuneration	✓				✓
All employee remuneration					
Group-wide discretionary incentives	✓	✓	✓		✓
Annual salary review approach				✓	
Incentive performance measures, targets and outcomes	✓			✓	✓
Frontline reward (including recognition) in Royal Mail	✓	✓			
Deep dives: European remuneration, Share Incentive Plan, Manager remuneration		✓	✓	✓	
Reward policies and rules review	✓	✓	✓		✓
Reward governance					
Review regulatory, investor and market developments	✓	✓		✓	
Remuneration disclosures (such as DRR and gender pay gap)	✓			✓	
Review shareholder feedback	✓	✓	✓		
Terms of Reference, Committee evaluation, advisers		✓	✓	✓	

In addition, the Committee met in April and May 2022 to consider (and, where appropriate, approve):

- The draft Directors' Remuneration Report.
- Salary and fixed remuneration for Executive Directors and other executives.
- The extent to which any 2021-22 STIP performance measures had been satisfied, together with individual award levels.
- The measures and associated targets for the 2022-23 STIP and 2022 LTIP.
- Outcomes from the Committee evaluation process.

Advice to the Remuneration Committee

The Committee takes information and advice from inside and outside the Company. Internal support was provided by the Chief People Officer, the Director of Reward and Performance, and the Group General Counsel and Company Secretary, and other senior leadership as appropriate. No individual was present when matters relating to their own remuneration were discussed.

The Committee seeks advice from independent external advisers as appropriate. Deloitte was initially appointed in October 2018 following a competitive tendering process led by the Committee. Deloitte provided information to the Committee regarding external market trends and other Committee matters during 2021-22. The total fees paid to Deloitte in respect of this advice were £26,145 (2020-21: £46,235). Deloitte also provided tax, technology, internal audit, strategy and business consulting services to the Group during the financial year.

Deloitte is a signatory to the Remuneration Consultants Group Code of Conduct, was appointed by the Committee and reports directly to the Committee Chair. The Committee Chair can meet with advisers without Management present. The Committee is satisfied that the advice it receives is objective and independent. There are no connections between Deloitte and individual Directors to be disclosed.

Management's advice to the Committee was also supported by the provision of market insights and data from Deloitte, FIT Remuneration Consultants and Willis Towers Watson, and legal advice from Addleshaw Goddard.

Remuneration Committee evaluation

The Committee's effectiveness and performance was evaluated as part of the process described on page 94. The evaluation noted the Committee and its chairmanship was functioning very well. Members of the Committee indicated that the quality of papers had improved significantly and they were well supported by the internal reward team.

The key actions for 2022-23 are to:

– Support the incoming Committee Chair as she settles into her new role.

– Further review workforce remuneration and consider how to strengthen workforce views when setting executive remuneration.

– As part of the Committee review of remuneration advisers, clarify how the Committee uses advisers and optimises their contribution.

Shareholder voting and consideration of shareholder views

We undertook substantial engagement with our shareholders as part of the development of a new Remuneration Policy in 2019 and then again in the run up to the 2020 AGM when we made further changes to the Policy. We are grateful for the feedback and input received over the last 36 months.

At the 2021 Annual General Meeting on 21 July 2021, shareholders approved the Directors' Remuneration Report published in the 2020-21 Annual Report and Financial Statements, receiving a strong vote in favour. The most recent vote on the Remuneration Policy, which was effective from the date of the 2020 AGM for up to three years, also received shareholder support in excess of 99%.

Recent votes on the Directors' Remuneration Report

	For	Against
2019 AGM	97.63	2.37
2020 AGM	99.09	0.91
2021 AGM (see below)	99.78	0.12

Recent votes on the Directors' Remuneration Policy

	For	Against
2019 AGM	99.94	0.36
2020 AGM	99.28	0.72

2021 AGM voting (breakdown)

Votes for	682,563,983	99.8%
Votes against	1,488,211	0.2%
Votes witheld	352,913	

2020 AGM voting (breakdown)

Votes for	642,589,878	99.3%
Votes against	4,659,090	0.7%
Votes witheld	48,823,734	

We remain committed to ongoing dialogue with our shareholders and taking into consideration shareholder views on our Policy and practices. We also look forward to engaging with shareholders in the run up to our Policy's renewal in 2023. In the meantime, the Committee Chair and Chair of the Board will continue to maintain contact as required with the Company's key shareholders about relevant remuneration issues.

Lynne Peacock
Chair of the Remuneration Committee
18 May 2022

Directors' Report

Mark Amsden
Group General Counsel and Company Secretary

The Directors present their Report, together with audited Financial Statements for the year ended 27 March 2022.

This Directors' Report together with the Strategic Report on pages 1 to 77 form the Management Report for the purpose of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R and DTR 4.1.8R.

Information incorporated by reference
The following information is incorporated in the Directors' Report by reference and can be found on the pages of this Annual Report as indicated in the table below:

	Page
Business model	12 and 13
Strategy for delivering objectives	14 to 23
Results	64 to 71
Financial assets and liabilities	208 to 215
Principal risks	56 to 61
Environmental, Social and Governance	30 to 45
Greenhouse gas emissions and energy reporting	30 to 33 and 46 to 51
Disabled employees	41
Our people	36 to 41
Diversity	40 and 41
Going Concern and Viability Statements	62 and 63
Dividend	5
Corporate Governance Report	78 to 141
Future developments	14 to 23
Statement of Directors' Responsibilities	146
Employee share schemes	202 and 203
Research and development	11

The location of information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is as follows:

Listing Rule 9.8.4R disclosures

	Page
Statement of the amount of interest capitalised	197 and 198, and 201
Dividend waivers	142

Dividend waivers
The Trustee of the Royal Mail Share Incentive Plan (Plan) will not receive any dividends on Free Shares which it has not been possible to award to, or which have been forfeited by, participants in the Plan.

Capital
Purchase of own shares by the Company
At the 2021 AGM, the Company was authorised by its shareholders to purchase up to a maximum of 10% of its ordinary shares. This authority was valid at the end of the Company's financial year and will remain in place until the 2022 AGM, when the Directors will seek a similar authority.

In November 2021, the Company announced that it had entered into a non-discretionary agreement with Merrill Lynch International in relation to the purchase of the Company's ordinary shares of one pence each for an aggregate purchase price of up to £200 million (the Programme). The Programme began on 18 November 2021 and was successfully completed on 8 March 2022. Its purpose was to reduce the Company's share capital.

During the above period, 43,806,525 shares were purchased, with a nominal value of one penny. The aggregate amount paid for these shares was £201 million, including stamp duty of £1 million and this represented 4.4% of the called up share capital.

The Programme was conducted within certain pre-set parameters and in accordance with the Company's general authority to repurchase ordinary shares. The Programme was also conducted within the parameters prescribed by the UK versions of the Market Abuse Regulation (EU) 596/2014 and the Commission Delegated Regulation (EU) 2016/1052, and in accordance with Chapter 12 of the UK Listing Rules.

Share capital
As at 27 March 2022, the Company's issued share capital comprised 956,193,475 ordinary shares of one penny each as set out in Note 26 to the accounts on page 217.

Ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings (whether in person or by proxy). A holder of ordinary shares is entitled to one vote per ordinary share held when a vote is taken on a poll. Shareholders also have the right to receive a dividend, if recommended and declared. Shareholders may transfer all or any of their certificated or uncertificated shares in the Company. All such rights are subject to certain exceptions and restrictions provided in the Company's Articles of Association (the Articles) and in any applicable legislation. These include where rights are suspended for non-disclosure of an interest in shares, where share transfers do not comply with specific requirements, and where any amounts on shares owing by a shareholder to the Company are overdue. The rights and obligations of members, and restrictions on transfer, are set out in full in the Articles, which can be found on the Company's website. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

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.

Authority of the Directors to allot shares
At the 2021 AGM, the Company obtained 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 2021 allotment authority. The Directors will be seeking to renew this authority at the 2022 AGM, although the Company has no current plans to exercise such authority if given.

At the 2021 AGM, the Directors were also empowered to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis in connection with pre-emptive offers and, otherwise than in connection with such offers, up to a maximum aggregate nominal amount of £500,000 (representing approximately 5% of the Company's issued share capital at that time). The Directors were also given an additional power to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis up to a maximum aggregate nominal amount of £500,000 (representing approximately 5% of the Company's issued share capital at that time) for use in connection with acquisitions and/or specified capital investments. The Directors will be seeking to renew these powers at the 2022 AGM.

Directors
Details of the current Directors are included on pages 82 and 83 and information about changes to the membership of the Board during the year is included on page 5.

Appointment and replacement of Directors
The 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 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 AGM, Directors are required to retire under the Articles if they have: (i) been appointed by the Board since the previous AGM; (ii) been in office at the last two AGMs, but did not retire at either; and (iii) 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 of its Directors retire at every AGM in line with the recommendations of the Code. Directors who retire from office at the AGM 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 are set out in the Directors' Remuneration Report on page 131.

Directors' and officers' insurance
The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its Directors. This is reviewed annually. Qualifying pension scheme indemnity provisions were in force during the course of the financial year ended 27 March 2022 for the benefit of the Trustees of Royal Mail UK's pension schemes, and such indemnity provisions are in force at the date of approval of this report.

Directors' Report continued

Substantial shareholding

As at 27 March 2022, the Company had been notified, in accordance with DTR 5, of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company.

Shareholder	Number of shares	% voting rights disclosed at time of notification	% of voting rights as at 27 March 2022[1]
Vesa Equity Investment	199,432,580	20.0	20.9
RWC Partners	66,201,803	6.6	6.9
UBS Asset Management	60,235,232	6.0	6.3
BlackRock Inc.	52,541,557	5.5	5.5
Schroder Investment Management	50,587,637	5.1	5.3
Aberdeen Standard Investments	46,196,278	4.6	4.8
Vanguard Group	39,784,696	4.0	4.2
Columbia Threadneedle Investments	30,386,690	3.0	3.2

1. As a result of the Programme and the resulting reduction in the Company's share capital, the percentage figures have been recalculated to provide a more accurate year-end picture.

During the period between 27 March 2022 and 18 May 2022, being the latest practicable date prior to publication of this Annual Report, the Company received the following notifications in accordance with DTR 5.

Shareholder	Number of shares	% voting rights
Vesa Equity Investment	200,944,533	21.0
BlackRock Inc.	58,011,369	6.1

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 27 March 2022, a total of 2,265,008 shares (2021-21: 572,816 shares) were held by the EBT on behalf of the Company. The EBT will not receive any dividends payable on shares which it holds at the relevant time.

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.

Stakeholders

Engagement with UK employees, suppliers and customers

Disclosure on how the Company communicates with its employees, encourages their involvement and achieves a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company is included on pages 36 to 39, 84 and 85 and 90.

Information on how the Company engages with its employees, customers and suppliers, how the Directors have regard to their interests, and the effect of that regard is set out on pages 26 and 27, 84 and 85 and 90.

Payment practices

Our Responsible Procurement Code of Conduct sets out how we work with our suppliers and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the BEIS website. Information is published on a six-monthly basis.

ESG

Greenhouse gas emissions and energy reporting

Information regarding the Group's greenhouse gas emissions, energy consumption and energy efficiency action required to be disclosed in this Directors' Report can be found on pages 33 and 34.

TCFD disclosures

Information regarding the Group's climate-related financial disclosures consistent with the TCFD recommendations can be found on pages 46 to 51.

Other disclosures

Company's Articles

Any amendments to the Articles may be made in accordance with the Companies Act 2006 by way of a special resolution. Our Articles have been reviewed and we are proposing some updates via a special resolution at this year's AGM. Further details of the amendments are included in our Notice of AGM.

Our current Articles are available at www.royalmailgroup.com/en/about-us/governance/.

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. Further information is included in Note 31 on page 219.

Political donations and expenditure

No form of political donation, or expenditure, was made during the year. The Company intends to continue this policy 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 1 on page 164.

Post balance sheet events

There were no post balance sheet events to report in relation to 2021/22.

By Order of the Board

Mark Amsden
Group General Counsel and Company Secretary
18 May 2022

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. Under that law they are required to prepare the Group Financial Statements in accordance with UK-adopted international accounting standards and applicable law, and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law, 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 the Group's 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 and reliable.
- For the Group Financial Statements, state whether they have been prepared in accordance with UK-adopted international accounting standards.
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- 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 that complies 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.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

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.

Responsibility statement of the Directors in respect of the annual financial report

The Directors as at the date of this Directors' Report, whose names and functions are set out on pages 82 and 83, confirm that to the best of their 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.
- The Directors' Report and the Strategic Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors consider that 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 was approved by the Board of Directors and is signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer
18 May 2022

Financial Statements

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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 weeks ended 27 March 2022 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, Parent Company Statement of Changes in Equity, Parent Company Balance Sheet, and the related notes, including the Group accounting policies in Note 1 on pages 164 to 176 and Parent Company accounting policies in Note 1 on page 225.

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 27 March 2022 and of the Group's profit for the 52 weeks then ended;

– the Group Financial Statements have been properly prepared in accordance with UK-adopted international accounting standards;

– 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.

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 and Risk Committee.

We were first appointed as auditor by the shareholders on 23 July 2015. The period of total uninterrupted engagement is for the seven financial years ended 27 March 2022. 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: Financial Statements as a whole	£25 million (2020-21: £18 million) 4.9% of normalised Group profit before tax, averaged over three years (2020-21: 4.1% of normalised Group profit before tax)	
Coverage	93.1% of the total profits and losses that made up Group profit before tax (2020-21: 95.4%)	
Risks of material misstatement		**vs 2020-21**
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	◀▶
	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 judgement, 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.

Group	The risk	Our response
Deferred revenue associated with advance customer payments arising from stamps sold £160 million; (2020-21: £218 million) Refer to page 102 (Audit and Risk Committee Report), page 166 (accounting policy) and page 178 (financial disclosures).	**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. 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 accurately, 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 methodology allows for adjustments for unusual trends identified where deemed required. 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.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Methodology choice:** We challenged the Group on the appropriateness of the methodology in place for performing the calculation, including benchmarking the approach against that taken by other global postal service providers. – **Methodology implementation:** We assessed whether the methodology had been correctly applied and we challenged the need for any adjustments through consideration of possible alternatives. – **Independent re-performance:** We tested the individual inputs used in the Group's calculation to check the accuracy of the balance. – **Challenge of the outcome:** We challenged the Group's estimate by generating a range of plausible outcomes using alternative data points, and alternative methods of calculating the estimate. We assessed and evaluated the methodology and compared the outcomes to assess the appropriateness of the estimate made. We have assessed the estimate for indicators of management bias. – **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of deferred revenue associated with advance customer payments arising from stamps sold, particularly in relation to the degree of estimation uncertainly. **Our results** We found the estimate of deferred revenue to be acceptable (2020-21: acceptable).

Group	The risk	Our response
Valuation of certain unquoted pension scheme assets Refer to page 102 (Audit and Risk Committee Report), page 166 (accounting policy) and page 192 (financial disclosures).	**Subjective valuation:** 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 192. Small changes in the estimates used to value these assets would have a significant effect on the financial position of the Group. As part of our risk assessment, we determined that the valuation of certain 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.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Fund managers' credentials:** We assessed the competence, independence and integrity of the Group's actuarial expert and 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. – **Assessing transparency:** We considered the adequacy of the Group's unquoted plans' assets disclosures in respect of the accuracy of the asset split by category. **Our results** We found the valuation of these certain pension scheme assets as mentioned above to be acceptable (2020-21 result: acceptable).

Group	The risk	Our response
Valuation of pension scheme liabilities Royal Mail Pension Plan Defined Benefit Obligation value: £6,960 million, Defined Benefit Cash Balance Scheme value: £1,926 million; (2020-21: Royal Mail Pension Plan Defined Benefit Obligation value: £7,775 million, Defined Benefit Cash Balance Scheme value: £1,586 million) Refer to page 102 (Audit and Risk Committee Report), page 165 (accounting policy) and pages 194 and 195 (financial disclosures).	**Subjective valuation:** Significant estimates are made in valuing the Group's post retirement defined benefit plan obligations 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.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. 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. – **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 (2020-21 result: acceptable).

Group	The risk	Our response
Recoverability of Parent Company's investment in subsidiaries and debt due from Group entities (Parent Company only) Investments – £2,912 million (2020-21: £2,127 million). Debt due from Group entities - £611 million; (2020-21: £895 million). Refer to page 103 (Audit and Risk Committee Report), page 225 (accounting policy) and page 226 (financial disclosures).	**Low risk, high value:** The carrying amount of the Parent Company's investments in subsidiaries and debt due from Group entities represents 100% (2020-21: 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.	We performed the tests below rather than seeking to rely on any of the Parent Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Tests of detail:** Compared the carrying amount of 100% of investments with the relevant subsidiary's 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 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. **Our results** We found the carrying amounts of investments and intercompany receivables to be acceptable (2020-21: acceptable).

We continue to perform procedures over the Royal Mail Senior Executives Pension Plan which we included in our valuation of pension scheme liabilities key audit matter in the prior year. However, given wind up of the scheme is imminent and there is an insurance policy in place equal to the value of the liability, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £25 million (2020-21 £18 million).

Materiality is based on normalised profit before tax, averaged over the past three years. For the current and prior years, profit before tax was normalised for the profit on disposal of property, plant and equipment. The item not included in the benchmark was subject to audit procedures by the Group team, and the quantum of this item is disclosed in Note 2 of the Financial Statements. Materiality represents 4.9% of the normalised profit before tax measure, averaged over three years, of £507 million (2020-21: 4.1% of normalised PBT of £437 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 0.20% (2020-21: 0.14%) and total assets, of which it represents 0.2% (2020-21: 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 £4.2 million (2020-21: £3 million), determined with reference to a benchmark of Company net assets amounting to £2,602 million, of which it represents 0.2% (2020-21: £2,084 million and 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the Financial Statements as a whole.

Performance materiality for the Group and Parent Company was set at 75% (2020-21: 75%) of materiality for the Financial Statements as a whole, which equates to £18.7 million (2020-21: £13.5 million) for the Group and £3.15 million (2020-21: £2.2 million) for the Parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £1.25 million (2020-21: £0.9 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 21 (2020-21: 23) reporting components, we subjected 3 (2020-21: 4) to full scope audits for group purposes and 1 (2020-21: none) to specified risk-focused audit procedures over cash and cash equivalents, people costs and management override of controls. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for 99.7% of revenue (2020-21: 99.7%), 93.1% of the total profits and losses that made up Group profit before tax (2020-21: 95.4%), and 99.3% of total assets (2020-21: 99.5%).

For the residual 17 components (2020-21: 19), we performed an analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

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 approved the component materialities, which ranged from £4.2 million to £20 million (2020-21: £3 million to £15 million), having regard to the mix of size and risk profile of the Group across the components.

The work on 1 of the 3 full scope components (2020-21: 1 of the 4 full scope components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

The Group audit team held regular video conference meetings with all in scope components. These meetings involved explanation of Group audit instructions, involvement in planning audit procedures, discussing progress updates and emerging findings, reviewing outcomes of testing performed and involvement in discussing audit findings with component management. The Group audit team reviewed the audit documentation of component auditors through various stages of their work. The Group team also attended the component virtual clearance meetings. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4 The impact of climate change on our audit

In planning our audit, we have considered the potential impact of climate change on the Group's business and its Financial Statements.

The Group has set out to reduce its emissions to zero by 2045. The majority of the Group's carbon emissions are in the domestic and international transport network, and the Group continues to develop its assessment of climate change. Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to operational and supply chain decarbonisation and the potential reputational impact associated with the Group's delivery of its climate related initiatives. Further information is provided on pages 44 to 51.

While the Group has set out its climate transition strategies, the Group continues to assess and develop the consequences of this in terms of capital expenditure, the cost base and impacts on cash flows.

The Group considered the impact of climate change and the Group's targets in the preparation of the Financial Statements, including an evaluation of critical accounting estimates and judgements. The Group concluded that this did not have a material effect on the consolidated Financial Statements.

As part of our audit, we have made enquiries of Management to understand the extent of the potential impact of climate change risks on the Group's Financial Statements, including their assessment of critical accounting estimates and judgements, and the effect on our audit. We have performed a risk assessment to evaluate the potential impact, including the estimates made regarding useful economic lives of property, plant and equipment, and the valuation of certain unquoted pension assets.

We held discussions with our own climate change professionals to challenge our risk assessment.

Taking into account the expected remaining useful lives of property, plant and equipment, and the nature of unquoted pension assets, we assessed that there is not a significant impact on our audit for this financial year. There was no significant impact of climate on our key audit matters.

We have read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 44 to 51 and considered consistency with the Financial Statements and our audit knowledge.

5 Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and EBITDA/net debt metrics relevant to debt covenants over this period were:

- the impact of deteriorating economic and market conditions impacting Royal Mail and GLS;
- increased competition in the UK parcels sector;
- the pace of transformation in the UK business and the impact this has on cost control; and
- the potential impact of industrial action or incurring costs to avoid it.

We also considered less predictable but realistic second order impacts, such as the potential outcome of the contingent liabilities and provisions related to regulatory investigations that could affect demand in the Group's markets.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

Our procedures also included:

- Critically assessing assumptions in the Directors' base case and severe but plausible downside scenarios relevant to liquidity and covenant metrics, considering the forecasted operating levels and how these relate to both pre-COVID-19 and COVID-19 levels of performance.
- Comparing past budgets to actual results to assess the Directors' track record of budgeting accurately.
- Inspecting the confirmation from the lender of the level of committed financing, and the associated covenant requirements.

We considered whether the going concern disclosure in Note 1 to the Financial Statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing 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 significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in Note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 63 is materially consistent with the Financial Statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit and Risk Committee, Internal Audit and Risk Management, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee minutes.
- Considering remuneration incentive schemes (Royal Mail Long Term Incentive Plan and Deferred Share Bonus Plan) and performance targets for Management and Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group Management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as deferred revenue in relation to advanced customer payment.

On this audit, our only fraud risk is in relation to deferred revenue in relation to advance customer payments. We do not believe there is a fraud risk related to other revenue streams because the low value, high volume nature of transactions reduces the opportunities for fraudulent activity.

We did not identify any additional fraud risks.

Further detail in respect of deferred revenue associated with advance customer payments arising from stamps sold is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components and that over which specified audit procedures are performed, based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to accounts with an associated fraud risk, round sum journals posted in period 12, post close journals and unusual journals posted to revenue, cash and borrowing accounts.
- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias, including assessing the estimate of deferred revenue associated with advance customer payments for bias.

We discussed with the Audit and Risk Committee and those charged with governance matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations
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, and through discussion with the Directors and other management (as required by auditing standards), and 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. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the 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 pensions 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 or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety, anti-bribery and corruption, employment law, PCI compliance, money laundering, foreign corrupt practices, environmental protection, export control, consumer rights act, misrepresentation act, contract law, distance selling regulations, competition legislation and price fixing, and the postal services act as enforced by Ofcom, in recognising the 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

The Competition Act investigation and potential follow on claims are is discussed in Note 25 and we have assessed the disclosures made against our understanding from legal correspondence to help us assess the related implications.

Context of the ability of the audit to detect fraud or breaches of law or regulation
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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7 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
We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the Financial Statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on pages 62 and 63 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 how emerging risks are identified, 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.

We are also required to review the viability statement, set out on pages 62 and 63 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the Financial Statements and our audit knowledge.

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 judgements 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 perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the Financial Statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the Financial Statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit and Risk Committee, including the significant issues that the Audit and Risk Committee considered in relation to the Financial Statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in these respects.

8 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.

9 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 146, 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.

Auditor's responsibilities

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

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

The Company is required to include these Financial Statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10 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.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL

18 May 2022

Consolidated Income Statement

For the 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021

	Notes	Reported 52 weeks 2022 £m	Reported 52 weeks 2021 £m
Continuing operations			
Revenue	3	**12,712**	12,638
Operating costs[1]	4/5	**(12,128)**	(12,020)
People costs		**(6,665)**	(6,554)
Distribution and conveyance costs		**(3,556)**	(3,483)
Infrastructure costs		**(1,059)**	(1,074)
Other operating costs		**(848)**	(909)
Operating profit before specific items[2]		**584**	618
Operating specific items	6/25	**(7)**	(7)
Operating profit		**577**	611
Profit on disposal of property, plant and equipment (non-operating specific item)[2]	6	**72**	36
Profit before interest and tax		**649**	647
Finance costs	7	**(57)**	(55)
Finance income	7	**6**	17
Net pension interest (non-operating specific item)[2]	6/11	**64**	117
Profit before tax		**662**	726
Tax charge	8	**(50)**	(106)
Profit for the year		**612**	620
Earnings per share			
Basic	9	**61.7p**	62.0p
Diluted	9	**61.4p**	61.8p

1 Operating costs are stated before operating specific items.
2 For further details on alternative performance measures used, see pages 228 to 232.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021

	Notes	**Reported 52 weeks 2022 £m**	Reported 52 weeks 2021 £m
Profit for the year		**612**	620
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		**414**	(1,448)
Withholding tax (payable)/receivable on distribution of RMPP and RMSEPP surplus	11	**(181)**	660
Remeasurement gains/(losses) of the defined benefit surplus in RMPP and RMSEPP	11(c)	**457**	(1,998)
Remeasurement gains/(losses) of the defined benefit deficit in DBCBS	11(d)	**172**	(136)
Deferred tax associated with DBCBS	8	**(34)**	26
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**–**	(23)
Exchange differences on translation of foreign operations (GLS)		**(12)**	(45)
Net gain on hedge of a net investment (€500 million bond)		**11**	20
Net gain on hedge of a net investment (Euro-denominated lease payables)		**1**	2
Designated cash flow hedges		**83**	30
Gains on cash flow hedges deferred into equity		**117**	11
(Gains)/losses on cash flow hedges released from equity to income		**(24)**	23
Losses released from equity to the carrying value of non-financial assets		**2**	–
Gain/(loss) on cross-currency swap cash flow hedge deferred into equity		**2**	(2)
Loss on cross-currency swap cash flow hedge released from equity to income – interest payable		**8**	8
Loss on cost of hedging deferred into equity		**–**	(2)
Gain on cost of hedging released from equity to income – interest payable		**(1)**	(1)
Tax on above items	8	**(21)**	(7)
Total other comprehensive income/(expense) for the year		**497**	(1,441)
Total comprehensive income/(expense) for the year		**1,109**	(821)

Consolidated Balance Sheet

At 27 March 2022 and 28 March 2021

	Notes	**Reported at 27 March 2022 £m**	Reported at 28 March 2021 £m
Non-current assets			
Property, plant and equipment	13	**3,571**	3,007
Goodwill	15	**428**	378
Intangible assets	16	**488**	468
Investments in associates	17	**1**	5
Financial assets			
Pension escrow investments	24	**213**	212
Derivatives	24	**30**	5
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	11	**2,723**	2,389
Other receivables	20	**94**	100
Deferred tax assets	8	**116**	153
		7,664	6,717
Assets held for sale	19	**–**	26
Current assets			
Inventories		**34**	18
Trade and other receivables	20	**1,659**	1,640
Income tax receivable		**41**	9
Financial assets			
Investments	24	**70**	–
Derivatives	24	**74**	2
Cash and cash equivalents	21/24	**1,137**	1,573
		3,015	3,242
Total assets		**10,679**	9,985
Current liabilities			
Trade and other payables	22	**(2,332)**	(2,377)
Financial liabilities			
Lease liabilities	14/24	**(213)**	(197)
Derivatives	24	**(8)**	(12)
Income tax payable		**(10)**	(15)
Provisions	25	**(176)**	(124)
		(2,739)	(2,725)

Consolidated Balance Sheet continued

At 27 March 2022 and 28 March 2021

	Notes	**Reported at 27 March 2022 £m**	Reported at 28 March 2021 £m
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	23/24	**(872)**	(895)
Lease liabilities	14/24	**(1,128)**	(959)
Derivatives	24	**(36)**	(36)
DBCBS retirement benefit deficit	11	**(390)**	(394)
Provisions	25	**(94)**	(105)
Other payables		**(32)**	(18)
Deferred tax liabilities	8	**(54)**	(48)
		(2,606)	(2,455)
Total liabilities		**(5,345)**	(5,180)
Net assets		**5,334**	4,805
Equity			
Share capital	26	**10**	10
Retained earnings		**5,248**	4,802
Other reserves		**76**	(7)
Total equity		**5,334**	4,805

The Financial Statements were approved and authorised for issue by the Board of Directors on 18 May 2022 and were signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

For the 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 29 March 2020	10	5,625	30	(44)	5,621
Profit for the year	–	620	–	–	620
Other comprehensive (expense)/income for the year	–	(1,448)	(23)	30	(1,441)
Total comprehensive (expense)/income for the year	–	(828)	(23)	30	(821)
Transactions with owners of the Company, recognised directly in equity					
Share-based payments (see Note 18)					
Employee Free Shares issue	–	1	–	–	1
Long Term Incentive Plan (LTIP)	–	1	–	–	1
Deferred Share Bonus Plan (DSBP)	–	3	–	–	3
Deferred tax on share-based payments	–	1	–	–	1
Settlement of DSBP	–	(1)	–	–	(1)
Reported at 28 March 2021	**10**	**4,802**	**7**	**(14)**	**4,805**
Profit for the year	**–**	**612**	**–**	**–**	**612**
Other comprehensive income for the year	**–**	**414**	**–**	**83**	**497**
Total comprehensive income for the year	**–**	**1,026**	**–**	**83**	**1,109**
Transactions with owners of the Company, recognised directly in equity					
Purchase of own shares[1]	**–**	**(17)**	**–**	**–**	**(17)**
Share buyback	**–**	**(201)**	**–**	**–**	**(201)**
Dividend paid to equity holders of the Parent Company	**–**	**(366)**	**–**	**–**	**(366)**
Share-based payments (see Note 18)					
Employee Free Shares issue	**–**	**1**	**–**	**–**	**1**
LTIP	**–**	**2**	**–**	**–**	**2**
DSBP	**–**	**1**	**–**	**–**	**1**
Reported at 27 March 2022	**10**	**5,248**	**7**	**69**	**5,334**

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 27 March 2022 and 52 weeks ended 28 March 2021

	Notes	**Reported 52 weeks 2022 £m**	Reported 52 weeks 2021 £m
Cash flow from operating activities			
Profit before tax		**662**	726
Adjustment for:			
Net pension interest (non-operating specific item)	11	**(64)**	(117)
Net finance costs	7	**51**	38
Profit on disposal of property, plant and equipment (non-operating specific item)	6	**(72)**	(36)
Specific items (operating)	6	**7**	7
Operating profit before specific items[1]		**584**	618
Adjustment for:			
Depreciation and amortisation		**540**	554
EBITDA before specific items[1]		**1,124**	1,172
Working capital movements		**(29)**	41
Increase in inventories		**(14)**	–
Increase in receivables		**(16)**	(376)
(Decrease)/increase in payables		**(54)**	375
Net decrease in derivative assets		**3**	16
Increase in provisions (non-specific items)		**52**	26
Pension charge to cash difference adjustment	6/11	**174**	84
Share-based awards (LTIP and DSBP) charge		**3**	4
Cash cost of operating specific items		**(4)**	(4)
Cash inflow from operations		**1,268**	1,297
Income tax paid		**(108)**	(125)
Research and development expenditure credit		**–**	1
Net cash inflow from operating activities		**1,160**	1,173
Cash flow from investing activities			
Dividend received from associate undertaking	17	**5**	–
Finance income received		**4**	16
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**10**	5
London Development Portfolio net proceeds (non-operating specific item)		**99**	13
Purchase of property, plant and equipment[2]		**(519)**	(289)
Acquisition of business interests, net of cash acquired		**(204)**	–
Purchase of intangible assets (software)[2]		**(84)**	(57)
Payment of deferred consideration in respect of prior years' acquisitions		**–**	(4)
(Purchase)/sale of financial asset investments		**(70)**	30
Net cash outflow from investing activities		**(759)**	(286)
Net cash inflow before financing activities		**401**	887

	Notes	Reported 52 weeks 2022 £m	Reported 52 weeks 2021 £m
Cash flow from financing activities			
Finance costs paid		**(56)**	(57)
Share buyback		**(201)**	–
Purchase of own shares		**(17)**	–
Payment of capital element of obligations under lease contracts		**(192)**	(188)
Cash received on sale and leasebacks		**–**	1
Repayment of loans and borrowings		**–**	(700)
Dividends paid to equity holders of the Parent Company	10	**(366)**	–
Net cash outflow from financing activities		**(832)**	(944)
Net decrease in cash and cash equivalents		**(431)**	(57)
Effect of foreign currency exchange rates on cash and cash equivalents		**(5)**	(10)
Cash and cash equivalents at the beginning of the year		**1,573**	1,640
Cash and cash equivalents at the end of the year	21	**1,137**	1,573

1 For further details on APMs used, see pages 228 to 232.
2 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 and accounting policies

General information

Royal Mail plc (the Company) is incorporated in the United Kingdom (UK). The Consolidated Financial Statements have been produced in accordance with UK-adopted international accounting standards ('UK-adopted IFRS').

The Consolidated Financial Statements of the Company for the 52 weeks ended 27 March 2022 (2020-21: 52 weeks ended 28 March 2021) 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 27 March 2022 were authorised for issue by the Board on 18 May 2022.

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, derivative financial instruments and the assets and liabilities relating to the acquisition of businesses, which are measured at fair value.

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 27 March 2022 (2020-21: 52 weeks ended 28 March 2021). GLS' reporting year-end date is 31 March each year. There were no significant transactions between the respective reporting dates that required adjustment in the Financial Statements.

Presentation of results and accounting policies

As stated above, the Consolidated Financial Statements have been produced in accordance with UK-adopted international accounting standards ('UK-adopted IFRS'), i.e. on a 'reported' basis. In some instances, APMs are used by the Group to provide 'adjusted' results. This is because Management is of the view that these APMs provide a useful basis on which to analyse underlying 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 explained on pages 228 to 232.

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 reviewed both the current business projections and severe but plausible downside scenarios and assessed these against cash at bank and in hand of £276 million, cash equivalent investments of £825 million, current asset investments of £70 million and the undrawn bank syndicate loan facility of £925 million, at 27 March 2022. The downside scenarios included a consideration of deteriorating economic and market conditions impacting Royal Mail and GLS, increased competition in the UK parcels sector, a slower pace of transformation in the UK business and the impact this has on cost control, and the potential impact of industrial action or incurring costs to avoid it. See pages 62 to 63 for more information on the downside scenarios.

The severe but plausible downside case indicates that the Group would not expect to draw on the bank syndicate loan facility in order to maintain sufficient liquidity and would not breach any of its covenants.

The Directors are of the view that there are sufficient cash and committed undrawn facilities in place ('headroom') to meet obligations over the period to May 2023. In the event of a severe but plausible downside, prepared in line with the viability scenarios included within this Annual Report, cash/liquidity headroom is expected to remain significantly above £1 billion.

Consequently, the Directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the Financial Statements and therefore have prepared the Financial Statements on a going concern basis.

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 2021-22 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.

1. Basis of preparation and accounting policies (continued)
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 Consolidated Financial Statements are consistent with those in the Annual Report and Financial Statements for the year ended 28 March 2021, along with the adoption of new and amended accounting standards with effect from 29 March 2021 as detailed below:

New and amended accounting standards adopted in 2021-22
Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
The Group has adopted Phase 2 of the Interest Rate Benchmark Reform with effect from 29 March 2021. The amendments do not have an effect on the Group as it does not have any financial instruments that reference LIBOR. The interest reference rate in the bank syndicate loan facility was amended in the period from LIBOR to SONIA (Sterling OverNight Indexed Average) (SOFR (Secured Overnight Financing Rate) for any drawings in US Dollars). Interest is compounded daily and a credit adjustment spread of between 0.0% and 0.3% is added using the ISDA (International Swaps and Derivatives Association) published five-year historical mean on fixing date 5 March 2021. The bank syndicate loan facility was undrawn throughout the period and therefore is unaffected by the amendment in the period.

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 at the balance sheet date:

Annual improvements to IFRS 2018-2020

IAS 1 (Amended) – Classification of Liabilities as Current or Non-current

IAS 1 (Amended) – Disclosure of Accounting Policies

IAS 8 (Amended) – Definition of Accounting Estimates

IAS 12 (Amended) – Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction

IAS 16 (Amended) – Property, Plant and Equipment: Proceeds Before Intended Use

IAS 37 (Amended) – Onerous Contracts – Cost of Fulfilling a Contract

IFRS 3 (Amended) – Reference to Conceptual Framework

IFRS 17 – Insurance Contracts

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.

Sources of estimation uncertainty
The preparation of Consolidated Financial Statements necessarily requires Management to make certain estimates and judgements that can have a significant impact on the Financial Statements. These estimates and judgements 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 judgement 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.

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 judgement 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 pension plans are included within Note 11.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

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:

- Equities listed on recognised stock exchanges are valued at the 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.
- Properties are valued on the basis of open market value as at the year-end date, in accordance with Royal Institute of Chartered Surveyors (RICS) Valuations Standards (under 'Red Book' guidelines) adjusted for any capital expenditure and impairments since that valuation.
- 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.
- 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 is 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.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not used at the balance sheet date (see Note 22).

The majority of this balance is made up of stamps sold to the general public. Management utilises 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. Royal Mail has now introduced barcoded stamps to replace non-barcoded stamps. The majority of non-barcoded stamps will be valid until 31 January 2023. A Stamp Swap Out scheme was launched on 31 March 2022 where non-barcoded stamps can be swapped for stamps with barcodes. Management will consider the impact that this change may have on the SITHOP balance going forward.

At 27 March 2022 the Group recognised £160 million (2020-21: £218 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. In 2021-22, stamp sales reverted closer to pre-pandemic levels, which meant that some of the build-up in holdings seen in 2020-21 was utilised. 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.
- Price rises.
- Adjustments to reflect posting patterns around key events close to the reporting year end, e.g. Mothering Sunday, Easter.

Stamp holding days implied by the applying the above methodology, fell year-on-year to 31 days (2020-21: 39 days).

Other estimates

Provisions – industrial diseases

The Group has a potential liability for industrial diseases claims relating to individuals who were employed in the General Post Office Telecommunications division and whose employment ceased 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 at the year-end date, which incorporates independent expert actuarial advice.

The Institute and Faculty of Actuaries (UK Asbestos Working Party), on whose modelling actuaries rely for their calculations for asbestos-related ill-health claims, confirmed during this reporting year that the provisional guidance that they issued in February 2021 is supported by the subsequent revision of all the different models it maintains. This now established guidance indicates a significant reduction in future liabilities for such claims.

1. Basis of preparation and accounting policies (continued)
In view of the above, Management has applied a consistent approach to that of previous years and recognised a provision at 27 March 2022 between the medium and high estimates provided by the actuarial consultant. This has resulted in a release of £11 million (2020-21: £16 million), recognised in the income statement as an operating specific item. The closing provision balance at 27 March 2022 was £56 million (2020-21: £69 million) (see Notes 6 and 25).

A 50 basis points decrease to the 1.77% discount rate used at 27 March 2022 would result in a £3 million increase in the overall provision. Any income statement movements arising from a change in accounting estimate are disclosed as an operating specific item.

Business acquisition – Mid-Nite Sun Transportation Ltd (operates as 'Rosenau Transport')
Identifiable assets acquired and liabilities and contingent liabilities assumed in business acquisitions are measured initially at their fair values at the acquisition date. The fair value of an asset or liability represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. An independent valuer was used to assist in the valuation of the Rosenau Transport acquisition.

In determining the fair value of the intangible assets acquired, risk-adjusted future cash flows discounted using discount rates specific to the asset were used. In determining cash flows, a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows were used:

- Customer relationships were measured using estimates of future cash flows and expected customer retention rates.
- Brands were measured by estimating the savings realised by owning or holding the right to use the brand name (as opposed to paying a royalty fee to a third party). This includes an estimate of the projected revenues attributable to the brand, potential royalty rates and the estimated life of the brand to a third party.
- Other tangible assets and liabilities were measured by estimating the current cost to purchase or replace the assets, taking into account available market data for the sale or transfer of such assets.

The excess of the consideration transferred, when comparing the fair value of the net identifiable assets acquired, has been recorded as goodwill.

Certain property assets and deferred tax liabilities have provisional fair values at the reporting date. The Group has one year from the acquisition date to remeasure the fair values of the acquired assets and liabilities and the resulting goodwill, if new information is obtained relating to conditions that existed at the acquisition date.

Acquisition-related costs are expensed as incurred. Details of the Rosenau Transport acquisition during the period are disclosed in Note 12.

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).

Further details of the major revenue streams in each operating segment are provided below:

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

Royal Mail

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 subcontractor costs. 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 and consumables. Non-people costs relating to projects are also 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 24.6% (2020-21: 19.5%) for the DBCBS pension plan and the cash contribution rate agreed with the Trustee of 15.6%. 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 (see Note 6 and Note 11).

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.

Legacy/other items

Legacy items are unavoidable ongoing costs arising from historical events e.g. industrial diseases provision or Employee Free Shares costs.

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 representative of the trading performance of the Group.

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 the business' operations strategy.

Net pension interest

Management separately identifies pension interest income as this is not part of the Group's trading activity and is driven by actuarial calculations and assumptions which fluctuate each year.

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. 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 vest based on a combination of non-market

1. Basis of preparation and accounting policies (continued)

and market conditions. Share-based payments awarded as part of the Deferred Share Bonus Plan 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 Monte-Carlo simulation 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 the following:

- Initial recognition of goodwill.
- 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.
- 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.

Earnings per share

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.

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 their distinct, individually identifiable cash flows. These CGUs for impairment testing purposes are Royal Mail excluding Parcelforce Worldwide 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 considers 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 has typically been allocated to one of the major networks designated as CGUs, i.e. mainland Europe; US Freight (previously known as Mountain Valley Express); US excluding US Freight; and, in Canada, Dicom. The exception to this approach is the current year acquisition of Rosenau Transport, which has been treated as a separate CGU for the current year.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

Impairment test for goodwill and CGUs

In assessing whether there has been an impairment of goodwill, a 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 cash flows. Details of the impairment review of the GLS CGUs are included in Note 15.

Royal Mail excluding Parcelforce Worldwide CGU

At 27 March 2022, the carrying value of this CGU was £1,366 million (2020-21: £1,174 million). The CGU has been assessed for impairment by comparing the carrying value of the CGU with its recoverable amount, assessed as being the 'value in use.' The value in use has been calculated based on three-year forecast free cash flows, with the assumption that years four and five will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of 0.5% (2020-21: 0.5%).

The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU. The Group has conducted sensitivity analysis on the impairment test for each of the key assumptions. This did not identify any plausible outcomes that would require the CGU to be impaired.

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 in the 2019-20 reporting year. This review identified that the carrying value of the CGU was in excess of its recoverable amount, which resulted in all non-monetary assets being written off and a £91 million impairment charge being reported as a specific item in the income statement within the Royal Mail segment. For this reporting year, Management considers that it is not appropriate to reverse the impairment charge, as the business has still to establish a sustainable financial performance.

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 Royal Mail 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

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 is expensed in the income statement as incurred.

1. Basis of preparation and accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. 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 recognised in the income statement (non-operating specific item) 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.

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 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 assets 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. Development costs capitalised and included as an asset within the Financial Statements have not been treated as a realised loss for the purpose of determining distributable reserves.

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 10 years

Investments 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 (currently 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.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

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.

Leases

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 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. Lease interest is shown within finance costs in the statement of cash flows. 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.

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.

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 in the main, historically, not been exercised due to ongoing operational requirements. Management has 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. In only exceptional cases, when reasonably certain that it will enact the break, are leases recognised to the break date only. The unrecognised non-discounted cash flows in relation to these leases are £7 million (2020-21: £15 million).

The Group adopts a practice of not including extension options in its leases. Where such clauses exist, they are not material.

IFRS 16 – incremental borrowing rates

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.

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.

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 has concluded that for the Royal Mail 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 Royal Mail 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, Royal Mail 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. Royal Mail has 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 Royal Mail. 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.

1. Basis of preparation and accounting policies (continued)

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 and prior year, considerations around COVID-19 and the macro-economic situation has resulted in an increase to expected credit losses above our standard provisioning rate. The below rates have been applied to the Royal Mail debt. In GLS rates are country specific to reflect the economic conditions of individual countries.

	2021-22 %	2020-21 %
Not yet overdue	**0.21**	0.10
Past due not more than one month	**1.96**	1.88
Past due more than one month and not more than two months	**12.57**	16.55
Past due more than two months	**57.69**	73.13

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 the 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. This scheme does not therefore 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 27 March 2022 was £66 million (28 March 2021: £36 million).

Capital management

The Group has established five key objectives for capital management. Details of these objectives are included in the Financial Review.

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.

The subsequent measurement of financial instruments depends on their classification as follows:

Financial assets measured at amortised cost

These are non-derivative financial assets which are held for the purpose of collecting contractual cash flows (held to collect), including interest. 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.

1. Basis of preparation and accounting policies (continued)

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 invests surplus cash in money market funds which hold baskets of cash, cash equivalent and high-credit-rating debt-based securities with short-term maturity. These funds are highly liquid and investments can be redeemed either the same day or within a week, so are categorised as cash equivalents on the basis they are a readily available source of cash. 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 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 money market fund investment and a Royal Mail Pension Plan money market fund investment. See Note 11 to the Financial Statements for further details.

Financial assets – other investments

Other investments comprise short-term deposits (other investments) with banks with an original maturity of more than three months. 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' (see details of the fair value hierarchy below).

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 in the reporting year.

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.

1. Basis of preparation and accounting policies (continued)

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 and the €550 million bond, the disclosed fair values are calculated as the closing market bond prices converted to Sterling using the closing spot Sterling/Euro exchange rate.

For the purposes of comparing carrying amounts with 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 explained further in the 'Other estimates' section of this Note.

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.

Contingent assets

Contingent assets are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not that an inflow of benefits will occur. However, when the inflow of benefits is virtually certain, an asset is recognised on the Balance Sheet, because the asset is no longer considered to be contingent.

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

Defined benefit pension plan assets are measured at fair value. Listed securities are valued at bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted. 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 in the basis of open market value at the year end date, in accordance with RICS valuation standards. Further details on the measurement of pension assets are included within the 'Key Sources of Estimation Uncertainty' section above. 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, i.e. 'withholding 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 Trustee and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed.

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 recognised immediately in the statement of comprehensive income. The Group recognises a constructive obligation to provide future increases to benefits under the lump sum DBCBS. This is charged to current service costs in the income statement. Further details on the constructive obligation are included within Note 11 to the Financial Statements.

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.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

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, only 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. Other than the €500 million bond and the Euro-denominated leases mentioned above, currently, hedge accounting is not claimed for any other monetary assets and liabilities except the €550 million 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.

2. Segment information

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. 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 pages 228 to 232). 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.

52 weeks 2022	Adjusted				Specific items, and pension adjustment in people costs		Reported
Continuing operations	**Royal Mail (UK operations) £m**	**GLS (Non-UK operations) £m**	**Eliminations[1] £m**	**Group £m**	**Royal Mail (UK operations) £m**	**GLS (Non-UK operations) £m**	**Group £m**
Revenue	**8,514**	**4,219**	**(21)**	**12,712**	**–**	**–**	**12,712**
People costs	**(5,583)**	**(908)**	**–**	**(6,491)**	**(174)**	**–**	**(6,665)**
Non-people costs	**(2,515)**	**(2,969)**	**21**	**(5,463)**	**–**	**–**	**(5,463)**
Operating profit before specific items	**416**	**342**	**–**	**758**	**(174)**	**–**	**584**
Operating specific items	**–**	**–**	**–**	**–**	**8**	**(15)**	**(7)**
Operating profit	**416**	**342**	**–**	**758**	**(166)**	**(15)**	**577**
Profit on disposal of property, plant and equipment (non-operating specific item)	**–**	**–**	**–**	**–**	**71**	**1**	**72**
Profit before interest and tax	**416**	**342**	**–**	**758**	**(95)**	**(14)**	**649**
Finance costs	**(49)**	**(15)**	**7**	**(57)**	**–**	**–**	**(57)**
Finance income	**10**	**3**	**(7)**	**6**	**–**	**–**	**6**
Net pension interest (non-operating specific item)	**–**	**–**	**–**	**–**	**64**	**–**	**64**
Profit before tax	**377**	**330**	**–**	**707**	**(31)**	**(14)**	**662**

2. Segment information (continued)

52 weeks 2021 Continuing operations	Adjusted Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[1] £m	Group £m	Specific items, and pension adjustment in people costs Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Reported Group £m
Revenue	8,649	4,040	(51)	12,638	–	–	12,638
People costs	(5,619)	(851)	–	(6,470)	(84)	–	(6,554)
Non-people costs	(2,686)	(2,831)	51	(5,466)	–	–	(5,466)
Operating profit before specific items	344	358	–	702	(84)	–	618
Operating specific items	–	–	–	–	11	(18)	(7)
Operating profit	344	358	–	702	(73)	(18)	611
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	38	(2)	36
Profit before interest and tax	344	358	–	702	(35)	(20)	647
Finance costs	(49)	(13)	7	(55)	–	–	(55)
Finance income	21	3	(7)	17	–	–	17
Net pension interest (non-operating specific item)	–	–	–	–	117	–	117
Profit before tax	316	348	–	664	82	(20)	726

1 Revenue and non-people costs eliminations relate to intragroup trading between Royal Mail and GLS, due to Parcelforce Worldwide being GLS' partner in the UK. Finance costs/income eliminations relate to intragroup loans between Royal Mail and GLS.

The depreciation and amortisation costs shown 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 2022	**Royal Mail (UK operations) £m**	**GLS (Non-UK Operations) £m**	**Total £m**
Depreciation	**(309)**	**(132)**	**(441)**
Amortisation of intangible assets (mainly software)	**(88)**	**(11)**	**(99)**
Non-current assets	**2,879**	**1,703**	**4,582**

52 weeks 2021	Royal Mail (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(308)	(124)	(432)
Amortisation of intangible assets (mainly software)	(107)	(15)	(122)
Non-current assets	2,596	1,362	3,958

Notes to the Consolidated Financial Statements continued

3. Revenue

52 weeks 2022	**Royal Mail £m**	**GLS £m**	**Intragroup revenue[1] £m**	**Group £m**
Parcels	**4,800**	**4,219**	**(21)**	**8,998**
Letters	**3,714**	**–**	**–**	**3,714**
Total	**8,514**	**4,219**	**(21)**	**12,712**

52 weeks 2021	Royal Mail[2] £m	GLS £m	Intragroup revenue[1] £m	Group[2] £m
Parcels	5,133	4,040	(51)	9,122
Letters	3,516	–	–	3,516
Total	8,649	4,040	(51)	12,638

1 Eliminations relate to intragroup revenue from trading between Royal Mail and GLS. This is due to Parcelforce Worldwide being GLS' partner in the UK.
2 The prior year's letter and parcel revenue split has been re-presented to reflect a reallocation of international revenue between letters and parcels.

During the year, around £300 million (2020-21: £290 million) of revenue was recognised which was previously held as a deferred revenue balance at 28 March 2021 (2020-21: 29 March 2020). This balance largely 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).

4. Operating costs

Operating profit before specific items is stated after charging the following operating costs:

	52 weeks 2022 £m	52 weeks 2021 £m
People costs (see Note 5)	**(6,665)**	(6,554)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(271)**	(343)
Fuel costs	**(198)**	(202)
Infrastructure costs		
Depreciation, amortisation and impairment	**(540)**	(554)
Charge for property, plant and equipment (see Note 13)	**(441)**	(432)
Charge for intangible assets (see Note 16)[1]	**(99)**	(122)
Other operating costs		
Post Office Limited charges	**(361)**	(405)
Inventory expensed	**(36)**	(53)

1 Excludes £16 million (2020-21: £19 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

4. Operating costs (continued)

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 2022 £m	52 weeks 2021 £m
Ofcom administrative charge	**(6)**	(5)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	**(1)**	(1)
Total	**(7)**	(6)

Auditor's fees

	52 weeks 2022 £'000	52 weeks 2021 £'000
Audit of Group statutory Financial Statements	**(1,420)**	(1,318)
Other fees to auditor:		
Audit of the accounts of subsidiaries	**(1,613)**	(1,510)
Review of the interim financial information	**(265)**	(240)
Regulatory audit	**(144)**	(131)
Other assurance	**(11)**	(11)
Total	**(3,453)**	(3,210)

The 2021-22 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 £111,500 for the audit of the Royal Mail Pension Plan (2020-21: £105,971) and £34,500 for the audit of the Royal Mail Defined Contribution Plan (2020-21: £32,950).

5. People information

	52 weeks 2022 £m	52 weeks 2021 £m
Wages and salaries	**(5,398)**	(5,363)
Royal Mail[1]	**(4,587)**	(4,605)
GLS	**(811)**	(758)
Pensions (see Note 11)	**(747)**	(683)
Defined benefit UK	**(441)**	(369)
Defined contribution UK	**(116)**	(111)
Defined benefit and defined contribution Pension Salary Exchange UK	**(181)**	(194)
GLS	**(9)**	(9)
Social security	**(520)**	(508)
Royal Mail	**(432)**	(424)
GLS	**(88)**	(84)
Total people costs	**(6,665)**	(6,554)

1 People costs include £81 million (2020-21: £109 million) in relation to voluntary redundancy costs.

Defined benefit pension plan rates:		
Income statement – DBCBS	**24.6%**	19.5%
Cash flow – DBCBS	**15.6%**	15.6%
Defined contribution pension plan average rate:		
Income statement and cash flow[2]	**8.9%**	9.3%

2 Employer contribution rates are 3% for employees in the entry level category and 10% for the majority of those employees in the standard level category.

Notes to the Consolidated Financial Statements continued

5. People information (continued)

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 2022	52 weeks 2021	**52 weeks 2022**	52 weeks 2021	**52 weeks 2022**	52 weeks 2021	**52 weeks 2022**	52 weeks 2021
Royal Mail	**157,241**	159,403	**157,990**	158,194	**140,035**	137,285	**138,757**	138,949
GLS	**21,808**	17,644	**20,719**	16,618	**22,325**	21,307	**21,062**	20,245
Total	**179,049**	177,047	**178,709**	174,812	**162,360**	158,592	**159,819**	159,194

3 For Royal Mail, 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. GLS has changed its FTE calculation methodology in the reporting year to align better with Royal Mail. This change has been applied prospectively and no changes have been made to prior year numbers.

4 These people numbers represent permanent employees. These figures include Royal Mail Pension Trustees, Intersoft and eCourier headcount.

Directors' remuneration

	52 weeks 2022 £'000	52 weeks 2021 £'000
Directors' remuneration[5]	**(3,530)**	(1,503)
Amounts earned under Long Term Incentive Plans	**(934)**	–
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 Directors' Remuneration Report on page 110. The highest paid Director details are included in the single figure tables of the Directors' Remuneration Report on page 126.

6. Specific items and pension charge to cash difference adjustment

	52 weeks 2022 £m	52 weeks 2021 £m
Pension charge to cash difference adjustment (within People costs)	**(174)**	(84)
Operating specific items:		
Legacy/other items	**9**	12
Amortisation of intangible assets in acquisitions	**(16)**	(19)
Total operating specific items	**(7)**	(7)
Non-operating specific items:		
Profit on disposal of property, plant and equipment	**72**	36
Net pension interest	**64**	117
Total non-operating specific items	**136**	153
Total specific items	**129**	146
Tax credit on certain specific items and the pension charge to cash difference	**62**	37

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 24.6% (2020-21: 19.5%) of pensionable pay for the DBCBS from 29 March 2021 and the cash contribution rate agreed with the Trustee of 15.6%.

Legacy/other items mainly comprise an £11 million release (2020-21: £16 million release) of the industrial diseases provision, following the publication, in late 2021, of updated scenarios on future asbestos-related ill-health claims by the Institute and Faculty of Actuaries (UK Asbestos Working Party) (see Note 25 for further details).

The tax credit of £62 million (2020-21: £37 million) includes a net credit of £30 million (2020-21: 37 million) in relation to the tax effect of certain specific items and the pension charge to cash difference and, a net credit of £32 million (2020-21: £nil) in relation to the remeasurement of certain UK deferred tax assets and liabilities at the future UK corporation tax rate of 25%.

7. Net finance costs

	52 weeks 2022 £m	52 weeks 2021 £m
Unwinding of discount relating to industrial diseases claims provision	**(1)**	(1)
Other interest payable	**(56)**	(54)
Bank syndicate loan facility		
Loans and borrowings	**–**	(3)
Unused facility fees	**(1)**	(1)
Arrangement fees	**(1)**	(2)
€500 million and €550 million bonds	**(17)**	(17)
Interest rate swap costs on €550 million bond	**(7)**	(7)
Leases	**(29)**	(26)
Capitalisation of borrowing costs on specific qualifying assets	**3**	4
Other finance costs	**(4)**	(2)
Total finance costs	**(57)**	(55)
Total finance income – interest receivable on financial assets	**6**	17
Total net finance costs	**(51)**	(38)

8. Taxation

	52 weeks 2022 £m	52 weeks 2021 £m
Tax charged in the income statement		
Current income tax:		
Current UK income tax charge	**(11)**	(48)
Foreign tax	**(81)**	(82)
Current income tax charge	**(92)**	(130)
Amounts over/(under)-provided in previous years	**19**	(4)
Total current income tax charge	**(73)**	(134)
Deferred income tax:		
Effect of change in tax rates	**32**	–
Relating to origination and reversal of temporary differences	**(17)**	25
Amounts over-provided in previous years	**8**	3
Total deferred income tax credit	**23**	28
Tax charge in the consolidated income statement	**(50)**	(106)
Tax (charged)/credited to other comprehensive income		
Deferred tax:		
Tax (charge)/credit in relation to remeasurement gains of the defined benefit pension schemes	**(34)**	26
Tax charge on revaluation of cash flow hedges	**(21)**	(7)
Total deferred income tax (charge)/credit	**(55)**	19
Total tax (charge)/credit in the consolidated statement of other comprehensive income	**(55)**	19

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 2022 £m	52 weeks 2021 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**(1)**	1
Tax credit for loss arising on share-based payments	**1**	–
Total deferred income tax credit recognised directly in equity	**–**	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 27 March 2022 and 52 weeks ended 28 March 2021 is shown below.

	52 weeks 2022 £m	52 weeks 2021 £m
Profit before tax	**662**	726
At UK statutory rate of corporation tax of 19% (2020-21: 19%)	**(126)**	(138)
Effect of different tax rates on non-UK profits and losses	**(10)**	(12)
Tax over/(under)-provided in previous years[1]	**27**	(1)
Non-deductible expenses	**(9)**	(6)
Tax reliefs and incentives	**5**	4
Uncertain tax positions	**(1)**	(2)
Tax effect of property disposals	**10**	26
Tax effect of closure of RMPP to future accrual	**(3)**	(2)
Net pension interest credit	**14**	23
Net decrease in tax charge resulting from non-recognition of certain deferred tax assets and liabilities	**(3)**	1
Share-based payments – deferred tax-only adjustments	**–**	1
Super-deduction enhanced capital allowances	**14**	–
Effect of change in tax rates	**32**	–
Tax charge in the consolidated income statement	**(50)**	(106)

1 Tax over/(under)-provided in previous years includes a £23 million credit relating to a reduced uncertain tax provision against prior year claims under the patent box regime.

8. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 52 weeks 2022	At 29 March 2021 £m	Credited/ (charged) to income statement £m	Charged to other comprehensive income £m	Credited/ (charged) directly in equity £m	Acquisition of subsidiaries £m	Jurisdictional right of offset £m	At 27 March 2022 £m
Liabilities							
Accelerated capital allowances	**(7)**	**(17)**	**–**	**–**	**(10)**	**–**	**(34)**
Intangible assets	**(50)**	**–**	**–**	**–**	**(1)**	**–**	**(51)**
Hedging derivative temporary differences	**–**	**–**	**(18)**	**–**	**–**	**–**	**(18)**
	(57)	**(17)**	**(18)**	**–**	**(11)**	**–**	**(103)**
Jurisdictional right of offset	**9**	**–**	**–**	**–**	**–**	**40**	**49**
Deferred tax liabilities	**(48)**	**(17)**	**(18)**	**–**	**(11)**	**40**	**(54)**
Assets							
Deferred capital allowances	**33**	**(32)**	**–**	**–**	**–**	**–**	**1**
Pensions temporary differences	**75**	**59**	**(34)**	**–**	**–**	**–**	**100**
Provisions and other	**32**	**(5)**	**–**	**–**	**–**	**–**	**27**
Employee share schemes	**3**	**–**	**–**	**(1)**	**–**	**–**	**2**
Losses available for offset against future taxable income	**15**	**18**	**–**	**1**	**–**	**–**	**34**
R&D expenditure credit	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Hedging derivative temporary differences	**3**	**–**	**(3)**	**–**	**–**	**–**	**–**
	162	**40**	**(37)**	**–**	**–**	**–**	**165**
Jurisdictional right of offset	**(9)**	**–**	**–**	**–**	**–**	**(40)**	**(49)**
Deferred tax assets	**153**	**40**	**(37)**	**–**	**–**	**(40)**	**116**
Net deferred tax asset	**105**	**23**	**(55)**	**–**	**(11)**	**–**	**62**

Notes to the Consolidated Financial Statements continued

8. Taxation (continued)

Deferred tax by balance sheet category 52 weeks 2021	At 30 March 2020 £m	Credited/ (charged) to income statement £m	Credited/ (charged) to other comprehensive income £m	Credited directly in equity £m	Credited/ (charged) to foreign exchange reserve £m	Jurisdictional right of offset £m	At 28 March 2021 £m
Liabilities							
Accelerated capital allowances	(8)	1	–	–	–	–	(7)
Intangible assets	(54)	2	–	–	2	–	(50)
	(62)	3	–	–	2	–	(57)
Jurisdictional right of offset	8	–	–	–	–	1	9
Deferred tax liabilities	(54)	3	–	–	2	1	(48)
Assets							
Deferred capital allowances	14	19	–	–	–	–	33
Pensions temporary differences	33	16	26	–	–	–	75
Provisions and other	25	8	–	–	(1)	–	32
Employee share schemes	–	2	–	1	–	–	3
Losses available for offset against future taxable income	34	(19)	–	–	–	–	15
R&D expenditure credit	2	(1)	–	–	–	–	1
Hedging derivative temporary differences	10	–	(7)	–	–	–	3
	118	25	19	1	(1)	–	162
Jurisdictional right of offset	(8)	–	–	–	–	(1)	(9)
Deferred tax assets	110	25	19	1	(1)	(1)	153
Net deferred tax asset	56	28	19	1	1	–	105

Deferred tax assets and liabilities are offset within the same jurisdiction where the Group has a legally enforceable right to do so. Below is an analysis of the deferred tax balances (after offset) for balance sheet presentation purposes.

Deferred tax – balance sheet presentation	**At 27 March 2022 £m**	At 28 March 2021 £m
Liabilities		
GLS group	**(54)**	(48)
Deferred tax liabilities	**(54)**	(48)
Assets		
GLS group	**10**	10
Net UK position	**106**	143
Deferred tax assets	**116**	153
Net deferred tax asset	**62**	105

8. Taxation (continued)

The deferred tax position shows a decreased net asset in the reporting year to 27 March 2022. This is mainly due to an increase in accelerated capital allowances due to the Super-deduction and an increase in the deferred tax liability on derivatives used for hedging. The overall decrease was partially offset by an increase in the amount of tax losses carried forward and the effect of the increased UK corporation tax rate from 19% to 25%.

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 fixed assets and intangible assets in relation to acquisitions in Canada.

At 27 March 2022, the Group had unrecognised tax losses and temporary differences of £256 million (2020-21: £263 million) with a tax value of £75 million (2020-21: £73 million). Unrecognised deferred tax in relation to tax losses comprises £72 million (2020-21: £70 million) relating to losses of £244 million (2020-21: £236 million) in GLS that are available for offset against future profits if generated in the relevant GLS companies, and £2 million (2020-21: £1 million) in relation to £7 million (2020-21: £6 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprise £1 million (2020-21: £2 million) relating to GLS other temporary differences of £5 million (2020-21: £21 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 £177 million (2020-21: £186 million) of capital losses, the tax effect of which is £44 million (2020-21: £35 million) in respect of assets previously qualifying for industrial buildings allowances, that would arise if the assets were sold at net book value. Further temporary differences exist in relation to £444 million (2020-21: £383 million) of gains for which rollover relief has been claimed, the tax effect of which is £111 million (2020-21: £73 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 Government has announced that the corporation tax rate will rise to 25% from April 2023. In accordance with accounting standards, the deferred tax balances in these Financial Statements have been adjusted to effect this change.

9. Earnings per share

	52 weeks 2022			52 weeks 2021		
	Reported	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Profit for the year (£ million)	**612**	**17**	**595**	620	99	521
Weighted average number of shares issued (million)[2]	**992**	**n/a**	**992**	999	n/a	999
Basic earnings per share (pence)	**61.7**	**n/a**	**60.0**	62.0	n/a	52.1
Diluted earnings per share (pence)	**61.4**	**n/a**	**59.7**	61.8	n/a	51.9

1 Further details of the specific items and pension adjustment total can be found in the Financial Review on page 69.
2 During the year 43,806,525 shares were purchased as part of the buyback programme announced on 18 November 2021 (see Note 26).

The diluted earnings per share for the year ended 27 March 2022 is based on a weighted average number of shares of 996,495,404 (2020-21: 1,003,489,831) to take account of the potential issue of 2,087,313 (2020-21: 2,020,587) ordinary shares resulting from the Deferred Share Bonus Plans and 2,304,879 (2020-21: 2,042,060) ordinary shares resulting from the Long Term Incentive Plans. These plans are for certain Senior Management and are disclosed in more detail in Note 18.

The 2,265,008 (2020-21: 572,816) 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

Dividends on ordinary shares	52 weeks 2022 Pence per share	52 weeks 2021 Pence per share	52 weeks 2022 £m	52 weeks 2021 £m
Final dividend paid	**10.0**	–	**100**	–
Interim dividend paid	**6.7**	–	**67**	–
Special dividend paid	**20.0**	–	**199**	–
Total dividends paid	**36.7**	–	**366**	–

The Board has reviewed the performance of the Group during the 2021-22 reporting year and concluded that it is appropriate to pay a final dividend of 13.3 pence per share, payable on 6 September 2022 to shareholders on the register at 29 July 2022, subject to approval at the 2022 AGM (2020-21: 10 pence final dividend).

Some shares are held by the Trustee of the Royal Mail Share Incentive Plan on behalf of the Company to satisfy future share awards. The Trustee does not receive any dividends on the shares it holds, hence the value of dividends paid being lower than the number of shares in issue multiplied by the pence per share.

11. Retirement benefit plans

Summary pension information

	52 weeks 2022 £m	52 weeks 2021 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(441)**	(369)
UK defined contribution plan	**(116)**	(111)
UK defined benefit and defined contribution plans' Pension Salary Exchange employer contributions[2]	**(181)**	(194)
Total UK ongoing pension service costs	**(738)**	(674)
GLS pension costs accounted for on a defined contribution basis	**(9)**	(9)
Total Group ongoing pension service costs	**(747)**	(683)
Cash pension service costs[3]		
UK defined benefit plan's employer contributions[4]	**(267)**	(285)
Defined contribution plans' employer contributions	**(125)**	(120)
UK defined benefit and defined contribution plans' PSE employer contributions	**(181)**	(194)
Total Group cash flows relating to ongoing pension service costs	**(573)**	(599)
Pension charge to cash difference adjustment	**(174)**	(84)

	At 27 March 2022 '000	At 28 March 2021 '000
UK pension plans – active members		
UK defined benefit plan	**71**	75
UK defined contribution plan	**61**	53
Total	**132**	128

1 These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 24.6% (2020-21: 19.5%)) of the increase in the defined benefit obligation due to members earning one more years' 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. Also included are pensions administration costs for the RMPP of £9 million (2020-21: £9 million) and the DBCBS of £5 million (2020-21: £5 million) and a £6 million past service cost in respect of the estimated liability for historic Guaranteed Minimum Pension (GMP) costs in RMPP that has arisen in the year. Further details are provided under the heading 'Guaranteed Minimum Pensions' below.

2 Eligible employees who are enrolled into 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 For simplicity, these values exclude the impact of any timing differences in pension payments and represent the equivalent cash costs of the amounts charged to the income statement in the year.

4 The employer contribution cash flow rate of 15.6% forms part of the payroll expense and is paid in respect of the DBCBS (2020-21: 15.6%). These contribution rates are fixed, with actuarial funding valuations carried out every three years to determine whether additional deficit contributions are required. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail. The most recent triennial valuation at 31 March 2021 has recently been completed and no additional contributions are required.

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 UK 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 (excluding PSE) have increased from £111 million in 2020-21 to £116 million due to a significant increase in RMDCP membership in the year, offset by a reduction in the average employer's contribution rate from 9.3% in 2020-21 to 8.9% in 2021-22.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)[5] and Defined Benefit Cash Balance Section (DBCBS)

The legacy section of the Royal Mail Pension Plan, the RMPP, closed to future accrual in its previous form from 31 March 2018, and was replaced in 2018 by a new section of the scheme, the DBCBS.

The legacy RMPP includes sections A, B and C, each with different terms and conditions.

	Section A	Section B	Section C
Joining date for members (or beneficiaries of members)	Before 1 December 1971	On or after 1 December 1971 and before 1 April 1987 or for members of Section A who chose to receive Section B benefits.	On or after 1 April 1987 and before 1 April 2008
Terms	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.		Pension of 1/60th of pensionable salary for each year of pensionable service, until 31 March 2018. Members wishing to take a tax free lump sum on retirement do so in exchange for a reduced pension.

5 Any references to the RMPP relate to the scheme's defined pension liabilities built up to 31 March 2018. From 1 April 2018 members began building up DBCBS benefits.

The DBCBS has been in place since 1 April 2018, when the RMPP closed. This is a transitional arrangement until the proposed Royal Mail Collective Pension Plan (RMCPP) commences.

DBCBS members build up a guaranteed lump sum benefit of 19.6% 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. The Group would be obligated to make the necessary contributions to ensure that members received at least the guaranteed lump sum amount. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the increases granted to date, Management is however of the view that there is a requirement to recognise a constructive obligation to provide an increase to the lump sum for accounting purposes. The increase awarded from 1 April 2022 is CPI (at 3.41%) plus 1.5%. Future liabilities of the scheme have been calculated assuming increases of CPI plus 2.0%, although the nature of the scheme means that actual increases could be lower or higher than this amount.

The Group signed an updated Schedule of Contributions on 17 May 2022. This covers a period of five years from the date of certification of the schedule, i.e. until May 2027. In accordance with this schedule, the Group is required to make payments totalling 15.6% of pensionable payroll in respect of DBCBS.

11. Retirement benefit plans (continued)

Pensions governance and management

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the Royal Mail Pension Plan (comprising the RMPP and DBCB Sections). There are currently seven Trustee Directors that sit on the Trustee Board. There are two vacancies for employer-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 Board on its responsibilities and ensure that decisions are fully implemented.

The Trustee Board is responsible for:

Monitoring the covenant of the participating employers	To help protect benefits, the Trustee Board monitors the financial strength of the participating employers.
Investing contributions	The Trustee Board 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.
Keeping members informed	The Trustee Board sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.
Acting in the best interests of all RMPP beneficiaries	The Trustee Board must pay all benefits as they fall due under the Trust Deed and Rules.

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement. 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. See Note 24 to the Financial Statements for further details.

Royal Mail Senior Executives Pension Plan (RMSEPP)

This scheme for executives closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions.

In September 2018 an insurance policy was purchased in respect of all remaining pensioners and deferred members, following which it was decided to proceed to buy out and wind up the plan. The wind-up of RMSEPP had previously been expected to complete in 2020-21, but it was delayed by the need for further clarity over the approach to GMP equalisation. This has now been resolved with most of the GMP liabilities settled and the Trustee now expects this to complete in the 2022-23 financial 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 is deemed to be the present value of the related obligations. The total value of the buy-in annuity policies in place is £312 million (28 March 2021: £364 million) and is included as a pension asset and a pension liability at 27 March 2022.[6]

An updated Schedule of Contributions was agreed in May 2021, with no further contributions to be paid for the 2021-22 financial year. Contributions in respect of death-in-service lump sum benefits and administration, and wind-up expenses after that point, should the scheme remain in operation, will be set at £500,000 per annum from April 2022, and will be paid annually in arrears.

Unfunded pension

A liability of £2 million (2020-21: £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 the Trustee for the purposes of calculating contributions and funding requirements. For the RMPP, 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 difference between the funding and accounting valuations for the DBCBS arises from the different financial assumptions used for the calculations of each, in particular the discount rates used and the assumptions for discretionary increases to the lump sum benefits. The discount rate used for funding purposes is higher than that used for accounting purposes. In addition, as described above, under IAS 19 the Group recognises a constructive obligation for a set increase to benefits, currently CPI plus 2.0%, for accounting purposes, however for funding purposes the increases are set based on the level of the available assets. This results in the accounting liabilities for the DBCBS being higher than the funding liabilities.

6 In accordance with IAS 19.

11. Retirement benefit plans (continued)

The updated triennial valuation for RMPP and the first triennial valuation for the DBCBS at 31 March 2021 have recently been approved. Since the RMSEPP scheme is expected to be wound up imminently, the Trustee does not intend to carry out a full triennial valuation at 31 March 2021. The estimated funding positions for the RMPP and DBCBS are shown below.

	RMPP	DBCBS
Date of valuation	31 March 2021 (agreed on 17 May 2022)	The first full valuation has been performed as at 31 March 2021 and was agreed on 17 May 2022
Valuation	The triennial valuation has been agreed with the Trustee and the approach has changed to a self-sufficiency basis. The surplus calculated for the purposes of the March 2021 triennial valuation was £661 million. Based on a set of assumptions which form the basis for the March 2021 valuation and then rolled forward, the actuarial surplus at 31 March 2022 was estimated to be around £500 million.	A draft funding position at 31 March 2022 has 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 £40 million at 31 March 2022.

Below is a summary of the combined plans' assets and liabilities on an accounting (IAS 19) basis.

	DBCBS		RMPP and RMSEPP	
	At 27 March 2022 £m	At 28 March 2021 £m	**At 27 March 2022 £m**	At 28 March 2021 £m
Fair value of plans' assets (11(b) below)	**1,536**	1,192	11,462	11,814
Present value of plans' liabilities	**(1,926)**	(1,586)	(7,272)	(8,139)
(Deficit)/surplus in plans (pre-withholding tax payable)	**(390)**	(394)	4,190	3,675
Withholding tax payable [7]	**n/a**	n/a	(1,467)	(1,286)
(Deficit)/surplus in plans	**(390)**	(394)	2,723	2,389

7 Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

Having taken legal advice with regard to the rights of the Group under the Trust deeds and rules, the Directors believe there is an obligation to recognise a pension surplus for the RMPP on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis is a useful measure of the scheme's funding position, however, the Directors are required to account for the plans based on the Group's legal right to benefit from a surplus. 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 at some point in the future, using current long-term accounting assumptions at the reporting date. This is a technical adjustment made on an accounting basis and there is no cash benefit from the surplus.

This surplus is presented on the balance sheet net of a withholding tax adjustment of £1,464 million (at 28 March 2021: £1,283 million) in respect of the RMPP, which represents the tax that would be withheld on the surplus amount. 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.

Included in the IAS 19 figures in the table above is a RMSEPP surplus at 27 March 2022 of £8 million (at 28 March 2021: £9 million surplus) (pre-withholding tax payable). As the RMSEPP is also closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 at some point in the future and, as such, is shown on the balance sheet net of a withholding tax adjustment of £3 million (at 28 March 2021: £3 million), which represents the tax that would be withheld on the surplus amount.

Under the terms of the DBCBS, any surplus would be awarded to members and therefore if this section was found to be in surplus the defined benefit liabilities would increase to equal the asset value under IAS 19.

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)

Guaranteed Minimum Pensions

Pension schemes are now under an obligation to address the issue of unequal Guaranteed Minimum Pensions (GMP's). 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 RMPP's accrued GMP liabilities for members. The requirement to remove the inequality in former RMPP benefits deriving from GMP's for those members therefore rests with HM Government. Following the decision by the High Court in Lloyds Banking Group Pensions Trustees Limited versus Lloyds Bank plc (2020), however, which determined that schemes are also obliged to equalise GMP's by topping up payments for any past members who have transferred out of a scheme since May 1990, the Trustee has sought legal advice as to whether this decision also applies in the case when liabilities transferred to another scheme before April 2012. The Trustee now considers that the Lloyds judgment is likely to give rise to a residual liability for statutory transfers out which included GMP benefits between May 1990 and March 2012 and expects that this will require top up payments to be made for affected former members. The Trustee is currently reviewing historic data to calculate the exact expected impact, which will take some time to complete, but the Group's Corporate Actuary has provisionally estimated the cost to be c.£6 million, based on historic values of transfers out of the scheme. This has been charged to the income statement in the year as a past service cost. This cost will be funded from the RMPP assets and no additional employer contributions are expected to be required.

The RMSEPP retained all historic GMP liabilities. All unequal GMP liabilities relating to deferred and pensioner members have been settled in the year. The scheme's actuaries are now carrying out an exercise to calculate equalisation amounts in relation to members who have previously transferred out of the plan. This is expected to be completed shortly and the cost of these is expected to be minimal.

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 27 March 2022	At 28 March 2021
Retail Price Index (RPI) – RMPP/RMSEPP	**3.5%**	3.2%
Retail Price Index (RPI) – DBCBS	**3.8%**	3.3%
Consumer Price Index (CPI) – RMPP/RMSEPP	**3.2%**	2.9%
Consumer Price Index (CPI) – DBCBS	**3.4%**	2.8%
Discount rate – RMPP/RMSEPP[8]		
– nominal	**2.8%**	2.0%
– real (nominal less RPI)	**(0.7%)**	(1.2%)
Discount rate – DBCBS[9]		
– nominal	**2.8%**	1.9%
– real (nominal less RPI)	**(1.0%)**	(1.4%)
Rate of increase in pensionable salaries[10]	**RPI – 0.1%**	RPI – 0.1%
Rate of increase for deferred pensions – RMPP	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[10]	**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[10]	**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	**27/25 years**	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**29/27 years**	30/28 years

8 The discount rate reflects the average duration of the RMPP benefits of around 24 years (2020-21: 25 years).

9 The discount rate reflects the average duration of the DBCBS benefits of 14.7 years (2020-21: 14.5 years). The pension service cost applicable from 29 March 2021 is based on 28 March 2021 assumptions.

10 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 5.0%, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

11. Retirement benefit plans (continued)

Mortality

As part of the actuarial valuation as at 31 March 2021, the Scheme Actuary has carried out an updated mortality experience analysis in respect of the legacy RMPP. As a result of that analysis, the RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S3 mortality tables with appropriate scaling factors (96% for male pensioners and 113% for female pensioners). Future improvements for accounting purposes now use the parameters identified from that analysis but have been based on the most up-to-date CMI 2021 core projections (smoothing factor 7.5 with a long-term trend of 1.5% per annum). The impact of these changes is to reduce the balance sheet liabilities of the RMPP by c.£220 million and those of RMSEPP by c.£9 million. No adjustments have been made to mortality assumptions at year end to reflect the potential effects of COVID-19, as it is still considered too soon to make a judgement on the impact of the pandemic on future mortality improvements.

Cash commutation allowance

In previous periods a 15% allowance had been made for active members of Section C of RMPP commuting their pension upon retirement. Recent commutation experience and expectations for the future, taking into account that most members will now have the benefit of a cash lump sum upon retirement under the DBCBS, suggest that commutations are likely to be far smaller in the future. As a result, for the 2021-22 year end this allowance has been reduced to nil. This has had the effect of increasing the RMPP's liabilities by c.£135 million at 27 March 2022.

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:

	At 27 March 2022		At 28 March 2021	
Key assumption change	**Potential increase in DBCBS liabilities £m**	**Potential increase in RMPP liabilities £m**	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m
Additional one year of life expectancy	**–**	**280**	–	320
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% per annum	**30**	**170**	25	190
Decrease in discount rate of 0.1% per annum	**30**	**170**	25	190
Increase in CPI assumption (assuming RPI remains constant) of 0.1% per annum	**30**	**40**	25	45
Increase in constructive obligation of 0.1% per annum	**30**	**–**	25	–

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)

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% change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 27 March 2022 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2022. 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.

b) RMPP, RMSEPP and DBCBS assets

	At 27 March 2022			At 28 March 2021		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities						
UK	**1**	**19**	**20**	2	21	23
Overseas	**23**	**32**	**55**	43	31	74
Bonds						
Fixed interest – UK	**416**	**96**	**512**	303	20	323
– Overseas	**496**	**304**	**800**	231	113	344
Pooled investments						
Absolute return	**–**	**477**	**477**	–	412	412
Equity	**347**	**–**	**347**	121	–	121
Private equity	**–**	**62**	**62**	–	208	208
Fixed interest	**21**	**575**	**596**	347	146	493
Private debt	**–**	**451**	**451**	–	463	463
Property	**–**	**63**	**63**	–	54	54
Liability-driven investments[11]	**8,277**	**42**	**8,319**	9,247	(16)	9,231
Property (UK)	**–**	**626**	**626**	–	459	459
Cash and cash equivalents	**403**	**–**	**403**	444	–	444
Other	**–**	**(52)**	**(52)**	(3)	–	(3)
Derivatives	**–**	**7**	**7**	(1)	(3)	(4)
RMSEPP buy-in annuity policies	**–**	**312**	**312**	–	364	364
Total plans' assets	**9,984**	**3,014**	**12,998**	10,734	2,272	13,006

11 This portfolio comprises gilt and swap contracts that are designed to hedge the majority of the interest rate and inflation risk associated with the plans' obligations. At 27 March 2022 it included £8,401 million (28 March 2021: £9,068 million) of index-linked gilts, £691 million (28 March 2021: £454 million) of bonds, £145 million (28 March 2021: £157 million) in short-term money market funds and £26 million of swaps (28 March 2021: £(18) million), offset by negative fair value investments of £900 million (28 March 2021: £457 million) in repurchase agreements and £44 million (28 March 2021: £27 million asset) in cash and similar instruments.

Included within the Group's defined benefit pension scheme assets are assets with a fair value estimated to be £274 million that are based on non-observable inputs at 27 March 2022. Estimates of the fair value of these assets have been performed using the latest available statements of each of the funds that make up this balance updated for any subsequent cash movements between the statement date and the year end reporting date.

There were no open equity futures or options derivatives within this portfolio at 27 March 2022 (28 March 2021: £nil). £8.4 billion (28 March 2021: £9.1 billion) of HM Government bonds are primarily included in the liability-driven investments balance above. The plans' assets do not include property or other assets used by the Group or shares of Royal Mail plc at 27 March 2022 (28 March 2021: £nil).

In light of the current war in Ukraine, the Trustee of the Royal Mail Pension Plan has carefully reviewed its exposure to Russian-domiciled investments. The Plan has no current exposure to direct investments in Russia and as such is compliant with all economic sanctions currently in force. The Trustee is also actively working with fund managers and advisers to ensure that the appropriate restrictions are put in place to prevent any future exposure.

11. Retirement benefit plans (continued)

Risk exposure and investment strategy

The Group's defined benefit schemes face similar risks to other UK defined benefit schemes. Some of the key financial risks and mitigating actions are set out in the table below.

Investment market movements	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. In addition to property and cash, the RMSEPP holds two buy-in annuity policies totalling £312 million at 27 March 2022 (28 March 2021: £364 million) to match its liabilities.
Interest rates and inflation changes	The legacy RMPP section'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. It has done this predominantly through investment in index-linked gilts and derivatives. The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than the RMPP. In the RMPP section, many of the inflation linked increases that apply are restricted to a maximum increase of 5% in any year. The scheme's rules therefore give some protection from the risk of significantly high levels of inflation.
Equity exposure	The equity exposure of the legacy RMPP section 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. The TRS has a market value as at 27 March 2022 of £nil (28 March 2021: negative £2 million) included in the derivative values above. The TRS economically offsets £100 million of the plan's global equity market exposure at 27 March 2022 (28 March 2021: £60 million).
Changes in life expectancy	The RMPP's liabilities could be 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.
Changes in corporate and Government bond yields	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 legacy RMPP's assets include corporate bonds, HM Government bonds and interest rate derivatives that are expected to partly offset the impact of movements in the discount rate. The RMPP section is hedged against gilt movements to limit the impact on funding (and therefore cash) but, to the extent that gilts move differently to corporate bonds, the accounting liability is more exposed.

Further details on 'key sources of estimation uncertainty' relating to pension assets can be found in Note 1, including details of 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, the 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	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Retirement benefit surplus (before withholding tax payable) at 29 March 2021 and 30 March 2020	**11,814**	11,989	**(8,139)**	(6,429)	**3,675**	5,560
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(9)**	(9)	**(6)**	–	**(15)**	(9)
Pension interest income/(cost)[12]	**235**	262	**(162)**	(140)	**73**	122
Total included in profit before tax	**226**	253	**(168)**	(140)	**58**	113
Amounts included in other comprehensive income – remeasurement (losses)/gains						
Actuarial (loss)/gain arising from:						
Financial assumptions	**–**	–	**905**	(1,748)	**905**	(1,748)
Demographic assumptions	**–**	–	**94**	–	**94**	–
Experience assumptions	**–**	–	**(50)**	97	**(50)**	97
Return on plans' assets (excluding interest income)	**(492)**	(347)	**–**	–	**(492)**	(347)
Total remeasurement (losses)/gains of the defined benefit surplus	**(492)**	(347)	**949**	(1,651)	**457**	(1,998)
Other						
Employer contributions	**–**	–	**–**	–	**–**	–
Benefits paid	**(86)**	(81)	**86**	81	**–**	–
Total other movements	**(86)**	(81)	**86**	81	**–**	–
Retirement benefit surplus (before withholding tax payable) at 27 March 2022 and 28 March 2021	**11,462**	11,814	**(7,272)**	(8,139)	**4,190**	3,675
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,467)**	(1,286)
Retirement benefit surplus (net of withholding tax payable) at 27 March 2022 and 28 March 2021	**n/a**	n/a	**n/a**	n/a	**2,723**	2,389

12 Pension interest income results from applying the plans' discount rate at 28 March 2021 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 28 March 2021 to the plans' liabilities at that date.

11. Retirement benefit plans (continued)

d) Movement in DBCBS assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, the fair value of the plans' assets and the net defined benefit deficit during the reporting year are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2022 £m	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Retirement benefit deficit at 29 March 2021 and 30 March 2020	**1,192**	730	**(1,586)**	(907)	**(394)**	(177)
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(5)**	(5)	**(515)**	(455)	**(520)**	(460)
Pension interest income/(cost)[13]	**26**	20	**(35)**	(25)	**(9)**	(5)
Total included in profit before tax	**21**	15	**(550)**	(480)	**(529)**	(465)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**–**	–	**107**	(271)	**107**	(271)
Experience assumptions	**–**	–	**51**	32	**51**	32
Return on plan assets	**14**	103	**–**	–	**14**	103
Total remeasurement gains/(losses) of the defined benefit deficit	**14**	103	**158**	(239)	**172**	(136)
Other						
Employer contributions[14]	**361**	384	**–**	–	**361**	384
Employee contributions	**3**	4	**(3)**	(4)	**–**	–
Benefits paid	**(55)**	(44)	**55**	44	**–**	–
Total other movements	**309**	344	**52**	40	**361**	384
Retirement benefit deficit at 27 March 2022 and 28 March 2021	**1,536**	1,192	**(1,926)**	(1,586)	**(390)**	(394)

13 Pension interest income results from applying the plans' discount rate at 28 March 2021 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 28 March 2021 to the plans' liabilities at that date.

14 Includes PSE contributions of £99 million (2020-21: £106 million).

Notes to the Consolidated Financial Statements continued

12. Acquisition of businesses

On 1 December 2021, GLS, acquired 100% of the share capital of Mid-Nite Sun Transportation Ltd (operates as 'Rosenau Transport').

GLS also acquired the assets and liabilities of Servi Henares S.L (acquired on 1 October 2021) and Ascoli & Fermo (acquired on 1 October 2021) which are included in the 'Other' column in the table below.

This information includes the fair value of the identifiable assets and liabilities recognised as at the date of the acquisitions. Costs related to the acquisitions recognised as an expense within other operating costs in the income statement amounted to £1 million.

	Rosenau Transport £m	Other £m	Total £m
Land and building assets acquired[1]	122	–	122
Other tangible assets acquired	32	–	32
Intangible assets recognised on acquisition	43	5	48
Trade and other receivables	15	–	15
Cash and cash equivalents	4	–	4
Goodwill recognised on acquisition	46	3	49
Total assets acquired	262	8	270
Trade and other payables	(7)	–	(7)
Loans and leases	(28)	–	(28)
Deferred tax liabilities[1]	(11)	–	(11)
Net assets acquired	216	8	224
Cash paid during the year	204	3	207
Consideration deferred	12	5	17
Total consideration	216	8	224

1 These fair values have been determined on a provisional basis.

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 predominately relate to customer relationships, trademarks and brands. The goodwill of £49 million arising on these acquisitions is tax deductible.

Revenue generated from these businesses since the date of acquisition is £45 million and profit is £4 million. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £126 million and the profit would have been £9 million.

Of the deferred consideration of £17 million, £14 million is contingent on the performance of the acquired businesses.

13. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 29 March 2021	**4,242**	**1,278**	**991**	**423**	**6,934**
Exchange rate movements	**(15)**	**(10)**	**2**	**(3)**	**(26)**
Reclassification	**–**	**(1)**	**1**	**2**	**2**
Modifications	**41**	**–**	**–**	**–**	**41**
Additions	**427**	**203**	**125**	**99**	**854**
Disposals	**(160)**	**(7)**	**(34)**	**(27)**	**(228)**
Acquisition of subsidiary	**122**	**4**	**27**	**1**	**154**
Reclassification to non-current assets held for sale	**(27)**	**–**	**–**	**–**	**(27)**
At 27 March 2022	**4,630**	**1,467**	**1,112**	**495**	**7,704**
Depreciation and impairment					
At 29 March 2021	**2,222**	**907**	**465**	**333**	**3,927**
Exchange rate movements	**(6)**	**(5)**	**1**	**(2)**	**(12)**
Reclassification	**–**	**–**	**1**	**2**	**3**
Modifications	**(1)**	**–**	**–**	**–**	**(1)**
Charge for the year	**228**	**73**	**101**	**39**	**441**
Disposals	**(160)**	**(7)**	**(31)**	**(26)**	**(224)**
Reclassification to non-current assets held for sale	**(1)**	**–**	**–**	**–**	**(1)**
At 27 March 2022	**2,282**	**968**	**537**	**346**	**4,133**
Net book value:					
At 27 March 2022	**2,348**	**499**	**575**	**149**	**3,571**
At 28 March 2021	2,020	371	526	90	3,007

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 30 March 2020	4,188	1,257	921	439	6,805
Exchange rate movements	(40)	(16)	(7)	(8)	(71)
Reclassification	(1)	3	2	(3)	1
Modifications	52	1	19	–	72
Additions	202	103	99	33	437
Disposals	(149)	(66)	(43)	(38)	(296)
Reclassification to non-current assets held for sale	(10)	(4)	–	–	(14)
At 28 March 2021	4,242	1,278	991	423	6,934
Depreciation and impairment					
At 30 March 2020	2,034	897	412	342	3,685
Exchange rate movements	(13)	(8)	(3)	(6)	(30)
Modifications	5	–	–	–	5
Charge for the year	218	85	95	34	432
Disposals	(22)	(65)	(39)	(37)	(163)
Reclassification to non-current assets held for sale	–	(2)	–	–	(2)
At 28 March 2021	2,222	907	465	333	3,927

Depreciation rates are disclosed within Note 1. No depreciation is provided on land, which represents £279 million (2020-21: £239 million) of the total cost of property assets.

The net book value of the Group's property, plant and equipment includes £292 million (2020-21: £115 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £290 million (2020-21: £316 million) in respect of building fit-out.

The £854 million (2020-21: £437 million) additions include £2 million (2020-21: £4 million) borrowing costs capitalised at a rate of 2.65% (2020-21: 2.5%) in relation to specific qualifying assets.

14. Leases

The Group primarily leases office buildings and letter and parcel processing facilities. At 27 March 2022, the Group held approximately 1,150 land and building leases (2020-21: 1,039). The Group also has leases for some of its vehicle fleet and plant and equipment used in operations. 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 27 March 2022	At 28 March 2021
Lease liabilities	**Present value of lease payments £m**	Present value of lease payments £m
Current liabilities		
Lease liabilities due within one year	**(213)**	(197)
Non-current liabilities		
Lease liabilities due between one and five years	**(631)**	(560)
Lease liabilities due beyond five years	**(497)**	(399)

14. Leases (continued)

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 27 March 2022					
Cost	**1,489**	**159**	**519**	**7**	**2,174**
of which additions	**268**	**10**	**31**	**2**	**311**
Accumulated depreciation	**(368)**	**(122)**	**(315)**	**(4)**	**(809)**
Deprecation charge	**(146)**	**(15)**	**(52)**	**(1)**	**(214)**
Total	**1,121**	**37**	**204**	**3**	**1,365**

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
At 28 March 2021					
Cost	1,193	188	519	5	1,905
of which additions	73	3	31	1	108
Accumulated depreciation	(258)	(137)	(296)	(3)	(694)
Deprecation charge	(136)	(22)	(52)	(2)	(212)
Total	935	51	223	2	1,211

Leases in the income statement

Leases are recognised in the income statement as detailed below:

	52 weeks 2022 £m	52 weeks 2021 £m
Other operating income		
Sublease income	**4**	5
Material expenses		
Expenses from short-term/low-value leases	**(50)**	(42)
Depreciation		
Depreciation of right of use assets	**(214)**	(212)
Net finance costs		
Interest expense on lease liabilities	**(29)**	(26)

The Group enters into sale and leaseback transactions for plant and machinery and vehicles. Cash received from these transactions in the year was £nil (2020-21: £1 million).

15. Goodwill

	2022 £m	2021 £m
Cost		
At 29 March 2021 and 30 March 2020	**809**	848
Exchange rate movements	**(8)**	(35)
Disposal of business	**–**	(4)
Acquisition of business	**49**	–
At 27 March 2022 and 28 March 2021	**850**	809
Impairment		
At 28 March 2021 and 29 March 2020	**431**	458
Exchange rate movements	**(9)**	(23)
Disposal of business	**–**	(4)
At 27 March 2022 and 28 March 2021	**422**	431
Net book value:		
At 27 March 2022 and 28 March 2021	**428**	378
At 28 March 2021 and 29 March 2020	**378**	390

GLS Europe

The carrying value of goodwill of £428 million (2020-21: £378 million) at the balance sheet date includes £254 million (2020-21: £258 million) in relation to GLS' European network (GLS Europe CGU). The carrying value of the GLS European network is £791 million (2020-21: £696 million). The CGU has been assessed for impairment by comparing the carrying value of the CGU with 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% (2020-21: 0.4%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate of 9.0% (2020-21: 9.0%) which reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The pre-tax discount rate is 12.1% (2020-21: 12.1%). The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU.

GLS US excluding US Freight

The GLS US businesses represent two separate CGUs, comprising the US West Coast operations (General Logistics Systems US Inc. (GLS US) – previously known as GSO and Postal Express Inc. (PEX)), and US Freight. In 2018-19, all the goodwill in the GLS US/PEX CGU was fully impaired, along with other tangible and intangible fixed assets. The GLS US/PEX turnaround plan is progressing, driven by strong revenue growth.

US Freight

The carrying value of goodwill in relation to US Freight (previously known as Mountain Valley Express) is £1 million (2020-21: £1 million). An impairment review has been performed comparing the carrying amount of the US Freight CGU of £22 million (2020-21: £19 million), with 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% (2020-21: 0.7%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate of 13.0% (2020-21: 13.0%) which reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The pre-tax discount rate is 18.0% (2020-21: 18.1%). This impairment assessment identified that the CGU's recoverable amount exceeds its carrying value by £12 million (2020-21: £12 million). Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

GLS Dicom Canada

The value of the goodwill in respect of GLS Dicom Canada at 28 March 2021 is £132 million (2020-21: £106 million). The goodwill balance has increased predominately as a result of £20 million of goodwill reallocated from the GLS Rosenau Transport Canada CGU. The carrying value of this CGU is £219 million (2020-21: £195 million). To assess the CGU for impairment, the carrying amount has been compared with 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 1.7% (2020-21: 1.8%). All cash flows have been discounted to present value using a post-tax discount rate of 9.1% (2020-21: 8.6%). The pre-tax discount rate is 12.4% (2020-21: 11.6%). Based on these assumptions, the value in use was in excess of the carrying value. Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

15. Goodwill (continued)

GLS Rosenau Transport Canada

During the reporting year, GLS acquired Rosenau Transport, which resulted in the recognition of £46 million of goodwill. As a result of synergies between this CGU and the Dicom CGU £20 million of the goodwill was allocated to Dicom with the balance remaining in the GLS Rosenau Transport Canada CGU. Further, as a result of foreign exchange movements the goodwill at year end was valued at £28 million. An impairment review has been performed comparing the carrying amount of the Rosenau Transport CGU, of £205 million, with 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 1.7%. All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate of 9.1%, which reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The pre-tax discount rate is 12.4%. Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

Other Group goodwill

The remaining goodwill of £13 million (2020-21: £13 million) arising from small business acquisitions, each being a separate CGU, is supportable but not material in the context of the Group's total goodwill.

16. Intangible assets

	2022					2021				
	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 29 March 2021 and 30 March 2020	**23**	**127**	**1,117**	**27**	**1,294**	24	129	1,087	29	1,269
Exchange rate movements	**(1)**	**5**	**(2)**	**1**	**3**	(1)	(2)	(7)	(2)	(12)
Additions	**–**	**–**	**83**	**–**	**83**	–	–	54	–	54
Disposals	**–**	**–**	**(10)**	**–**	**(10)**	–	–	(16)	–	(16)
Reclassification	**–**	**–**	**(5)**	**–**	**(5)**	–	–	(1)	–	(1)
Acquisition of business	**–**	**39**	**–**	**9**	**48**	–	–	–	–	–
At 27 March 2022 and 28 March 2021	**22**	**171**	**1,183**	**37**	**1,413**	23	127	1,117	27	1,294
Amortisation and impairment										
At 29 March 2021 and 30 March 2020	**23**	**52**	**730**	**21**	**826**	24	41	624	22	711
Exchange rate movements	**(1)**	**1**	**(1)**	**1**	**–**	(1)	(2)	(5)	(2)	(10)
Charge for the year	**–**	**13**	**101**	**1**	**115**	–	13	127	1	141
Reclassification	**–**	**–**	**(6)**	**–**	**(6)**	–	–	–	–	–
Disposals	**–**	**–**	**(10)**	**–**	**(10)**	–	–	(16)	–	(16)
At 27 March 2022 and 28 March 2021	**22**	**66**	**814**	**23**	**925**	23	52	730	21	826
Net book value:										
At 27 March 2022 and 28 March 2021	**–**	**105**	**369**	**14**	**488**	–	75	387	6	468
At 28 March 2021 and 29 March 2020	–	75	387	6	468	–	88	463	7	558

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 software assets includes £62 million (2020-21: £43 million) in respect of assets in the course of construction. The £83 million (2020-21: £54 million) additions include £1 million (2020-21: £1 million) of borrowing costs capitalised at a rate of 2.65% (2020-21: 2.5%) in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £111 million (2020-21: £133 million). These assets relate to various IT initiatives taking place across the business and are tested annually for impairment. They have an average remaining useful life of five years (2020-21: six years).

Notes to the Consolidated Financial Statements continued

17. Investments in associates

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 27 March 2022 (2020-21: 28 March 2021), 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 2022	% ownership 2021
Associate company					
JICMAIL Limited	Market research	UK	31 March	**20.0**	20.0
Quadrant Catering Limited	Catering services	UK	30 September	**51.0**	51.0
Market Engine Global Pty Limited	Software development	Australia	30 June	**34.5**	34.5
Charac Limited	Digital pharmacy prescription services	UK	31 March	**33.3**	–

On 22 April 2021, the funding model for JICMAIL Limited changed and, as a consequence, Royal Mail has only Board representation and is no longer a capital contributor to the company.

The majority of board membership and voting power to direct relevant activities in Quadrant Catering Limited ('Quadrant') is held by the other investor company and is therefore not considered to be a subsidiary in line with IFRS 10 'Consolidated Financial Statements'. Quadrant ceased trading with effect from 30 September 2020 and is now in the process of being wound up. As part of this process, on 18 June 2021 the Group received a final dividend from Quadrant of £5.1 million.

On 25 April 2022, Market Engine Global Pty Limited was officially deregistered by the Australian Securities and Investments Commission and it has provided a return of capital to the Group which amounted to less than £30,000.

On 11 February 2022, the Group acquired its share of Charac Limited for £1 million.

Movements in interests in associates

	2022 £m	2021 £m
Cost		
At 29 March 2021 and 30 March 2020	**5**	5
Acquisition	**1**	–
Dividend received	**(5)**	–
At 27 March 2022 and 28 March 2021	**1**	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.

18. Share-based payments

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.

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 27 March 2022, there had been 42 (2020-21: 30) such monthly awards and a total of 1,309,873 (2020-21: 959,671) Matching Shares had been awarded to eligible staff members at a weighted average market price of 314.4 pence (2020-21: 252.8 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 £2 million (including a £1 million National Insurance charge) has been made for the year ended 27 March 2022 (2020-21: £2 million charge including a net £1 million National Insurance credit) for all SIP allocations.

18. Share-based payments

A reconciliation of the ordinary shares held in the SIP at 27 March 2022 and 28 March 2021 is shown below.

	Number of shares 2021-22	Number of shares 2020-21
Total shares remaining in SIP at 29 March 2021 and 30 March 2020	**53,789,835**	68,182,273
Shares sold/transferred out of SIP during the reporting year (fully vested)	**(7,906,372)**	(10,390,847)
Shares transferred out of SIP during the reporting year ('good leavers')[1]	**(5,465,559)**	(4,001,591)
Total shares remaining in SIP at 27 March 2022 and 28 March 2021	**40,417,904**	53,789,835

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, 38,596,514 (2020-21: 51,752,858) have been allocated to current employees. The remaining 1,821,390 (2020-21: 2,036,977) shares are unallocated and have arisen as a result of forfeitures.

Award of shares under the Long Term Incentive Plan

			Fair value/share (pence) Monte-Carlo simulation		
Award year	**Grant date**	**Shares vest from**	**Market-based conditions**	**Non-market-based conditions**	**Maximum number of potential shares to vest**
2019	08/08/2019	08/08/2022	84.0	210.9	1,212,590
2019	12/12/2019	12/12/2022	100.0	232.2	–
2020	27/11/2020	27/11/2023	272.3	309.3	623,510
2021	12/08/2021	12/08/2024	305.6	500.7	666,566

A charge to the income statement of £2 million (including £nil for National Insurance) has been made for the year ended 28 March 2022 in relation to all LTIP schemes (2020-21: £2 million, including £1 million for National Insurance).

The one employee accruing awards under the December LTIP 2019 scheme, forfeited their shares during the year.

Award of shares under the Deferred Share Bonus Plan

Award year	Grant date	Shares vest from	Fair value/share (pence)	Maximum number of potential shares to vest
2019	18/07/2019	18/07/2022	218.7	86,875
2020	24/07/2020	24/07/2022	180.0	486,471
2020	24/07/2020	24/07/2023	180.0	486,471
2021	01/12/2021	01/12/2023	502.4	42,596

A charge to the income statement of £2 million (including £1 million for National Insurance) has been recognised for the year ended 27 March 2022 in relation to all DSBP schemes (2020-21: £3 million, including £nil for National Insurance).

19. Non-current assets held for sale

The balance sheet values of the assets held for sale during the reporting year are shown below.

	At 27 March 2022 £m	At 28 March 2021 £m
Property assets held for sale	–	26
Total	–	26

Property assets held for sale

During the year, £26 million costs relating to the Nine Elms site were classified as 'held for sale'. Subsequently, all costs relating to the Nine Elms site were transferred to the income statement, within 'profit on disposal of property, plant and equipment', leaving a £nil balance at 27 March 2022 (2020-21: £26 million).

Notes to the Consolidated Financial Statements continued

20. Trade and other receivables

Current trade and other receivables	At 27 March 2022 £m	At 28 March 2021 £m
Trade receivables	**1,507**	1,513
Accrued income	**46**	43
Prepayments	**106**	84
Total	**1,659**	1,640

Movements in the loss allowance for bad and doubtful debts are shown below.

	2022 £m	2021 £m
At 29 March 2021 and 30 March 2020	**(79)**	(69)
Receivables provided for during the year	**(12)**	(42)
Release of allowance	**34**	18
Utilisation of allowance	**9**	13
Reclassification	**(2)**	–
Exchange differences	**(1)**	1
At 27 March 2022 and 28 March 2021	**(51)**	(79)

The Group's approach to loss allowance for bad and doubtful debts is explained in the accounting policies in Note 1.

The age profile of the trade receivables balance is shown below.

	At 27 March 2022 £m	At 28 March 2021 £m
Not yet overdue	**1,350**	1,310
Past due not more than one month	**112**	161
Past due more than one month and not more than two months	**18**	22
Past due more than two months	**27**	20
Total	**1,507**	1,513

Non-current other receivables	At 27 March 2022 £m	At 28 March 2021 £m
Other receivables	**94**	100
Total	**94**	100

Other receivables mainly relates to deferred proceeds in respect of the disposal of part of the Mount Pleasant site to Taylor Wimpey UK Ltd.

21. Cash and cash equivalents

	At 27 March 2022 £m	At 28 March 2021 £m
Cash at bank and in hand	**276**	265
Client cash	**36**	41
Cash equivalent investments: Short-term bank and money market fund investments	**825**	1,267
Total	**1,137**	1,573

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 and allocated to a separate payables account in the balance sheet so it can be tracked and reconciled.

22. Current trade and other payables

	At 27 March 2022 £m	At 28 March 2021 £m
Trade payables and accruals	**(1,870)**	(1,829)
Advance customer payments (mainly for stamps held, not yet used by customers)	**(254)**	(299)
Social security	**(121)**	(142)
Client creditors	**(36)**	(57)
Capital expenditure payables	**(41)**	(40)
Other	**(10)**	(10)
Total	**(2,332)**	(2,377)

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 38 days (2020-21: 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 adhere to 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 27 March 2022 was £66 million (28 March 2021: £36 million).

23. Loans and borrowings

At 27 March 2022	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
Bank syndicate loan facility	–	925	925	n/a	SONIA+CAS +0.475%[1]	n/a	2026
€500 million bond – 2.375% Senior Fixed Rate Notes	416	–	416	2.5	Fixed at 2.5%	2024	2024
€550 million bond – 1.25% Senior Fixed Rate Notes	456	–	456	2.7	Fixed at 2.7%	2026	2026
Total	**872**	**925**	**1,797**	**2.6**		**2025**	**2026**

At 28 March 2021	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
Bank syndicate loan facility	–	925	925	n/a	LIBOR plus 0.475%	n/a	2025
€500 million bond – 2.375% Senior Fixed Rate Notes	427	–	427	2.5	Fixed at 2.5%	2024	2024
€550 million bond – 1.25% Senior Fixed Rate Notes	468	–	468	2.7	Fixed at 2.7%	2026	2026
Total	895	925	1,820	2.6		2025	2025

1 The total margin over Sterling OverNight Indexed Average (SONIA) consists of a 0.40% margin, a credit adjustment spread (CAS) and a utilisation fee of 0.075% (for drawings less than one third of the total facility). Interest is compounded daily and a CAS of between 0.0% and 0.3% is added using the International Swaps and Derivatives Association (ISDA) published five-year historical mean on fixing date (5 March 2021).

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.201 (2020-21: £1/€1.170). The effective interest rate on the bond of 2.5% (2020-21: 2.5%) consists of the interest coupon of 2.375% (2020-21: 2.375%) plus the unwinding of the discount and fees on issuing the bond of 0.08% (2020-21: 0.08%). 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 gain of £11 million (2020-21: £19 million gain) on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the losses 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% 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% (2020-21: 2.7%). The €550 million bond is shown net of issue discount and fees and at a closing spot rate of £1/€1.201 (2020-21: £1/€1.170). The effective interest rate on the bond plus the cross-currency swap (2.7%) consists of the interest coupon of 1.25% plus the effects of the cross-currency swap (1.00%) and the unwinding of the discount and fees on issuing the bond (0.40%). The revaluation of the bond is hedged by the cross-currency swap. During the year, a gain of £12 million (2020-21: £21 million gain) on the retranslation of this borrowing was transferred to other comprehensive income, which is offset by the losses on the cross-currency swap. There was no hedge ineffectiveness in the current or comparative reporting years.

In October 2021, the bank syndicate loan facility was extended by one year to September 2026. There are no further extension options in the agreement. In August 2021, the interest reference rate was amended from LIBOR to SONIA (for any drawings in US Dollars). Interest is compounded daily and a CAS of between 0.0% and 0.3% is added using the ISDA[1] published five-year historical mean on fixing date (5 March 2021). The bank syndicate 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.

23. Loans and borrowings (continued)

Such events of default include non-payment, insolvency and breach of covenants. On 22 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. From March 2022, the facility reverted to the previous covenants. It is not anticipated that the Group is at risk of breaching any of these amended obligations.

The financial covenants, which apply again from March 2022 onwards, require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3.5:1 and EBITDA to interest 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 Royal Mail insurance programme, where the possibility of an outflow of economic benefits is considered remote), plus bank guarantees provided to HMRC (in order to facilitate the movement of parcels from Europe efficiently through to our network, 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 27 March 2022 is -0.2:1 (2020-21: -0.4:1). The Group's ratio of EBITDA to interest at 27 March 2022 is 46.3:1 (2020-21: 84.6:1). The minimum liquidity covenant, which fell away in March 2022, required the Group to maintain at least £250 million of liquidity defined as cash, cash equivalents, current asset investments and undrawn, committed facilities. The Group's liquidity at 27 March 2022 is £2,153 million (2020-21: £2,519 million). Accordingly, the Group comfortably meets the covenants tests within its bank syndicate loan facility agreement.

The interest rate chargeable on the bank syndicate 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 compounding SONIA plus 2.35%. 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 £925 million maturing in September 2026 (2020-21: £925 million maturing in September 2025).

There is no security in place under the bank syndicate loan facility or the bonds.

The bank syndicate 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

The following disclosures are included in this Note:

a) Classification, carrying amount and fair value 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 27 March 2022 Carrying amount £m	At 27 March 2022 Fair value £m	At 28 March 2021 Carrying amount £m	At 28 March 2021 Fair value £m
Financial assets						
Cash	1		**312**	**312**	306	306
Cash equivalent investments	1		**825**	**825**	1,267	1,267
Money market funds		FVTPL	**725**	**725**	1,207	1,207
Short-term deposits – bank		Amortised cost	**100**	**100**	60	60
Cash and cash equivalents	1		**1,137**	**1,137**	1,573	1,573
Current asset investments – short-term deposits – bank	1	Amortised cost	**70**	**70**	–	–
Pension escrow investments	1	FVTPL	**213**	**213**	212	212
Trade and other receivables[1]	2	Amortised cost	**1,553**	**1,553**	1,556	1,556
Derivative assets (current)	2	FVTPL	**74**	**74**	2	2
Derivative assets (non-current)	2	FVTPL	**30**	**30**	5	5
Total financial assets			**3,077**	**3,077**	3,348	3,348

1 The comparative year 2020-21 has been re-presented to exclude prepayments of £84 million (see Note 20).

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 27 March 2022 Carrying Amount £m	At 27 March 2022 Fair Value £m	At 28 March 2021 Carrying Amount £m	At 28 March 2021 Fair Value £m
Financial liabilities						
Obligations under leases (current)	2	Amortised cost	**(213)**	**(213)**	(197)	(197)
€500 million bond	2	Amortised cost	**(416)**	**(429)**	(427)	(460)
€550 million bond	2	Amortised cost	**(456)**	**(453)**	(468)	(495)
Obligations under leases (non-current)	2	Amortised cost	**(1,128)**	**(1,110)**	(959)	(993)
Trade and other payables[2]	2	Amortised cost	**(2,078)**	**(2,078)**	(2,078)	(2,078)
Derivative liabilities (current)	2	FVTPL	**(8)**	**(8)**	(12)	(12)
Derivative liabilities (non-current)	2	FVTPL	**(36)**	**(36)**	(36)	(36)
Total financial liabilities			**(4,335)**	**(4,327)**	(4,177)	(4,271)
Net total financial liabilities			**(1,258)**	**(1,250)**	(829)	(923)

2 The comparative year 2020-21 has been re-presented to exclude £299 million advance customer payments (deferred revenue) (see Note 22).

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss 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 Note 1.

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 (non-current) £m	Obligations under leases (current) £m	Obligations under leases (non-current) £m	Total £m
At 29 March 2021	**(895)**	**(197)**	**(959)**	**(2,051)**
Movements through income statement:				
Interest payable on financial liabilities	**(19)**	**–**	**(29)**	**(48)**
Movements through cash flow:				
Finance costs paid[3]	**19**	**–**	**29**	**48**
Payment of capital element of lease contracts	**–**	**192**	**–**	**192**
Other movements:				
Reclassification between categories	**–**	**(208)**	**208**	**–**
Increase in lease obligations (non-cash)	**–**	**–**	**(380)**	**(380)**
Effect of foreign currency exchange rates	**23**	**–**	**3**	**26**
At 28 March 2022	**(872)**	**(213)**	**(1,128)**	**(2,213)**

3 Finance costs paid of £56 million in the Statement of Cash Flows also includes £7 million interest on cross-currency swaps and £1 million other finance costs.

	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 30 March 2020	(700)	(935)	(201)	(987)	(2,823)
Movements through income statement:					
Interest payable on financial liabilities	(3)	(20)	–	(26)	(49)
Movements through cash flow:					
Finance costs paid[4]	3	20	–	26	49
Repayment of loans and borrowings	700	–	–	–	700
Payment of capital element of lease contracts	–	–	188	–	188
Cash received on sale and leasebacks	–	–	–	(1)	(1)
Other movements:					
Reclassification between categories	–	–	(184)	184	–
Increase in lease obligations (non-cash)	–	–	–	(173)	(173)
Effect of foreign currency exchange rates	–	40	–	18	58
At 29 March 2021	–	(895)	(197)	(959)	(2,051)

4 Finance costs paid of £57 million in the Statement of Cash Flows also includes £7 million interest on cross-currency swaps and £1 million other finance costs.

c) Foreign currency risk management

Foreign currency transaction risk

Royal Mail 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% of the forecast exposure, where forecast cash flows are highly probable.

24. Financial assets and liabilities and risk management (continued)

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 27 March 2022**	At 28 March 2021
Capital programmes	€/£ exchange rate movements	**100%**	100%
Overseas postal administrations	SDR/£ exchange rate movements	**38%**	42%

Included within derivative liabilities as at 27 March 2022, are capex hedges which have been designated as hedged instruments for 84 million Euro (2020-21: 92 million Euro) with a net derivative liability value of £6 million (2020-21: £5million). The movement in the fair value of these hedge programmes of £2 million loss (2020-21: £5 million loss) has been recognised in other comprehensive income. There has been no hedge ineffectiveness in these hedge programmes in either year.

Royal Mail's obligation to settle with overseas postal administrations is denominated in Special Drawing Rights (SDR) – a basket of currencies which comprise US Dollar, Japanese Yen, Chinese Renminbi, Sterling and Euro. 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. At 27 March 2022, Royal Mail had €19 million of Euro-denominated lease payables outstanding (2020-21: €38 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 Royal Mail 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 gains on the bond of £11 million (2020-21: £19 million gain) and foreign exchange gains on the lease payables of £1 million (2020-21: £2 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. Included within derivative liabilities as at 27 March 2022 is the cross-currency swap which has been designated as a hedged instrument and which had a net derivative liability value of £38 million (2020-21: £35 million). The movement in the fair value of this hedge instrument of £2 million gain (2020-21: £4 million loss) has been recognised in other comprehensive income. There has been no hedge ineffectiveness in this hedge programme in either year.

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 £392 million of leases) are held within cash or derivatives.

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Net total financial liabilities at 27 March 2022	**(94)**	**(24)**	**(1,126)**	**(14)**	**(1,258)**
Net total financial assets/(liabilities) at 28 March 2021	345	(21)	(1,122)	(31)	(829)

d) Commodity price risk management

Royal Mail is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe – which consumes over 150 million litres of fuel per year – and a jet fuel price risk arising from purchasing 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 to mitigate this risk by entering into a combination of US Dollar and forward currency purchase or Sterling contracts to manage these exposures as it sees fit.

24. Financial assets and liabilities and risk management (continued)

In addition, the Group is exposed to the commodity price risk via its requirement to 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.

Included within derivative assets as at 27 March 2022 are diesel and jet contracts and gas contracts which have been designated as hedge instruments. The diesel and jet hedges are for 324 million litres of fuel (2020-21: 321 million litres) with a net derivative asset value of £72 million (2020-21: £2 million net liabilities). The gas hedges are for 24 million therms of gas (2020-21: 22 million therms) with a net derivative asset value of £32 million (2020-21: £1 million). The movement in the fair value of these three hedged programmes of £119 million gain (2020-21: £16 million gain) has been recognised in other comprehensive income and hedge ineffectiveness of £4 million gain (2020-21: £nil) has been recognised within other operating costs.

As the GLS business relies generally on the use of subcontractors, who are responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS relates to electricity and gas, 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 27 March 2022, there was no external hedge of interest rate risk (2020-21: 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.

The analysis below sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

	At 27 March 2022					
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Fixed rate						
Cash equivalent investments – bank deposits	**0.6**	**30**	**–**	**–**	**–**	**30**
Current asset investment – short-term deposits – bank	**0.4**	**70**	**–**	**–**	**–**	**70**
Financial liabilities						
€500 million bond	**2.5**	**–**	**–**	**(416)**	**–**	**(416)**
€550 million bond	**2.7**	**–**	**–**	**(456)**	**–**	**(456)**
Lease obligations	**2.3**	**(213)**	**(191)**	**(440)**	**(497)**	**(1,341)**
Total		**(113)**	**(191)**	**(1,312)**	**(497)**	**(2,113)**
Floating rate						
Cash at bank	**0.0**	**151**	**–**	**–**	**–**	**151**
Cash equivalent investments – money market funds	**0.3**	**725**	**–**	**–**	**–**	**725**
Cash equivalent investments – bank deposits	**0.8**	**70**	**–**	**–**	**–**	**70**
Financial assets – pension escrow investments (non-current)	**0.9**	**–**	**21**	**–**	**192**	**213**
Total		**946**	**21**	**–**	**192**	**1,159**
Non-interest bearing						
Cash at bank or in hand		**161**	**–**	**–**	**–**	**161**
Trade and other receivables		**1,553**	**–**	**–**	**–**	**1,553**
Trade and other payables		**(2,078)**	**–**	**–**	**–**	**(2,078)**
Derivative assets		**74**	**27**	**3**	**–**	**104**
Derivative liabilities		**(8)**	**(5)**	**(31)**	**–**	**(44)**
Total		**(298)**	**22**	**(28)**	**–**	**(304)**
Total financial assets		**2,834**	**48**	**3**	**192**	**3,077**
Total financial liabilities		**(2,299)**	**(196)**	**(1,343)**	**(497)**	**(4,335)**
Net total financial assets/(liabilities)		**535**	**(148)**	**(1,340)**	**(305)**	**(1,258)**

24. Financial assets and liabilities and risk management (continued)

	At 28 March 2021					
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Fixed rate						
Financial liabilities						
€500 million bond	2.5	–	–	(427)	–	(427)
€550 million bond	2.7	–	–	–	(468)	(468)
Lease obligations	2.2	(197)	(180)	(380)	(399)	(1,156)
Total		(197)	(180)	(807)	(867)	(2,051)
Floating rate						
Cash at bank	–	63	–	–	–	63
Cash equivalent investments – money market funds	0.1	1,207	–	–	–	1,207
Cash equivalent investments – bank deposits	0.2	60	–	–	–	60
Financial assets – pension escrow investments (non-current)	1.1	–	–	21	191	212
Total		1,330	–	21	191	1,542
Non-interest bearing						
Cash at bank or in hand		243	–	–	–	243
Trade and other receivables[1]		1,556	–	–	–	1,556
Trade and other payables[2]		(2,078)	–	–	–	(2,078)
Derivative assets		2	4	1	–	7
Derivative liabilities		(12)	(7)	(11)	(18)	(48)
Total		(289)	(3)	(10)	(18)	(320)
Total financial assets		3,131	4	22	191	3,348
Total financial liabilities		(2,287)	(187)	(818)	(885)	(4,177)
Net total financial assets/(liabilities)		844	(183)	(796)	(694)	(829)

1 The comparative year 2020-21 has been re-presented to exclude prepayments of £84 million (see Note 20).
2 The comparative year 2020-21 has been re-presented to exclude £299 million advance customer payments (deferred revenue) (see Note 22).

Drawings under the bank syndicate loan facility are at fixed rate to maturity (which must be six months or less). At 27 March 2022, there were no drawings (2021-22: nil). The total interest-bearing financial assets of the Group (excluding the RMPP and RMSEPP pension escrow investments) of £1,046 million (2020-21: £1,330 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 eight days (2020-21: an average maturity of one day). 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 2.3% (2020-21: 2.2%). The average maturity date is more than five years (2020-21: more than five years).

Net debt excludes £192 million (2020-21: £191 million) in respect of the RMPP element of the total £213 million (2020-21: £212 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 £192 million (2020-21: £191 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 (2020-21: £21 million) was established to provide security to the RMSEPP. It is expected that the investment will be available to Royal Mail within the next two years and it is therefore disclosed as maturing in one to two years. The escrow investment comprises a money market investment. The RMSEPP escrow agreement specifies that the funds will be returned to the Group 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. In October 2021, the bank syndicate loan facility was extended by one year to September 2026. There are no further extension options in the agreement. The unused committed facilities of the Group of £925 million expire in 2026 (2020-21: £925 million expiring in 2025).

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 27 March 2022 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 cash inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast cash outflow.

	At 27 March 2022						
	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)	**16**	**222**	**2,078**	**2,316**	**133**	**–**	**2,449**
More than one year (non-current)	**964**	**1,407**	**–**	**2,371**	**558**	**–**	**2,929**
More than one year but not more than two years	**16**	**200**	**–**	**216**	**28**	**–**	**244**
More than two years but not more than five years	**948**	**477**	**–**	**1,425**	**530**	**–**	**1,955**
More than five years	**–**	**730**	**–**	**730**	**–**	**–**	**730**
Total	**980**	**1,629**	**2,078**	**4,687**	**691**	**–**	**5,378**
Less interest	**(61)**	**(288)**	**–**	**(349)**	**n/a**	**n/a**	**n/a**
Less exchange rate adjustment	**(47)**	**–**	**–**	**(47)**	**n/a**	**n/a**	**n/a**
Net total	**872**	**1,341**	**2,078**	**4,291**	**n/a**	**n/a**	**n/a**

24. Financial assets and liabilities and risk management (continued)

	At 28 March 2021						
	Gross loans and borrowings commitments £m	Gross lease instalments £m	Gross trade and other payables[2] £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)	16	203	2,078	2,297	137	7	2,441
More than one year (non-current)	999	1,204	–	2,203	615	1	2,819
More than one year but not more than two years	16	186	–	202	58	1	261
More than two years but not more than five years	480	414	–	894	53	–	947
More than five years	503	604	–	1,107	504	–	1,611
Total	1,015	1,407	2,078	4,500	752	8	5,260
Less interest	(77)	(251)	–	(328)	n/a	n/a	n/a
Less exchange rate adjustment	(43)	–	–	(43)	n/a	n/a	n/a
Net total	895	1,156	2,078	4,129	n/a	n/a	n/a

2 The comparative year 2020-21 has been re-presented to exclude £299 million advance customer payments (deferred revenue) (see Note 22).

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 Royal Mail 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 27 March 2022, 77% (2020-21: 96%) 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.

Other than trade and other receivables, which are disclosed within Note 20, 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 2021-22 profit from interest rate risk or commodity price risk (2020-21: £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 GLS profits; on trading with overseas postal administrations; on various purchase contracts; and on the interest on the €500 million bond and Royal Mail Euro-denominated leases. The impact of a 10% strengthening of Sterling across all currencies on forecast profits/trade during 2021-22 would be to reduce the Group operating profit by £24 million (2020-21: £20 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 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 10% strengthening of Sterling against all currencies at 27 March 2022 would have been to reduce the Group net assets by £55 million (2020-21: £45 million).

Notes to the Consolidated Financial Statements continued

25. Provisions

	Charged as specific items			Charged in operating costs				
	Industrial diseases £m	Regulatory fine £m	Other £m	Voluntary redundancy £m	Property decommissioning £m	Litigation claims £m	Other £m	Total £m
At 29 March 2021	**(69)**	**(52)**	**(7)**	**(14)**	**(23)**	**(47)**	**(17)**	**(229)**
Released/(charged)	**11**	**–**	**–**	**(81)**	**2**	**(34)**	**(1)**	**(103)**
Reclassifications	**–**	**–**	**–**	**–**	**–**	**(3)**	**1**	**(2)**
Utilised	**3**	**–**	**1**	**25**	**1**	**31**	**4**	**65**
Unwinding of discount	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**
At 27 March 2022	**(56)**	**(52)**	**(6)**	**(70)**	**(20)**	**(53)**	**(13)**	**(270)**
Disclosed as:								
Current	**(8)**	**(52)**	**–**	**(70)**	**(5)**	**(39)**	**(2)**	**(176)**
Non-current	**(48)**	**–**	**(6)**	**–**	**(15)**	**(14)**	**(11)**	**(94)**
At 27 March 2022	**(56)**	**(52)**	**(6)**	**(70)**	**(20)**	**(53)**	**(13)**	**(270)**
Disclosed as:								
Current	(6)	(52)	(1)	(14)	(3)	(44)	(4)	(124)
Non-current	(63)	–	(6)	–	(20)	(3)	(13)	(105)
At 28 March 2021	(69)	(52)	(7)	(14)	(23)	(47)	(17)	(229)

Specific items provisions

The Group has a potential liability for industrial diseases claims relating to individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision is derived using estimates and ranges calculated by its actuarial adviser, 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 for ensuring that only valid claims are accepted.

The Institute and Faculty of Actuaries (UK Asbestos Working Party), on whose modelling actuaries rely for their calculations for asbestos-related ill-health claims, published updated models during the 2021 calendar year. This new guidance indicates a significant reduction in future liabilities for such claims. Management has worked with its actuarial adviser in considering this guidance and, as a result, released £11 million of the provision balance, recognised as an operating specific item in the income statement (see Note 6).

In January 2020, Royal Mail requested permission to appeal the Competition Appeal Tribunal's judgment to the Court of Appeal (CoA) in respect of the Ofcom fine. On 30 March 2020, the CoA granted Royal Mail permission and the hearing took place on 20 and 21 April 2021. On 7 May 2021, the CoA dismissed the appeal. Royal Mail awaits a decision on its request for permission to appeal the CoA's judgment from the Supreme Court.

Operating costs provisions

In January 2022, Royal Mail announced a management restructure affecting over 3,000 managerial level employees, mainly within its operational function. This is a significant restructure within the operational area and the functions that support it, resulting in the recognition of a provision for £70 million, representing voluntary redundancy compensation and associated costs for around 700 managers.

Property decommissioning obligations represent an estimate of the costs of removing fixtures and fittings and restoring the leased property to its original condition.

Provisions for litigation claims, based on best estimates as advised by external legal experts, mainly comprise outstanding liabilities in relation to road traffic accident and personal injury claims.

25. Provisions (continued)

Below is a summary of the ageing profile of the provisions.

	At 27 March 2022					At 28 March 2021				
	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 disease claims	**(8)**	**(3)**	**(9)**	**(36)**	**(56)**	(6)	(3)	(9)	(51)	(69)
Employee Free Shares – NI	**–**	**–**	**–**	**–**	**–**	(1)	–	–	–	(1)
Legacy property costs	**–**	**–**	**–**	**(6)**	**(6)**	–	–	–	(6)	(6)
Regulatory fine	**(52)**	**–**	**–**	**–**	**(52)**	(52)	–	–	–	(52)
Total	**(60)**	**(3)**	**(9)**	**(42)**	**(114)**	(59)	(3)	(9)	(57)	(128)
Operating costs										
Voluntary redundancy	**(70)**	**–**	**–**	**–**	**(70)**	(14)	–	–	–	(14)
Property decommissioning	**(5)**	**(4)**	**(5)**	**(6)**	**(20)**	(3)	(6)	(8)	(6)	(23)
Litigation claims	**(39)**	**(11)**	**(3)**	**–**	**(53)**	(44)	(2)	(1)	–	(47)
LTIP – NI	**–**	**(1)**	**–**	**–**	**(1)**	–	(2)	–	–	(2)
Employee benefits	**(1)**	**(1)**	**(1)**	**(6)**	**(9)**	(2)	(2)	(1)	(5)	(10)
Other	**(1)**	**–**	**(1)**	**(1)**	**(3)**	(2)	(2)	(1)	–	(5)
Total	**(116)**	**(17)**	**(10)**	**(13)**	**(156)**	(65)	(14)	(11)	(11)	(101)

26. Share capital and reserves

Authorised and issued	At 27 March 2022 £m	At 28 March 2021 £m
956,193,475 (2020-21: 1,000,000,000) ordinary shares of £0.01 each	**10**	10
Total	**10**	10

Of the issued ordinary shares, a total of 2,265,008 (2020-21: 572,816) 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.

On 18 November 2021, the Company announced a share buyback programme. As a result, 43,806,525 ordinary shares were purchased by the Company during the year at an average purchase price of 458.3 pence per share for a total consideration of £200.8 million. All of the purchased shares were subsequently cancelled.

A capital redemption reserve of £438,065 (43,806,525 ordinary shares of £0.01 each) was recognised during the year.

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 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 from cash flow hedges.

Notes to the Consolidated Financial Statements continued

27. Commitments

Capital commitments

The Group has commitments of £123 million (2020-21: £116 million) for property, plant and equipment, £59 million (2020-21: £nil) for vehicles and £6 million (2020-21: £1 million) for intangible assets, which are contracted for but not provided for in the Financial Statements.

Lease commitments

The Group has £7 million of lease commitments (2020-21: £16 million) relating to leases that have been signed but not yet commenced at the year-end date. These commitments have not been provided for in the Financial Statements.

28. Contingent liabilities and contingent assets

Contingent liability

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 details of regulatory fine in Note 25). Whistl's High Court claim is on hold until after the completion of any further appeal process. Royal Mail believes Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

Contingent asset

Royal Mail is pursuing a follow-on damages claim in the UK Competition Appeal Tribunal against DAF Trucks in relation to the European Commission's decision of 19 July 2016 finding that DAF participated in an illegal cartel with other European truck manufacturers. The trial is taking place in Spring 2022 with the Competition Appeal Tribunal likely to issue their judgement later in the year. If Royal Mail is successful with this claim, any damages may be awarded but the amount and timing is uncertain.

29. Related party information

Related party transactions

During the reporting year, the Group entered into transactions with related parties as follows:

	52 weeks 2022 £m	52 weeks 2021 £m
Sales/recharges to:		
RMPP – Defined benefit pension plan (administration and investment service recharge)	**6**	7
Mallzee Ltd	**–**	1
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	**–**	(4)

Balances outstanding at the reporting year end are unsecured, interest free and settlement is made by cash.

Key management compensation

	52 weeks 2022 £'000	52 weeks 2021 £'000
Short-term employee benefits	**(4,094)**	(3,037)
Post-employment benefits	**(5)**	(10)
Other long-term benefits	**(346)**	(267)
Termination benefits	**–**	(1,233)
Share-based payments	**(1,008)**	(1,339)
Total	**(5,453)**	(5,886)

Key management are considered to be the Executive and Non-Executive Directors of Royal Mail plc, plus a specific population of Persons Discharging Managerial Responsibilities. Remuneration relates to the period for which they are key management.

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 27 March 2022 unless otherwise indicated.

29. Related party information (continued)

Company	Principal activities	Country of incorporation	% equity interest 2022	% equity interest 2021
General Logistics Systems B.V.[1]	Parcel services holding company	Netherlands	**100**	100
Royal Mail Estates Limited	Property holdings	UK	**100**	100
RMGLS Holdco Limited	Holding company	UK	**100**	100
RM Property and Facilities Solutions Limited	Facilities management	UK	**100**	100

1 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 409 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 balance sheet date

There were no events to report after the balance sheet date.

31. Related undertakings of Royal Mail plc

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 27 March 2022, 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, 4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	€1,090,092.51 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.	Ordinary shares, no par value	100.000
Canada		
10500 Ryan Avenue, Dorval, Quebec, H9P 2T7		
Dicom Dedicated Fleet, Inc.	Common shares, no par value	100.000
1055, Hastings Street West, Suite 1700, Vancouver (British Columbia), V6E 2E9		
GLS Logistics Systems Canada Ltd.	Common shares, no par value	100.000
3400 7th Avenue SW, #350, Edmonton, Alberta, T2P 3N9		
A-Crop-Olis Warehousing Inc	Class A Common shares	100.000
Medicine Hat Express Inc	Class A Common shares	100.000
Mid-Nite Sun Transportation Ltd	Class A Common shares	100.000
Rosenau Transport Ltd	Class A Common shares	100.000
Wheels Transport Ltd	Class A Common 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
Croatia		

Notes to the Consolidated Financial Statements continued

31. Related undertakings of Royal Mail plc (continued)

Company name	Share class	% held by Group
Stupničke Šipkovine 22, 10255 Donji Stupnik, Croatia		
General Logistics Systems Croatia d.o.o	HRK 760,000.00 Ordinary shares	100.000
Czech Republic		
Průmyslová 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic s.r.o	CZK2,970,000.00 Ordinary shares CZK30,000.00 Ordinary shares	100.000 100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
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	€12.71 Ordinary shares	100.000
Germany		
Dörrwiese 2, 36286 Neuenstein, Germany		
Der Kurier Beteiligungsgesellschaft mbH	€25,000.00 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	€127,822.97 Ordinary shares	100.000
GLS Beteiligungs GmbH	€7,720,507.41Ordinary shares	100.000
GLS Verwaltungs-und Service GmbH	€153,387.56 Ordinary shares	100.000
GLS eCom Lab GmbH	€100,000.00 Ordinary shares	100.000
GLS Mobility Solutions GmbH	€100,000.00 Ordinary shares	100.000
Wendenstraße 349, 20537 Hamburg, Germany		
Overnight Services GmbH Vermittlung üeberregionaler Kurierdienste	€25,564.59 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 Európa utca 2, 2351 Alsónémedi, Hungary		
GLS General Logistics Systems Hungary Csomag-Logisztikai Kft.	HUF30,000,000.00 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 €1.00 Redeemable preference shares	100.000 100.000
RBK Chartered Accountants, Block A, Park View House, Beech Hill Office Campus, Beech Hill Road, Clonskeagh Dublin 4, DO4 X7V2, Ireland		

Company name	Share class	% held by Group
RMF Operations Designated Activity Company	US$1.00 Ordinary shares US$1.00 Redeemable preference shares	100.000 –
Unit 200 Northwest Business Park, Ballycoolin, Dublin 15, Ireland		
General Logistics Systems Ireland Limited	€1.269738 Ordinary shares	100.000
Italy		
Via Basento No. 19, 20098 San Giuliano Milanese, Italy		
Agone S.r.L	€10,400.00 Ordinary shares	100.000
General Logistics Systems Enterprise S.r.L	€1,016,000.00 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	84.22
Luxembourg		
Zae Op Zaemer 24, 4950 Bascharage, Luxembourg		
General Logistics Systems Belgium S.A. Succursale de Luxembourg[1]	–	–
The Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, The Netherlands		
General Logistics Systems B.V.	€100.00 Common shares	100.000
Proostwetering 40, 3543 AG Utrecht, The Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Holding B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100.000
Poland		
Ul. Tęczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka zo.o	PLN1,721.00	100.000
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	€102,000.00 quota €97,900.00 quota €100.00 quota	100.000
Romania		
3, Str. Stefan cel Mare, Parcul Industrial Selimbar, 557260 Selimbar, Romania		
GLS General Logistics Systems Srl	RON4,000.00 Ordinary shares RON396,000.00 Ordinary shares	100.000 100.000
Slovakia		
Budča 1039, 962 33 Budča, Slovakia		
GLS General Logistics Systems Slovakia s.r.o	SK2,970,000.00 Ordinary shares SK30,000.00 Ordinary shares	100.000 100.000
Slovenia		
Cesta v Prod 84, 1000 Ljubljana, Slovenia		
General Logistics Systems, logisticne storitve, d.o.o.	€751,127.00 Ordinary shares	100.000
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		

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
Distribuidora de Electrodomésticos Aceval, S.A.	€0.42 Ordinary shares	100.000
General Logistics Systems Spain S.A	€60.10 Ordinary shares	100.000
UK		
185 Farringdon Road, London, EC1A 1AA		
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
RMSEPP Pensions Trustees (2050) 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
RMGLS Holdco Limited	£1.00 Ordinary shares	100.000
RM Finance CAD Ltd	£1.00 Ordinary shares CAD1.00 Ordinary shares	100.000 100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited (formerly Romec Limited)	£1.00 Ordinary shares £1.00 B shares £1.00 C shares	98.040 0.980 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
US		
Registered Agent Solutions Inc.		
838 Walker Road, Suite 21-2 Dover, Delaware 19904, US		
General Logistics Systems North America Inc.	USD 0.001 common stock	100.000
4000 Executive Parkway, Suite 295, San Ramon, CA 94583, US		
General Logistics Systems US Interim, Inc	USD 1.00 Common stock	100.000
General Logistics Systems US, Inc	Common stock, no par value	100.000
Postal Express, Inc.	Common stock, no par value	100.000
9 East Loockerman Street, Suite 311, Dover, Delaware 19901, US		
Dicom JD, LLC.[3]	100 Shares, no par value	100.000
6750 South Longe Street Suite 100 Manteca, CA 95206 US		
GLS US Freight, Inc. (previously Mountain Valley Express Co, Inc.)	Common shares	100.000
GLS Solutions, Inc. (previously MVE Supply Chain Solutions, Inc.)[4]	Common stock, no par value	100.000

2 Limited by guarantee.
3 Member managed company.
4 Trades under the name Mountain Valley Freight Solutions.

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[5]	AUD1.00 Preference shares	34.474
United Kingdom		
24a Nottingham Road, Loughborough, LE11 1EU		
Charac Limited	B Ordinary shares	33.300
30 Finsbury Square, London, EC2A 1AG	£1.00 Ordinary A shares	51.000
Quadrant Catering Limited		
70 Margaret Street, London, W1W 8SS, United Kingdom		
JICMAIL Limited[2]	–	20.000

Investments

Company name	Share class	% held by Group
Investments		
United Kingdom		
Suite 2, Ground Floor Orchard Brae House, 30 Queensferry Road, Edinburgh, EH4		
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

5 Deregistered 25 April 2022.

Royal Mail plc
Parent Company Financial Statements

Statement of changes in equity
For the 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021

	Share capital £m	Retained earnings £m	Total equity £m
At 29 March 2020	10	2,072	2,082
Loss for the year	–	(3)	(3)
Share-based payments	–	5	5
At 28 March 2021	**10**	**2,074**	**2,084**
Profit for the year	**–**	**1,098**	**1,098**
Share buyback	**–**	**(201)**	**(201)**
Purchase of own shares	**–**	**(17)**	**(17)**
Share-based payments	**–**	**4**	**4**
Dividend paid	**–**	**(366)**	**(366)**
At 27 March 2022	**10**	**2,592**	**2,602**

Balance sheet
At 27 March 2022 and 28 March 2021
Registered number: 08680755

	Notes	At 27 March 2022 £m	At 28 March 2021 £m
Non-current assets			
Investment in subsidiaries	6	**2,912**	2,127
Trade and other receivables	7	**611**	895
Total non-current assets		**3,523**	3,022
Current liabilities			
Trade and other payables	8	**(49)**	(43)
Net current liabilities		**(49)**	(43)
Interest-bearing loans and borrowings	9	**(872)**	(895)
Net assets		**2,602**	2,084
Equity			
Share capital	10	**10**	10
Retained earnings		**2,592**	2,074
Total equity		**2,602**	2,084

The balance sheet was approved and authorised for issue by the Board of Directors on 18 May 2022 and signed on its behalf by:

Mick Jeavons
Chief Financial Officer

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 27 March 2022 (2020-21: 52 weeks ended 28 March 2021).

Authorisation of Financial Statements and statement of compliance with FRS 101

The Financial Statements of the Company for the year ended 27 March 2022 were authorised for issue by the Board of Directors on 18 May 2022. 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 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 Parent Company Financial Statements.

Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ('UK-adopted IFRS') in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

(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.

(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 except for the following new policy:

Business combinations under common control

The Company undertakes 'common control business combinations' using the book value (carry-over) basis of accounting. During the reporting year, this policy has been applied to the transfer of RMGLS Holdco Limited to the Company, from Royal Mail Group Limited (see Note 6).

Key sources of estimation uncertainty and critical accounting judgements

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 judgements applied in the preparation of these Financial Statements.

Investment in subsidiaries

The investment in subsidiaries is stated at cost, and includes 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.

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) and in the Group Directors' Remuneration Report on page 110.

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).

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

4. Income statement

The Company is a non-trading company. The profit for the year of £1,098 million (2020-21: loss of £3 million) is primarily the net sum of: a £781 million dividend (2020-21: £nil) received from Royal Mail Group Limited; a £324 million dividend received from RMGLS Holdco Limited (2020-21: £nil); management charges to and from Royal Mail Group Limited; and net interest on the €500 million bond, the €550 million bond and intercompany balances with Royal Mail Group Limited. A profit of £23 million (2020-21: profit of £40 million) on retranslation of the bond liabilities and a loss of £23 million (2020-21: loss of £40 million) on the retranslation of intercompany balances with Royal Mail Group Limited has also been recognised in the year.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiaries

	At 27 March 2022 £m	At 28 March 2021 £m
At 29 March 2021 and 30 March 2020 – investment in Royal Mail Group Limited	**2,127**	2,122
Distribution of RMGLS Holdco Limited to Royal Mail plc by Royal Mail Group Limited	**781**	–
Transfer of investment in Royal Mail Group Limited to RMGLS Holdco Limited	**(2,127)**	–
Issue of shares by RMGLS Holdco Limited to RM plc – settlement of Royal Mail Group Limited transfer	**2,127**	–
Charge for Employee Free Shares/LTIP/DSBP – investment in Royal Mail Group Limited	**4**	5
At 27 March 2022 and 28 March 2021	**2,912**	2,127

On 28 June 2021, Royal Mail Group Limited transferred its subsidiary, RMGLS Holdco Limited (previously known as Royal Mail Investments Limited, which holds the investment in GLS B.V.) to the Company. Subsequently, on 31 August 2021, Royal Mail Group Limited was transferred to RMGLS Holdco Limited in exchange for an issue of shares by RMGLS Holdco Limited to RM plc. All transactions were undertaken at book value. The primary objective of this internal restructure is to align the legal entity structure with the Group's new governance structure – two separate CEOs for the UK and GLS businesses, who each run their own respective group and report to the Royal Mail plc Board.

7. Trade and other receivables

This balance 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 €550 million bond (see Note 9). The intercompany loan is deemed to be a non-current asset for the year ended March 2022, as the Company's intention at the balance sheet date is 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 comprises £40 million (2020-21: £34 million) intercompany payables with Royal Mail Group Limited and £9 million (2020-21: £9 million) external interest payable.

9. Interest-bearing loans and borrowings

In July 2014, the Company issued €500 million 2.375% Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375%. The proceeds raised were loaned to Royal Mail Group Limited. In October 2019, the Company issued €550 million 1.25% Senior Fixed Rate Notes due October 2026 with a fixed annual interest coupon of 1.25%. The proceeds raised were loaned to Royal Mail Group Limited.

10. Share capital

	At 27 March 2022 £m	At 28 March 2021 £m
Authorised and issued		
956,193,475 (2020-21; 1,000,000,000) ordinary shares of £0.01 each	**10**	10
Total	**10**	10

Of the issued ordinary shares, a total of 2,265,008 (2020-21: 572,816) 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.

On 18 November 2021, the Company announced a share buyback programme. As a result, 43,806,525 ordinary shares were purchased by the Company during the year at an average purchase price of 458.3 pence per share for a total consideration of £200.8 million. All of the purchased shares were subsequently cancelled.

Shareholder Information

Annual General Meeting
The 2022 AGM will be held on Wednesday 20 July 2022. Full details of the business to be considered at the meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders and published on our website at www.royalmailgroup.com/en/investors/annual-general-meetings/.

Final dividend
The Board is recommending the payment of a final dividend of 13.3 pence per share. This dividend will be paid on 6 September 2022 to shareholders on the register as at 29 July 2022, subject to approval at the 2022 AGM. Combined with the interim dividend of 6.7 pence per share paid in January 2022, this gives an ordinary dividend for FY 2021-22 of 20 pence per share.

Managing your shares online
Shareholders can register through Shareview, via 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.

Be scam smart
Investment scams are designed to look like genuine investments.

Spot the warning signs
Have you been:

– Contacted out of the blue?
– Promised tempting returns and told the investment is safe?
– Called repeatedly?
– Told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

Avoid investment fraud
Reject cold calls. If you have received unsolicited contact about an investment opportunity, the chances are it is a high-risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

Check the FCA Warning List
The FCA Warning List is a list of firms the FCA has identified as operating without its authorisation.

Get impartial advice
Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Report a scam
If you suspect that you have been approached by fraudsters, please tell the FCA using the reporting form at www.fca.org.uk/consumers/report-scam-us. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk.

Find out more at www.fca.org.uk/scamsmart.

Remember: if it sounds too good to be true, it probably is.

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/en/investors/.

If you have any queries relating to your shareholding, you can also email shareholderquestions@royalmail.com.

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Registered office
Royal Mail plc
185 Farringdon Road
London
EC1A 1AA

Registered in England and Wales

Company number 08680755

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Director of Investor Relations – John Crosse

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Independent auditor
KPMG LLP

Corporate brokers
Bank of America
Barclays Bank plc

Glossary of Alternative Performance Measures

Presentation of results and alternative performance measures (APMs)

The Group uses certain APMs in its financial reporting that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information.

These APMs are not a substitute for, 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 are set out in the section entitled 'Alternative Performance Measures'.

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. Management believes this is a useful basis upon which to analyse the business' underlying 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 tax for the five years ended 27 March 2022 was £1,826 million compared with cumulative adjusted profit after tax of £2,071 million. Annual reported profit after tax showed a range of £620 million to £161 million while adjusted profit after tax showed a range of £595 million to £196 million. Pensions-related accounting and specific items can cause increased volatility in results.

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

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 2022			52 weeks March 2021		
Group (£m)	Reported	Specific items and pension adjustment[1]	Adjusted	Reported	Specific items and pension adjustment[1]	Adjusted
Revenue	**12,712**	**–**	**12,712**	12,638	–	12,638
Operating costs	**(12,128)**	**(174)**	**(11,954)**	(12,020)	(84)	(11,936)
People costs	**(6,665)**	**(174)**	**(6,491)**	(6,554)	(84)	(6,470)
People costs (excluding voluntary redundancy)	**(6,584)**	**(174)**	**(6,410)**	(6,445)	(84)	(6,361)
Voluntary redundancy	**(81)**	**–**	**(81)**	(109)	–	(109)
Non-people costs	**(5,463)**	**–**	**(5,463)**	(5,466)	–	(5,466)
Distribution and conveyance costs	**(3,556)**	**–**	**(3,556)**	(3,483)	–	(3,483)
Infrastructure costs	**(1,059)**	**–**	**(1,059)**	(1,074)	–	(1,074)
Other operating costs	**(848)**	**–**	**(848)**	(909)	–	(909)
Operating profit before specific items	**584**	**(174)**	**758**	618	(84)	702
Operating specific items:						
Legacy/other items	**9**	**9**	**–**	12	12	–
Amortisation of intangible assets in acquisitions	**(16)**	**(16)**	**–**	(19)	(19)	–
Operating profit	**577**	**(181)**	**758**	611	(91)	702
Profit on disposal of property, plant and equipment (non-operating specific item)	**72**	**72**	**–**	36	36	–
Profit before interest and tax	**649**	**(109)**	**758**	647	(55)	702
Finance costs	**(57)**	**–**	**(57)**	(55)	–	(55)
Finance income	**6**	**–**	**6**	17	–	17
Net pension interest (non-operating specific item)[1]	**64**	**64**	**–**	117	117	–
Profit before tax	**662**	**(45)**	**707**	726	62	664
Tax charge	**(50)**	**62**	**(112)**	(106)	37	(143)
Profit for the year	**612**	**17**	**595**	620	99	521
Earnings per share (pence)						
Basic	**61.7p**	**1.7p**	**60.0p**	62.0p	9.9p	52.1p
Diluted	**61.4p**	**1.7p**	**59.7p**	61.8p	9.9p	51.9p

1. Details of specific items and the pension adjustment can be found under 'Specific items and pension charge to cash difference adjustment' in the Financial Review.

Glossary of Alternative Performance Measures continued

Segmental reported results

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

	52 weeks March 2022				52 weeks March 2021			
Group (£m)	**Royal Mail**	**GLS**	**Intragroup eliminations**	**Group**	Royal Mail	GLS	Intragroup eliminations	Group
Revenue	**8,514**	**4,219**	**(21)**	**12,712**	8,649	4,040	(51)	12,638
People costs	**(5,757)**	**(908)**	**–**	**(6,665)**	(5,703)	(851)	–	(6,554)
Non-people costs	**(2,515)**	**(2,969)**	**21**	**(5,463)**	(2,686)	(2,831)	51	(5,466)
Operating profit before specific items	**242**	**342**	**–**	**584**	260	358	–	618
Operating specific items[1]	**8**	**(15)**	**–**	**(7)**	11	(18)	–	(7)
Operating profit	**250**	**327**	**–**	**577**	271	340	–	611
Profit on disposal of property, plant and equipment (non-operating specific item)[1]	**71**	**1**	**–**	**72**	38	(2)	–	36
Earnings before interest and tax	**321**	**328**	**–**	**649**	309	338	–	647
Net finance costs	**(39)**	**(12)**	**–**	**(51)**	(28)	(10)	–	(38)
Net pension interest (non-operating specific item)[1]	**64**	**–**	**–**	**64**	117	–	–	117
Profit before tax	**346**	**316**	**–**	**662**	398	328	–	726
Tax credit/(charge)	**24**	**(74)**	**–**	**(50)**	(30)	(76)	–	(106)
Profit for the year	**370**	**242**	**–**	**612**	368	252	–	620

1. Details of specific items and the pension adjustment can be found under 'Specific items and pension charge to cash difference adjustment' in the Financial Review.

Alternative Performance Measures

This section lists the definitions of the various APMs disclosed throughout the Annual Report and Financial Statements. 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.

Adjusted operating profit

This measure is based on reported operating profit 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 'Consolidated reported and adjusted results'. Definitions of the pension charge to cash difference adjustment, and operating specific items are provided below.

Adjusted operating profit margin

This is a 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 added back.

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

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

(£m)	**52 weeks March 2022**	52 weeks March 2021
Reported operating profit before specific items	**584**	618
Depreciation and amortisation	**540**	554
EBITDA before specific items	**1,124**	1,172
Pension charge to cash difference adjustment	**174**	84
Adjusted EBITDA	**1,298**	1,256

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 'Presentation of results'.

People costs

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

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 this represents the difference between the IAS 19 income statement pension charge rate of 24.6% (2020-21: 19.5%) and the actual cash payments of 15.6%.

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.

Amortisation of intangible assets in acquisitions

These 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 items

These costs/credits relate either to unavoidable ongoing costs arising from historic events (such as the industrial diseases provision) or historic provisions not utilised. They also include any adjustments arising from asset impairment.

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

Management separately identifies the 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 and GLS client cash movements. GLS client cash movements were previously presented in FCF but have now been removed as this better reflects cash movements available to the Group. As a result the comparative period has been re-presented. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base. FCF is also shown on a pre-IFRS 16 basis as it is used to support dividend cover analysis, taking into account all cash flows related to the operating businesses.

The following table reconciles free cash flow to the nearest IFRS measure 'net cash inflow before financing activities'.

(£m)	**Reported 52 weeks March 2022**	Re-presented reported 52 weeks March 2021
Net cash inflow before financing activities	**401**	887
Adjustments for:		
Finance costs paid	**(56)**	(57)
Movement in GLS client cash	**5**	(20)
Purchase/(sale) of financial asset investments	**70**	(30)
Free cash flow	**420**	780
Capital element of operating lease repayments[1]	**(166)**	(156)
Pre-IFRS 16 free cash flow	**254**	624

1. The capital element of lease payments of £192 million (2020-21: £188 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £166 million (2020-21: £156 million) and the capital element of finance lease payments of £26 million (2020-21: £32 million).

Alternative Performance Measures (APMs) continued

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 movements in GLS client cash and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions, net finance payments and dividends received from associates. The prior period has been re-presented to reflect the re-allocation of deferred revenue (including SITHOP) into trading working capital (included within net cash inflow from operating activities). These balances were previously excluded from in-year trading cash flow as part of other working capital movements. In-year trading cash flow is used primarily by Management to show cash being generated by operations less cash investment. In-year trading cash flow is also shown on a pre-IFRS 16 basis as it is used to support dividend cover analysis, taking into account all cash flows related to the operating businesses.

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

(£m)	Reported 52 weeks March 2022	Re-presented reported 52 weeks March 2021
Net cash inflow from operating activities	**1,160**	1,173
Adjustments for:		
Movement in GLS client cash	**5**	(20)
Cash cost of operating specific items	**4**	4
Purchase of property, plant and equipment	**(519)**	(289)
Purchase of intangible assets	**(84)**	(57)
Dividends received from associates	**5**	–
Net finance costs paid	**(52)**	(41)
In-year trading cash flow	**519**	770
Capital element of operating lease repayments[1]	**(166)**	(156)
Pre-IFRS 16 in-year trading cash flow	**353**	614

1. The capital element of lease payments of £192 million (2020-21: £188 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £166 million (2020-21: £156 million) and the capital element of finance lease payments of £26 million (2020-21: £32 million).

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 Note 23 of the Financial Statements (page 206). Net debt is also shown on a pre-IFRS 16 basis as the banking covenants are calculated on a pre-IFRS 16 basis.

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

(£m)	At 27 March 2022	At 28 March 2021
Loans/bonds	**(872)**	(895)
Leases	**(1,341)**	(1,156)
Cash and cash equivalents	**1,101**	1,532
Investments	**70**	–
Client cash	**36**	41
Pension escrow (RMSEPP)	**21**	21
Net debt	**(985)**	(457)
Operating leases[1]	**1,292**	1,079
Pre-IFRS 16 net cash	**307**	622

1. This amount represents leases that would not have been recognised on the Balance Sheet prior to the adoption of IFRS 16.

Loans and bonds decreased by £23 million, largely as a result of favourable exchange rate movements on the value of bonds.

Cash and cash equivalents and Investments decreased by £361 million, largely as a result of the payment of £366 million in external dividends (2020-21: no dividends paid) and £201 million share buyback offset by free cash inflow of £420 million (2020-21: £780 million inflow) and by the capital element of lease repayments of £192 million (2020-21: £188 million).

Net debt excludes £192 million (2020-21: £191 million) related to the RMPP pension scheme of the total £213 million (2020-21: £212 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of 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. The adjusted effective tax rate is considered to be a useful measure of the tax impact for the year. It approximates to the tax rate on the underlying trading business through the exclusion of specific items, including the pension charge to cash difference adjustment.

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.

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