

CONNECTING CUSTOMERS, COMPANIES AND COUNTRIES

Royal Mail plc

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2018-19



Royal Mail plc is an international business, developing a modern, optimised and efficient network to deliver letters, parcels and new products.

We operate across 44 countries and nation states worldwide, 41 in Europe and, following recent acquisitions, eight states in the Western US and Canada.

We are a digitally innovative brand, connecting **customers, companies and countries**.



STRATEGIC REPORT

Who we are	02
International presence	04
Financial and operational highlights	06
Strategy and financial outlook: three and five years	08
Chair's statement	10
Group Chief Executive Officer's review	14
Summary of our five-year strategic plan	20
Business review 2018-19	24
Market overview	32
Business model	36
Key Performance Indicators	38
Financial review	40
Principal risks and uncertainties	64
Viability statement and going concern	73
Corporate responsibility	74

CORPORATE GOVERNANCE

Chair's introduction	86
Group Board of Directors	88
Executive Board	90
Governance structure	92
Board in action	94
Board composition and diversity	97
Our stakeholders	101
Reporting against the 2018 Corporate Governance Code	105
Nomination Committee	106
Audit and Risk Committee	109
Directors' Remuneration Report	116
Shareholder engagement	120
Pensions Committee	146
Directors' Report	147
Statement of Directors' Responsibilities	149

FINANCIAL STATEMENTS

Independent auditor's report	151
Consolidated income statement	156
Consolidated statement of comprehensive income	157
Consolidated balance sheet	158
Consolidated statement of changes in equity	160
Consolidated statement of cash flows	161
Notes to the financial statements	163
Significant accounting policies	214
Royal Mail Plc – parent Company financial statements	226

SHAREHOLDER INFORMATION

Group five year summary (unaudited)	229
Shareholder information	231
Forward-looking statements	232

CONTENTS

GROUP CEO REVIEW



GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

14

RESPONSIBLE BUSINESS



HOW ARE WE BEING RESPONSIBLE?

74

INTERNATIONAL PRESENCE



UNDERSTANDING ROYAL MAIL GROUP

04

OUR STRATEGY IN ACTION



SHAPING ROYAL MAIL FOR THE FUTURE

28

STAKEHOLDER ENGAGEMENT



LISTENING TO AND ENGAGING WITH OUR STAKEHOLDERS

101

UNDERSTANDING ROYAL MAIL GROUP

WHO WE ARE

Royal Mail plc is transforming from a UK-focused letters business that delivers parcels, to a parcels-led, international business that delivers letters in the UK.

We operate across 44 countries and nation states worldwide, including 41 in Europe and, following recent acquisitions, eight states in the Western US and Canada.

We are a modern, digitally innovative brand, connecting customers, companies and countries.

UK PARCELS, INTERNATIONAL AND LETTERS (UKPIL)

We are the UK's pre-eminent delivery company. This year, we handled and delivered around 13 billion letters, and around 1.3 billion parcels. Our extensive UK network enables us to benefit from the joint delivery of letters and parcels. We estimate that we visit 60 per cent of UK delivery points each day.

Our contribution to the UK economy, including through employment and procurement, totalled £10.3 billion¹ last year in terms of value added. We made the seventh largest contribution to the UK economy of all UK corporations².

GENERAL LOGISTICS SYSTEMS (GLS)

GLS offers us increasing product and geographical diversification. In Europe, it is one of the largest ground-based deferred parcel networks. Outside of Europe, GLS operates in North America, in eight states in the Western US and Canada. This year, GLS delivered 634 million parcels for its c.300,000 clients.

OUR VISION AND STRATEGY

Our ambition is to build a parcels-led, more balanced, and more diversified, international business. Our purpose is to connect customers, companies and countries. Royal Mail's access to a global network of postal partners provides a postal option for all our customers. By combining the expertise of GLS and Royal Mail, and through partnerships with postal operators and national posts, we want to offer postal solutions to anywhere in the world, for any customer.

We have real strengths. We are transforming to further leverage those strengths and become the pre-eminent delivery company in our key markets.

OUR PEOPLE

We employ around 162,000 people across our Group, of which 143,000 are in the UK. One in every 192 jobs in the UK is provided by Royal Mail³. Our 'feet on the street' network of around 90,000 postmen and women is an important part of local communities. Thanks to them, Royal Mail is the UK's most trusted and most preferred delivery company⁴.

GLS employs 19,000 people worldwide. We are proud to provide secure, fairly-paid employment in tight labour markets.

OUR CUSTOMERS

As the UK's sole designated Universal Service Provider⁵, we deliver a 'one-price-goes-anywhere' service on a range of letters and parcels to over 30 million addresses across the country, six-days-a-week. We also provide a range of commercial services to consumers, sole-traders, SMEs, large businesses and retailers, and other postal operators who use our downstream network.

GLS provides a whole range of B2B and B2C services across Europe and North America. Whilst B2B remains its main focus for growth, contributing around 60 per cent of total volume (2017-18: c.55 per cent), GLS is expanding into selective B2C markets, notably, in Denmark, Italy and Eastern Europe. Thanks to its extensive network, GLS is well positioned to participate in cross-border parcel traffic growth.

OUR SHAREHOLDERS

Royal Mail is one of the most widely held stocks in the UK. We have a proactive programme of engagement with our shareholders, including institutional investors in the UK and overseas. Our diverse shareholder base includes many of our own people, who own around eight per cent of Royal Mail as Free Shares.

OUR OPERATIONS AND NETWORKS

UKPIL

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

GLS

GLS is one of the largest ground-based, parcel delivery networks in Europe. The GLS network covers 41 countries and nation states in Europe, eight states in the Western US and Canada, through a combination of wholly-owned companies and partner companies.

¹ CEBR research, conducted for Royal Mail in May 2019, comprising direct and indirect contributions.

² CEBR research, conducted for Royal Mail in May 2019, comprising direct contributions.

³ CEBR research, conducted for Royal Mail in May 2019.

⁴ Business CSI's Brand Tracker 2018-19 survey.

⁵ Under the Postal Services Act 2011 ('the Act'), Ofcom is the regulator for postal services in the UK. Ofcom's primary regulatory duty for postal services is to secure the provision of the Universal Postal Service. Ofcom has designated Royal Mail as the Universal Service Provider.



UK PARCELS, INTERNATIONAL AND LETTERS (UKPIL)¹

EMPLOYEES

143,000

VEHICLES

48,000

MAIL CENTRES

37

LOCAL COLLECT LOCATIONS

11,000

OUR BRANDS



Read more – see pages 40-42



GENERAL LOGISTICS SYSTEMS (GLS)¹

EMPLOYEES

19,000

DEPOTS

1,400

CLIENTS

300,000

NETWORK HUBS

70

PARCELSHOPS

23,000

OUR BRAND



Read more – see pages 43-45 1 All pull out figures are approximate.

INTERNATIONAL PRESENCE

EMPLOYEES WORLDWIDE

162,000

COUNTRIES WORLDWIDE

44

- Main GLS subsidiaries
- GLS network partners in Europe



CANADA

GLS made its most recent acquisition, Dicom Canada, in August 2018. Dicom primarily provides B2B parcel services, operating across Canada, with a major focus on the Eastern Canadian provinces of Ontario and Quebec. Canada is the world's 10th largest economy¹, with Ontario and Quebec representing 57 per cent of the country's GDP². A network of 28 depots and agreements with partner carriers across Canada to provide pan-Canadian logistics services means Dicom is well-placed to leverage growth trends and provides GLS with an established market position in this key economy.

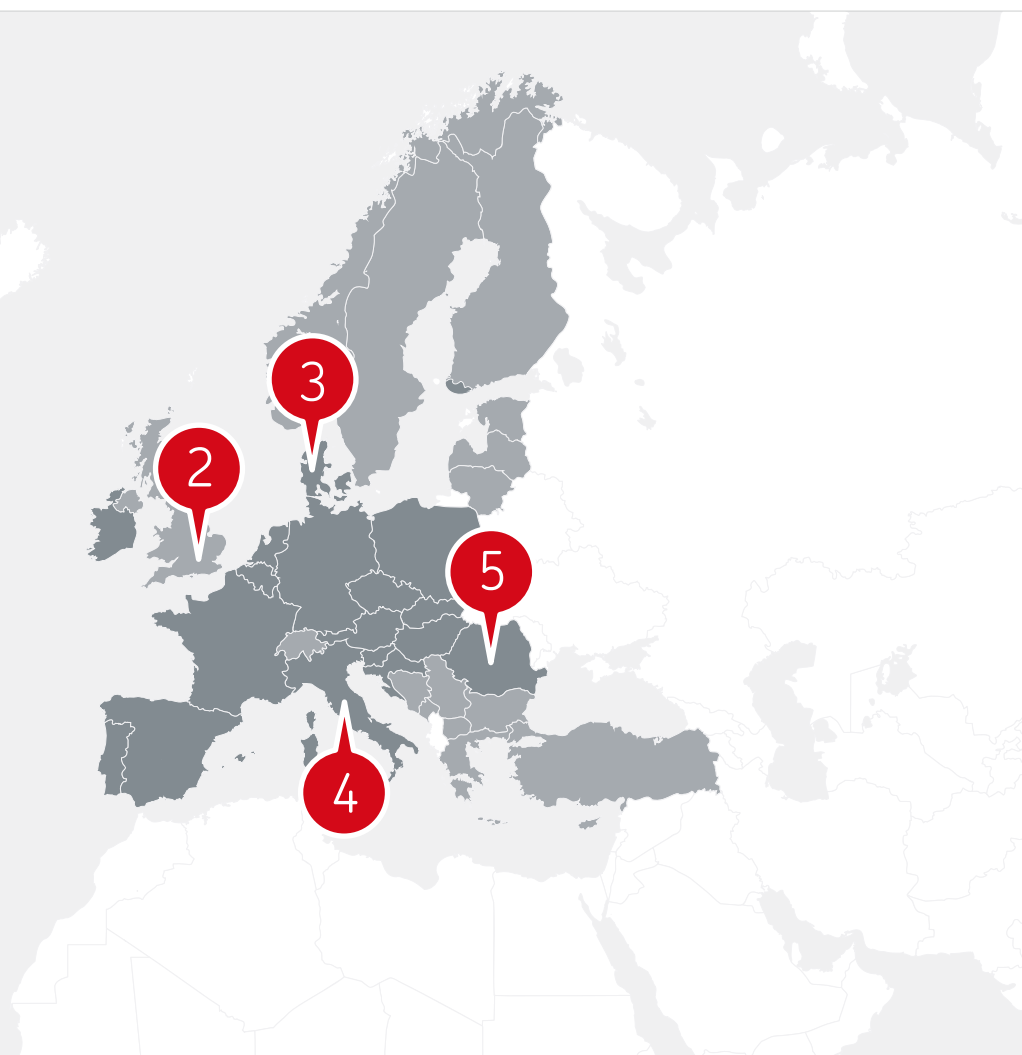


UK

Heathrow Worldwide Distribution Centre is our international gateway in the UK and manages all UKPIL import and export mail. The centre occupies 42,500 sq metres and has a workforce of around 1,500 employees. 55 scheduled airlines are used every day to transport UK export mail to 269 destinations internationally.

1 IMF World Economic Outlook, 2018.

2 Gross domestic product (GDP) at basic prices, by industry, provinces and territories, Statistics Canada, 2017.



DENMARK

GLS entered the Danish market with 160 ParcelShops. This has grown to a network of over 1,600. ParcelShops are an integral part of the GLS service. They allow parcel recipients access to a wide range of services. For example, customers can have their ordered goods sent directly to the ParcelShop of their choice, and dispatch returns. These services are just as popular with consumers as they are with e-retailers. Since mid-2017, ParcelShops have been equipped with new technology (scanners and label printers) that optimise parcel handling and allow paperless processing.



ITALY

GLS Italy comprises more than 50 franchisees offering the same high quality service all over Italy. In the last 15 years, GLS Italy has acquired 46 depots. Many are close to city centres and enable a Saturday pick up from businesses. GLS Italy is at the forefront of our ThinkGreen initiative, with a diverse fleet of vehicles, including e-vans, e-bikes, e-scooters and even a gondola.



EUROPE EAST

As part of its 'scale up and grow' strategy, GLS is expanding its presence in the growth markets of 'Europe East' (Croatia, Czech Republic, Hungary, Romania, Slovakia and Slovenia). In 2018, GLS opened 25 new depots in the region, as well as a modern hub in Sibiu, Romania. GLS Hungary also expanded the capacity of its Budapest hub. The region benefits from GLS FlexDeliveryService, allowing customers to send and receive parcels via our network of ParcelLockers. Customers can also use innovative payment on delivery solutions such as CashService and BankCardService.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

FINANCIAL
HIGHLIGHTSREPORTED GROUP FINANCIAL SUMMARY^{1,3}

REVENUE (£m)

£10,581m

2017-18: £10,172m

PROFIT BEFORE TAX (£m)

£241m

2017-18: £212m

OPERATING PROFIT BEFORE TRANSFORMATION COSTS (£m)

£474m

2017-18: £236m

BASIC EARNINGS PER SHARE – CONTINUING OPERATIONS (P)

17.5p

2017-18: 25.9p

OPERATING PROFIT AFTER TRANSFORMATION COSTS (£m)

£341m

2017-18: £123m

PROPOSED FULL YEAR DIVIDEND PER SHARE (P)

25.0p

2017-18: 24.0p

- Reported revenue up £409 million due to impact of 53rd week in UKPIL and higher parcels revenue in UKPIL and GLS.
- Reported operating profit before transformation costs up £238 million, largely due to £371 million reduction in IAS 19 pension charge partly offset by higher costs in GLS and increased people costs (excluding pension costs) in UKPIL.

- Operating specific items charge of £181 million, up £124 million.

ADJUSTED GROUP FINANCIAL SUMMARY^{2,3}

Adjusted results (£m)	53 weeks March 2019	52 weeks March 2019 ²	52 weeks March 2018	Underlying change ³
Revenue ²	10,581	10,444	10,172	2%
Operating profit before transformation costs ²	544	509	694	(26%)
Operating profit after transformation costs ²	411	376	581	(34%)
Margin ²	3.9%	3.6%	5.7%	(200bps)
Profit before tax	398		565	
Basic earnings per share (pence)	30.5p		45.5p	
In-year trading cash flow	117		545	
Net cash/(debt)	(300)		14	

- Revenue up two per cent to £10.4 billion, driven by good revenue growth in UKPIL parcels and GLS which more than offset letter revenue decline.
- Adjusted operating profit before transformation costs of £509 million, in line with our expected range of £500-530 million.
- Transformation costs of £133 million.

- Adjusted operating profit margin after transformation costs of 3.6 per cent, down 200 basis points.
- Total net cash investment³ of £462 million, lower than expected due to lower transformation operating expenditure.
- In-year trading cash flow³ of £117 million, negatively impacted by timing differences in working capital associated with the 2017-18 frontline pay award and the 53rd week.

BUSINESS UNITS^{2, 3}

(£m)	Revenue			Adjusted operating profit before transformation costs		
	52 weeks March 2019 ²	52 weeks March 2018	Underlying change ³	52 weeks March 2019	52 weeks March 2018	Underlying change ³
UKPIL	7,595	7,615	Flat	332	503	(32%)
GLS	2,888	2,557	8%	177	191	(9%)
Intragroup	(39)	–	–	–	–	–
Group	10,444	10,172	2%	509	694	(26%)

- UKPIL revenue flat at £7,595 million with good parcel revenue growth offsetting total letter revenue decline.
- UKPIL parcel performance better than 2017-18 with volumes up eight per cent and revenue up seven per cent.
- Addressed letter volumes (excluding political parties' election mailings) declined eight per cent, in line with our revised expectations. Total letter revenue down six per cent.
- Achieved £107 million of costs avoided, compared with revised target of £100 million.
- Productivity improvement of 0.9 per cent for full year, 1.9 per cent achieved in second half.

- Adjusted UKPIL operating costs before transformation costs up two per cent, due to lower productivity and cost avoidance.
- Adjusted UKPIL operating profit margin after transformation costs of 2.6 per cent, down 240 basis points.
- GLS delivered continued good revenue growth, up eight per cent on volume growth of five per cent.
- Adjusted GLS operating profit of £177 million, down nine per cent.
- Adjusted GLS operating profit margin of 6.1 per cent, in line with our expectations.

2019-20 OUTLOOK (SEE TARGETS AND AMBITIONS TABLE ON PAGE 9 FOR A THREE AND FIVE YEAR VIEW)

- We expect addressed letter volume declines of five-seven per cent (excluding political parties' election mailings), due to continuing business uncertainty and its impact on the economy and the ongoing impact of GDPR.
- UKPIL parcel volume growth expected to outpace UK addressable market growth of four-five per cent.
- We expect productivity improvements of over two per cent.
- We anticipate costs avoided of £150-200 million.
- We expect Group adjusted operating profit after transformation costs of £300-340 million.
- The Board is recommending a final dividend of 17.0 pence per share, giving a full year dividend of 25.0 pence per share for 2018-19, an increase of one pence per share, or four per cent.
- It is then rebasing the dividend and changing the dividend policy. From 2019-20, the policy is for a full year dividend underpin of 15.0 pence per share, which may be supplemented by additional payouts in years with substantial excess cashflow. The dividend is expected to be covered by cumulative trading cashflows over both three and five years.
- Our new dividend policy reflects the additional investment to turnaround and grow our UK business and expected lower cash generation in the early years of the plan.

 More information – www.royalmailgroup.com/en/investors

1 Reported results are in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.

2 The UKPIL reported results are for the 53 week period to 31 March 2019. We are also presenting the 53 week results on an adjusted basis. The GLS financial year is the 12 months to 31 March 2019. In order to provide a meaningful comparison of revenue and costs with the prior year, we are also presenting the Group and UKPIL income statements to operating profit on an adjusted 52 week basis. The adjusted 52 week 2018-19 results are derived by removing an estimate of the 53rd week's revenue and incremental costs. All comparisons between 2018-19 and 2017-18 income statements to operating profit after transformation costs are on a 52 week basis unless otherwise stated.

3 For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.

STRATEGY AND FINANCIAL OUTLOOK: THREE AND FIVE YEARS



'Turnaround and grow'
our UK business



**'Scale up
and grow'** GLS



**Enhancing our
cross-border proposition**



Strategy

Our ambition is to build a parcels-led, more balanced and more diversified international business, delivering an adjusted Group operating profit margin of over four per cent in 2021-22, increasing to over five per cent in 2023-24.

Our purpose is to connect customers, companies and countries.

To achieve this ambition, our strategy is focused on the delivery of three key priorities:

– 'Turnaround and grow' in the UK:

- following an extensive review of our UK business, a new transformation plan is now required, with a renewed focus on improved service, efficiency and productivity supported by a focus on productivity initiatives, a range of new, digitally enabled work tools and targeted investments
- continued success in UK parcels
- an extension of our UK network to handle large parcels and small tracked parcels more efficiently.

As part of our overall UK strategy, Royal Mail will invest around £1.8 billion over five years in the UK's postal service. This will be made up of the Company's existing investment projects and additional expenditure to fund the UK 'turnaround and grow' programme. This investment, alongside the £2.1 billion invested in the UK since 2013, the year Royal Mail floated on the London Stock Exchange, means almost £4 billion has been committed to the UK since our privatisation.

– 'Scale up and grow' GLS:

- ongoing focus on profitable revenue growth including yield management
- continued focus on B2B, with selective growth in B2C
- Integration of existing acquisitions.

– Enhancing our cross-border proposition:

- focus on driving incremental value from the combined strengths of Royal Mail and GLS in small and deferred parcel shipments
- growth in share of UK export parcels market.

The pursuit of these priorities allows us to have the ambition to improve the financial outlook for the Group.

Summary of targets and ambitions on a three and five year view and outlook for 2019-20

SHORT-TERM (2019-20/2020-21)		AMBITION IN 2021-22		AMBITION IN 2023-24	
Group ¹					
Revenue	Two-three per cent CAGR revenue growth over both three and five years. Ambition to have revenue of around £12bn in 2023-24.				
Adjusted operating profit ²	2019-20 operating profit after transformation costs of £300-340 million.				
Adjusted operating profit margin ²	Margin compression in the short-term.	Adjusted Group operating profit margin of over four per cent in 2021-22	Adjusted Group operating profit margin growing to over five per cent by 2023-24.		
Gross capital expenditure	£400-500 million of incremental cumulative gross capital expenditure over five years (predominantly in the UK) above annual ongoing investment of c.£400 million. Within ongoing capital expenditure, GLS expected to increase to support growth. Depreciation expected to increase by c.£15 million per annum.				
In-year trading cash flow	Dividend expected to be covered by cumulative in-year trading cashflow over both three and five years.				
UKPIL					
Addressed letter volumes (excl. elections)	Five-seven per cent decline in 2019-20.	Maintain medium-term outlook of four-six per cent per annum addressed letter volume decline.			
Letter prices	Targeted price rises at or above inflation.				
Parcel volume growth	Aim to grow volume at above our addressable market growth rate of four-five per cent per annum.				
Parcel revenue growth	Parcels revenue growth above five per cent CAGR over five years.				
Revenue	UK returns to growth, assuming GDP growth rate reverts to recent historic average level of approximately two per cent.				
People costs	People cost pressures (including frontline staff and managers' overall compensation) not offset by productivity gains.	People cost pressures to be more than offset by productivity improvements / hours reductions.			
Non people costs	Impacted by CPI and costs associated with parcels growth (e.g. terminal dues and logistics) of around £50 million per annum.				
Costs avoided	Around £1 billion of cumulative costs avoided over five years. Costs avoided of £150-200 million in 2019-20.				
Transformation costs	Will be incorporated into operating costs at c.£150 million per annum.				
Adjusted operating profit margin	Margin compression in the short-term.	Targeting UKPIL adjusted operating profit margin of three-four per cent in 2021-22.	UKPIL adjusted operating profit margin to reach five per cent in 2023-24.		
Productivity	Cumulative 15-18 per cent productivity gains targeted over five years, weighted to later years. Returning towards historic two-three per cent per annum productivity target. Over two per cent in 2019-20.				
Hours worked	We anticipate an hours reduction of around three per cent per annum.				
GLS					
Revenue	Targeting around €4.5 billion revenue in 2023-24.				
Adjusted operating profit margin	Targeting adjusted operating profit margin of six-seven per cent per annum.				

1

For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.

2

Adjusted Group operating profit margin calculates adjusted operating profit as a proportion of revenue in percentage terms. Adjusted group operating profit includes the impact of voluntary redundancy and project costs (previously categorised as transformation costs). Movements are presented on an underlying basis. For further details on Adjusted Group operating profit, reported results, adjusted and underlying Alternative Performance Measures (APMs) used, see section entitled 'Presentation of results and Alternative Performance Measures'.

- 1 For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.
- 2 Adjusted Group operating profit margin calculates adjusted operating profit as a proportion of revenue in percentage terms. Adjusted group operating profit includes the impact of voluntary redundancy and project costs (previously categorised as transformation costs). Movements are presented on an underlying basis. For further details on Adjusted Group operating profit, reported results, adjusted and underlying Alternative Performance Measures (APMs) used, see section entitled 'Presentation of results and Alternative Performance Measures'.

Assumptions

We have based our future outlook on our current assessment of the macroeconomic outlook in the UK and the Group's other main markets. Royal Mail's business performance is closely aligned to UK economic growth. We assume that GDP growth will remain below average in the near-term, and return to a typical growth rate in the medium-term. We will work closely with our unions on our UK 'turnaround and grow' programme, and assume we will deliver the change in a collaborative manner. All outlook is

provided on an adjusted 52 week basis and excludes the impact of IFRS 16, which is estimated to increase Group operating profit after transformation by around £35-45 million and increase the annual depreciation charge by around £120-130 million resulting in a net increase to adjusted EBITDA of around £155-175 million. UK parcels and letters revenues and volumes are estimated using a new methodology from the 2019-20 financial year onwards.

A CHALLENGING YEAR; A BLUEPRINT FOR THE FUTURE.



Les Owen
Chair

Dear Shareholder,

Refreshed strategy

It has been a challenging year. In October 2018 we announced disappointing productivity and cost performance in the UK, resulting in lower profit expectations for the year. Letter volumes have declined at a faster rate than in previous years, offsetting good growth in parcels. We are now focusing on delivering the level of productivity improvement that is needed in our UK operations if we are to compete successfully and meet our customers' evolving needs. GLS once again delivered a good performance, but was – in common with other operators – affected by labour market pressures across its key markets.

The Board has been working with management to actively review our strategy and how we should deliver it. In this Report we summarise the results of the review. At its heart is a 'turnaround and grow' plan in the UK, which focuses on continuous improvement in efficiency and productivity enabled by new digitally-enabled work tools. Recognising the changing requirements in the parcels market, we will be re-engineering and extending our delivery network. The plan will deliver better alignment of resources to workload, and a data driven approach to operations management. We will develop our UK network to facilitate more growth in e-commerce. We are also setting out how we will leverage Royal Mail's and GLS' combined strengths to become a more geographically-diversified business, with a strategy to grow in the profitable cross-border parcels market. We are focused on delivering sustainable shareholder returns, underpinned by the UK's postal service. Our objective is to deliver an adjusted Group operating profit margin of over four per cent in 2021-22, increasing to over five per cent in five years' time.

Dividend

The Board is recommending a final dividend of 17.0 pence per share, giving a full year dividend of 25.0 pence per share for 2018-19, an increase of one pence per share, or four per cent. For more information about the dividend, please see the Group Chief Executive Officer's Review.

Listening to our Shareholders

We were disappointed with the outcome at the AGM in July 2018 of the shareholder votes on the re-appointment of the then Chair, Peter Long, and the Directors' Remuneration Report. However we acted quickly to address shareholders' concerns. We commissioned an independent survey of the views of our major shareholders, specifically focusing on remuneration and governance. Orna Ni-Chionna, Chair of our Remuneration Committee, and I held meetings with most of our larger shareholders, and with advisory bodies (including those representing retail shareholders), and listened to their concerns. On pages 120-121, Orna sets out the actions we have taken to address shareholder concerns through the changes we are proposing to our Remuneration Policy. The revised Remuneration Policy is subject to shareholder approval at our 2019 AGM.

I would like to thank our shareholders for their engagement and constructive feedback. Lessons have been learned. We are committed to maintaining open lines of communication with them and to proactively addressing any issues in a timely manner.

Board changes

In September 2018, Peter Long stood down as Chair due to his other commitments which had increased substantially when he moved from non-executive to executive chairman at Countrywide plc. Over his three years as Chair, Peter led the Board through a time of major change. He oversaw the succession planning, appointment and transitioning of CFO, Stuart Simpson, and Group CEO, Rico Back. The Board thanks Peter.

“

I would like to thank all our shareholders for their engagement and constructive feedback. Lessons have been learned. We are committed to maintaining open lines of communication with them.

”

I succeeded Peter as Chair. My appointment was always intended to be short-term, providing continuity as we sought a longer-term successor.

I am delighted that Keith Williams, a Non-Executive Director since January 2018 and Deputy Chair since November 2018, will become Chair when I step down on 22 May 2019. Keith's track record speaks for itself. His significant experience in operational transformation, digital strategy and industrial relations will stand us in good stead as we address the challenges we face, particularly through our 'turnaround and grow' plan in the UK.

One of my key priorities was to help strengthen the Board through the recruitment of new Non-Executive Directors with relevant experience and skills. Michael Findlay and Maria da Cunha will join the Board as Non-Executive Directors, effective from 22 May 2019. Maria is a former senior executive of British Airways Plc where she worked for 18 years. Her roles included Director of People and Legal and Head of Legal, Government and Industry. Maria's experience at British Airways included extensive dealings with trade unions, and on transformation and employee engagement. Michael is currently Chairman of Morgan Sindall Group plc. He spent 27 years in the investment banking industry and worked for a range of firms, including Robert Fleming & Co, UBS and, most recently, the Bank of America Merrill Lynch. He was also Senior Independent Director at UK Mail where he was a Non-Executive Director from 2009 to 2016.

In July 2018, Paul Murray retired from the Board and as Chair of the Audit and Risk Committee. In his nine years with us, we benefited greatly from Paul's wisdom and experience. We thank him for his dedication and commitment during a key time for us.

In November 2018, we announced that Sue Whalley (CEO, Post and Parcels UK) and the Board had agreed she would leave Royal Mail, and she stepped down from the Board with immediate effect. I would like to thank Sue for the significant contribution she has made to Royal Mail in her 12 years with the Company.

I would also like to extend my thanks to Kulbinder Dosanjh for her support to the Board as Group Company Secretary over the last four years. I am pleased to welcome Mark Amsden into this role, which he assumed on 1 May 2019.

CULTURE AND VALUES



Engaged employees, who feel valued by our business, are the foundation of our customer focused culture.

Employee engagement is one of the two people-related key performance indicators on our Corporate Balanced Scorecard. It is measured through our annual Employee Survey. In 2018-19, we saw an increase in our employee engagement score, from 59 points to 60. Our values: Be Positive, Be Brilliant and Be Part of it, apply to every employee. They represent the way we do things as individuals and as a company. We use our culture index to understand how aligned our colleagues are with our values. This year, our culture index score has remained the same at 53 points.

[Read more – see page 76](#)

PURPOSE

Our purpose is to connect customers, companies and countries. We are building a more balanced, more diversified, international parcels business, with a continued focus on letters in the UK.

CHAIR'S STATEMENT CONTINUED

A responsible employer

I am proud that in an extremely challenging trading environment we continue to be regarded as the best employer in our industry, where 'gig economy' conditions prevail at many of our competitors.

We are making good progress with the Communication Workers Union (CWU) in lobbying Government to make the necessary legislative and regulatory changes to enable the introduction of Collective Defined Contribution (CDC) pension schemes in the UK. In my time at Royal Mail, including five years as Chair of the Board Pensions Committee, I have seen the shared commitment with our unions to putting in place appropriate retirement arrangements for both our people and the company. Government's recent consultation, and its confirmation that it will bring forward primary legislation as soon as Parliamentary timing allows, is encouraging progress towards our goal to introduce one pension plan for all our people.

Since 2013, Government has given eligible Royal Mail employees 12 per cent of the shares in the Company for free. These employees have now each received up to 913 Free Shares, regardless of grade. Taking into account the proposed final dividend for 2018-19, those employees will have received around £1,091 (before tax) in dividends since privatisation.

A responsible Company

We make the seventh largest contribution of any UK company to the UK economy¹. One in every 192 jobs in the UK is provided by Royal Mail². Our geographic employment distribution is weighted to areas where there are fewer job opportunities, enabling us to make a significant contribution to social inclusion.

During the year, we took further steps to manage our environmental impact. For example, GLS Austria became the first delivery company in the country to deliver parcels by e-scooter following trials in Salzburg, Linz and Graz. Electric bikes, scooters and vans are already in operation in GLS Germany. In the UK, our 'feet on the street' network of around 90,000 postmen and women plays a key role in keeping carbon emissions low. Last year, we purchased 100 electric vans to be used on delivery rounds and are trialling electric-powered HGVs to transport mail between distribution centres in London and the south east. We also launched a trial of zero-emission e-Trikes in three UK locations.

Through our partnership with Action for Children, we aim to raise £2 million to fund the Blues Programme, where experienced youth workers support young people who have or are at risk of developing mental health issues. The Blues Programme operates in 91 schools, and more than 1,457 young people have completed the programme. We are working with The Prince's Trust to support the development of a new mental health strategy. Our support has enabled the Trust to develop pilots across the UK, giving young people access to one-to-one counselling, wellbeing sessions and art therapy. Royal Mail is also proud to support the charity Chance to Shine which aims to give all children, especially young women, the opportunity to play, learn and develop through cricket. Our support will help young women develop personal skills, improve social wellbeing and help create personal opportunities for them.

Thank you

On a personal note, it has been a privilege to be involved with such an iconic company over the last nine years, during a period of major change, including our listing in 2013. I would like to extend my personal thanks to our Non-Executive Directors for the significant additional workload they have taken on over the last 12 months, and the support and counsel they have offered me and the Board during a difficult period. I wish Royal Mail, the Board and the management team every success as we embark on another period of challenging change. We have many strengths, particularly our strong reputation and respected brands. I believe there are great opportunities for Royal Mail, if we can move quickly to change in step with our evolving marketplace.

On behalf of the Board, I would like to thank everyone at Royal Mail for their hard work and dedication. Special companies are made special by special people. I had the pleasure of overseeing the Chair's Awards this year which highlighted the remarkable work of our people right across the organisation. Royal Mail's postmen and women are the best in the business. Our customers choose us because of the quality of service they provide. Thanks to the continued hard work of our people, Royal Mail makes a difference.

Les Owen
Chair
21 May 2019

“
I believe there are great opportunities for Royal Mail, if we can move quickly to change in step with our evolving marketplace.
”

¹ CEBR research, conducted for Royal Mail in May 2019, comprising direct contributions.

² CEBR Research, conducted for Royal Mail in May 2019.



OUR BUSINESS IS CHANGING, AS ARE THE MARKETS WE SERVE.



Rico Back
Group CEO

Our ambition is to build a parcels-led, more balanced and more diversified, international business. To achieve this, we will focus on the delivery of three strategic priorities:

- ‘turnaround and grow’ in the UK;
- ‘scale up and grow’ GLS; and
- enhancing our cross-border proposition.

We aim to deliver sustainable shareholder value in the medium-term and underpin the UK's Universal Service. Accordingly, our ambition is to deliver an adjusted Group operating profit margin of over four per cent in 2021-22, increasing to over five per cent in five years' time. For a review of our financial and business performance in 2018-19, please see pages 24-27.

Backdrop and overview

It was a privilege, just under a year ago, to become Group CEO of Royal Mail. For over 500 years, we have been part of the fabric of the UK. We have many strengths; in particular, our strong focus and unparalleled scale. Through our growing International business and GLS, we have an excellent platform to grow and expand overseas.

Shortly after I became Group CEO, I commissioned a review to; (a) assess the productivity and efficiency opportunities available to us under the 2018 Agreement; and (b) better understand if our UK network was equipped to handle the ever-growing number of parcels – large and small. Our review has been about how we can ‘future proof’ our UK business – never forgetting the importance of letters – as e-commerce and other societal changes profoundly impact how we all go about our daily lives.

The backdrop to the commencement of our review was challenging. In recent years, the profits generated by our UK business have been in decline and our costs have increased. Our productivity improvement has slowed appreciably due to the absence of both new working tools and network enhancements. In an unscheduled trading update in October 2018, we reported a very disappointing UK productivity performance and a significant reduction in our cost avoidance target. Our share price performance has been negatively impacted by these factors, and others. As a shareholder myself, I understand the disappointment other shareholders, including postmen and women, feel.

From 2019-20, to support the delivery of our strategic goals, including the investment necessary to transform our UK business, and as part of our prudent approach to balance sheet management and maintaining our investment grade rating, our policy is for a full year dividend underpin of 15.0 pence per share, which may be supplemented by additional payouts in years with substantial excess cashflow. The dividend is expected to be covered by cumulative trading cashflows over both three and five years.

Royal Mail is one of the most widely held stocks in the FTSE. The Board appreciates the support of our shareholders, including our postmen and women who have received Free Shares. We very much understand the importance of the dividend to all our shareholders. Our decision to rebase the dividend and change the policy is not one that we have taken lightly. In doing so, we have sought to find the appropriate balance between investing in the future sustainability of our business, and shareholder returns.

In line with our current dividend policy, we are proposing a final dividend payment of 17.0 pence per share, subject to shareholder approval at the 2019 AGM. This represents a four per cent increase in the full year dividend to 25.0 pence per share (2017-18: 24.0 pence per share).

The review of our UK business was informed by some of the key features of our UK business model. Ongoing structural decline in letters is a reality we know only too well. While we expect to handle many more parcels in the years to come,

work we commissioned indicates we should expect UK domestic letter volumes to fall by about 26 per cent over the next five years or so¹. We forecast UK addressed letter volumes will decline by five-seven per cent in 2019-20, returning to our medium-term rate of four-six per cent per annum (excluding political parties' election mailings) from 2020-21, as GDP recovers and the impact of GDPR diminishes. More broadly, Royal Mail's business performance remains closely aligned to UK economic growth. We assume that GDP growth will remain below average in the near-term, and return to a typical growth rate in the medium-term.

At the heart of our renewed Group strategy is a five-year 'turnaround and grow' plan for the UK business. This transformation is vital. We will invest to change and grow. It is about a focus on efficiency and productivity through a range of digitally-enabled, new work tools. Handling larger and small parcels more efficiently and effectively through an enhanced UK network is another key part of the transformation. We will be able to do that through a range of targeted investments, particularly now the overall cost of parcel automation is coming down as the technology gets better and better. Royal Mail's unit cost for handling large and small parcels will reduce. We will be able to accept parcels at all our new parcel hubs (see below) late in the night and in the early hours of the morning from large e-retailers. We expect that our network extension will facilitate more UK e-commerce growth and increase the demand for our parcels services.

We know this is a demanding change programme. It will be carefully sequenced with a foundation period, including parcels automation, in our existing Mail Centres, followed by the embedding of the new work tools across our UK operations and the deployment of the new network design. We have already informed our unions about it. We are committed to working through these changes – including new ways of working and new trials and more flexibility – with them. Given the major cultural shift underway in UK society – more e-commerce and therefore fewer letters and more parcels – it is very important that Royal Mail changes too. Change underpins our future, with the absence of major industrial action a key turnaround assumption.

1. 'Turnaround and grow' our UK business

Backdrop and shape of the transformation programme.

Our last major transformation programme, which delivered significant benefits, concluded in 2015. In recent years, our annual productivity improvement has been modest: one per cent on average over the last two years. Our UK costs have continued to grow with frontline pay, with an increase of two per cent on last year.



FIVE-YEAR STRATEGIC PLAN



'Turnaround and grow' our UK business



'Scale up and grow' GLS



Enhancing our cross-border proposition

¹ The Outlook for UK letter volumes to 2028, PwC, May 2019.

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

The 2018 Agreement brought significant financial benefits to the Company in relation to our pension arrangements. In particular, the agreement to close the Royal Mail Pension Plan to future accrual on 31 March 2018 avoided an expected increase in annual cash contributions to around £1.2 billion: an unaffordable amount. However, an analysis of the productivity and efficiency opportunities under the Agreement showed that the cost of the deal is significant. There needs to be a step change in the pace and focus of the initiatives we deploy to fund it, and a greater focus on day-to-day operational excellence. Both of these themes are at the heart of the five-year transformation programme we are announcing. This integrated, cross-functional transformation programme is expected to deliver a cumulative productivity improvement of 15-18 per cent over the next five years, weighted to the latter years of the plan. In addition, we expect to be able to deliver cumulative cost avoidance of around £1 billion over the life of the plan.

The turnaround – which encompasses productivity initiatives and the network extension – will be carefully sequenced. As many businesses know, consistently delivering major productivity gains is never easy. In the early years, we will lay the foundations for change. This will include rolling out parcels automation, for example, in our existing Mail Centres. About 12 per cent of our UK parcels are machine sorted. Our objective is to increase that to over 80 per cent within five years. This has obvious productivity benefits.

In the second stage of the transformation, we will build our extended network, embed our new working tools and harvest the main benefits of the programme. The necessary sequencing of the main elements of the turnaround means that significant investment will be needed in the early years, with many of the benefits flowing through in the latter years of the plan. In the final phase, we will roll out and run our extended UK network.

1a) A renewed focus on productivity: operational excellence and key new work tools.

Business as usual productivity improvements will be an important part of our targeted productivity gains. The main focus will be on delivery and processing. Our new Operations organisational structure – effective from 1 April 2019 – is deliberately designed to drive up day-to-day productivity gains. Service Delivery Leaders now have responsibility for delivery and processing in dedicated geographical areas, providing focus and accountability.

Our assessment found that the operational direction set out in the 2018 Agreement is right: more digitally-enabled work tools enabling us to better align resource to workload, a key factor in a genuinely people-driven business. Three key tools – Automated Hours Data Capture, PDA Outdoor Actual and Resource Scheduler – will enable us to allocate duties and tasks based on reliable management information. Our workplace will be a fairer one too, as a result. A key principle, benefiting the Company and colleagues, will be operationalised through this new technology: resourcing to workload, with a data driven approach to people management. There will, of course, be other initiatives, particularly improved delivery methods, including reducing the amount of time spent in Delivery Offices on sorting items. There will also be important enabling prerequisites put in place, including strategic workforce planning, greater labour flexibility and better workflow forecasting. We have held a considerable number of discussions with our unions about the new work tools. We have developed guidelines on how data will be used to manage the operation and for our people. We will proceed in line with our plan and existing agreements. Any changes in flexibility to maximise the use of technology will be discussed with our unions.

The turnaround will be challenging to execute. Given the major shift underway in UK society – more e-commerce and, therefore, fewer letters and more parcels – it is very important we change too. Change underwrites our future. The transformation programme ensures Royal Mail will continue to be one of the UK's biggest employers. We anticipate an hours reduction of around three per cent per annum. We are committed to working carefully and considerately with our unions and our colleagues in relation to the impact on them of our transformation programme. We have a good track record of delivering change sensitively through natural turnover, redeployment and voluntary redundancy wherever possible. In line with current agreements, we will continue to deliver change without compulsory redundancies.

1b) Extending our UK network to handle small and larger parcels more efficiently and effectively. This includes a unit cost reduction for both, and significantly enhancing our next day parcel proposition.

Our review found that our existing network has many strengths. We aim to preserve them. It provides us with good economics, particularly in letters and small parcels, with the latter accounting for most of our parcel volumes. The review established that our network can be enhanced to handle the growing number of next day and larger parcels, including our current reliance on manual sortation and a two-sort approach. Having assessed the models adopted by other countries, there is no 'one size fits all' network design. Our approach is to therefore seek the best of both worlds. This means maintaining our existing network for letters and small parcels, and extending our network to handle next day and larger parcels more cheaply and more competitively.





Our network extension is timed to coincide with a strategically important period for the UK parcels market. We expect addressable UK parcel market volume growth of four-five per cent a year¹. We are targeting revenue growth of over five per cent CAGR. Parcels generated by UK retailers will be a key growth area for us. Royal Mail's own view is that small (less than 2kg) parcels will continue to grow at above the market rate, while parcels at the larger end of the volumetric scale will grow at around the market rate. Within all size categories, next day parcels are expected to significantly outpace growth in other delivery time categories.

A range of consumer and e-retailer initiatives will launch in the next 12 months. They will include the single biggest repurposing of our postbox network for over 160 years: we will introduce c.1,400 parcel postboxes across the UK. In addition, we will begin to collect returns – a fast-growing category – from consumers at their homes and offer in-flight redirections for individual parcels. The value of online returns is expected to increase by more than 27 per cent over the next five years; clothing and footwear is forecast to account for almost £7 in every £10 of goods returned².

Today, parcels of all sizes move through our network in the same way, from collections to our Delivery Offices. This approach does not deliver the appropriate efficiency gains for the following reasons: a) the current reliance on manual sortation is not scalable; b) there is insufficient capacity in the existing Mail Centres to handle growing numbers of large parcels; and c) the current two sortation approach entails slower delivery and limits our later acceptance time capabilities. The new, fully-automated parcels hubs will ensure highly efficient sortation of parcels.

In addition, the dedicated processing of larger items will also enable us to handle smaller parcels in a more efficient way. Taking these together, we expect a unit cost reduction in the handling of small and larger parcels. Finally, the combination of dedicated parcel hubs and separate van delivery for larger and later posted items, will significantly enhance our next day parcel proposition. We believe this to be an important strategic consideration, given the growing importance of next day delivery in our industry.



The main elements of the network extension are as follows. The continued combined delivery of letters and small parcels is a key design principle. We estimate that we visit around 60 per cent of UK delivery points each day. Our review confirmed the compelling cost advantages of joint delivery. Three new automated parcel hubs will be located close to major shippers. They will handle our larger parcels, tracked items and later posted items. Letters and small parcels will continue to be processed in our existing Mail Centre estate. Our thinking includes separate van delivery for larger and later posted parcels, routed through potentially 200-300 of our existing, larger Delivery Offices. We will closely inform our unions on the strategy, detailed design and deployment, including a trial for the separate van delivery. The trial will inform the outcome. The delivery of letters and most small parcels will remain unchanged through our existing Delivery Office network.

Putting all our domestic and our international initiatives (see below) together, we expect to transition to being a parcels-led business in five years, with an even greater emphasis on standardised processes to drive efficiency gains. So, in 2023-24, we anticipate that around 70 per cent of Group revenue will come from parcels and 30 per cent from letters. More broadly, Group revenue is targeted to have increased from £10.4 billion in 2018-19 to around £12 billion in 2023-24.

Following the deployment of the enhanced network and, in a major increase in delivery frequency for consumers and SMEs, we will introduce two deliveries a day in most parts of the country from 2023 onwards. Firstly, the usual letters and small parcel delivery. Secondly, the delivery later that day of large parcels that have been ordered online, including in many instances the night before. We will continue to offer customers the convenience of visiting our Customer Service Points, which, together with the Post Office, represent the UK's largest parcels pick up and drop off network.

1 Triangle/RMG UK Fulfilment Market Measure; RMG analysis.

2 GlobalData Online Returns in the UK, 2018.

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED



“
At the heart of our renewed Group strategy is a five-year ‘turnaround and grow’ plan for the UK business. This transformation is vital.
”

2. ‘Scale up and grow’ GLS

GLS will be a key driver of our strategic ambition to become a parcels-led, more balanced and more diversified international business with a strong presence in the UK.

GLS is one of the largest, ground-based deferred parcel networks in Europe. It also has a growing presence in the Western US and Canada. Our strategy is designed to ensure that GLS builds on its strong, 30-year track record, making a major contribution to the Group’s product and geographical diversification. By illustration, GLS revenue grew from £1 billion in 2001-02 to £3 billion in 2018-19, underlining the strength of its business model. There is a specific focus on improving performance in the US, France and Spain. We are pursuing our previously-announced plans to integrate GSO and Postal Express in the US and transition them to our proven business model. Improvement plans in France focus on quality and targeting profitable segments. GLS Spain is making progress with the integration of Redyser, but it is taking longer than anticipated. Together, these markets account for around 20 per cent of GLS revenue. Across GLS, management’s focus will be on profitable revenue growth, including focused yield management. Selective acquisitions will be combined with a continued focus on organic growth. The Company’s balanced customer portfolio of medium and large companies – of whom none represent more than one per cent of GLS group revenue – is a major advantage.

GLS is targeting revenue of around €4.5 billion in 2023-24, compared with €3.3 billion in 2018-19. The Company’s extensive European coverage, including strong, entrepreneurial, local management and partnerships will play a key role. So too will the growing importance of international B2C volumes as retailers and marketplace platforms expand their cross-border offerings. GLS is well placed to benefit from growing cross-border parcels, which currently account for around 20 per cent of its revenue. International shipments have grown in recent years. GLS will enter the small parcel market, working with Royal Mail International to improve its export offering to Europe and North America (see below).

B2B, currently 60 per cent of volume (2017-18: c.55 per cent), will continue to be at the heart of the GLS business model. We will continue to focus on quality and core economics, like high drop density and a balanced customer portfolio. Selective growth in B2C (40 per cent of volume) will be pursued. Here, a margin led approach will remain in place, coupled with the provision of value-added services. The GLS ParcelShop network – currently around 23,000 across Europe – will be selectively expanded to enhance customer convenience. In Italy, many GLS small depots are already close to city centres and are open on Saturdays for customer pick-ups.

A focus on pricing to support revenue growth and to offset costs will be a key part of the GLS strategy. Prices will be increased where appropriate to improve profitability and offset cost pressures like tight European labour markets. This will include the optimisation and introduction of new service fees, like residential delivery fees: they are currently, for example, in place at GLS Denmark.

Combined with an emphasis on network optimisation, these levers will underpin GLS’s adjusted operating profit margin, which we expect be in the range of six-seven per cent per annum.



3. Enhancing our cross-border proposition

Royal Mail Group currently generates combined revenue of £1.7 billion from its cross-border parcel and letter business. The parcels market is large, global and growing. For example, the proportion of UK adults purchasing online cross-border has increased substantially from 28 per cent in 2013 to 43 per cent in 2017³. It is an attractive growth opportunity for us, centred around three key geographies: Europe, North America and Asia. At a product level and based on volume, deferred parcels (65 per cent) and small parcels (12 per cent) predominate; express parcels account for about 23 per cent. This profile matches the Group's focus on deferred (GLS) and small parcels (Royal Mail International).

Our cross-border strategy will play to our strengths and is focused on deferred and small parcel shipments. Royal Mail will provide GLS with access to the lightweight small parcel segment, where national postal operators, given their final mile networks, usually have a cost advantage compared to other operators. GLS is currently not active in the segment (below 2kg). GLS will enter the market through Royal Mail and expand its service proposition accordingly.

We see a significant market opportunity for Royal Mail International to grow its share of the UK export parcels market. Growth will be driven by the highly developed and sophisticated UK e-commerce market and increased purchasing by overseas consumers of goods from UK online shopping sites. Royal Mail International has a very limited presence through Parcelforce Worldwide in the larger parcel export market (above 2kg). By combining the Royal Mail International and GLS network propositions, the 2kg weight restriction will be removed gradually, starting with key Royal Mail account customers. Through GLS, a weight range of up to 30kg will be available, as well as value added services, including faster delivery, tracked and signed for.

The strong combined European network of Royal Mail and GLS is a value add for import customers. Royal Mail and GLS are targeting to grow volume coming from Asia-Pacific. The Asia-Pacific market is the fastest growing cross-border e-commerce market globally. The GLS and Royal Mail network will also connect Europe with GLS North America (and vice versa) to offer tracked services. In fact, GLS North America is already delivering for Royal Mail on the US West Coast and in Canada. Connected networks will be a key theme underpinning our growing cross-border proposition.

Delivering our future together

Our turnaround plan is challenging, stretching and ambitious. We have changed before – many times in fact – during our 500-year history. Our ambition is to build a parcels-led, more balanced, more diversified international business. At the heart of our strategy is a 'turnaround and grow' plan for our UK business. Alongside our focus on the UK, we will 'scale up and grow' GLS and enhance our cross-border proposition. We therefore expect to deliver an adjusted Group operating profit margin⁴ of over four per cent in 2021-22, increasing to over five per cent in five years' time.

In my first year as Group CEO, I have been impressed by the continued commitment and dedication of all our people. Royal Mail is a business made great by its people. Our plans are ambitious. I am confident we have the right team to successfully execute them. I thank my colleagues, and all our stakeholders, for their commitment to this Company. I look forward to the coming years as we change and transform for the benefit of all our stakeholders.

Rico Back
Group Chief Executive Officer
21 May 2019

³ Eurostat ICT Usage in Households and Individuals 2017.

⁴ Adjusted group operating profit will include the impact of voluntary redundancy and project costs (previously categorised as transformation costs).

SUMMARY OF OUR FIVE-YEAR STRATEGIC PLAN

SUMMARY OF OUR FIVE-YEAR STRATEGIC PLAN

The Group Chief Executive Officer's Review, alongside the Summary of our Five-Year Strategic Plan replace the "Our Strategy" section, which has previously appeared in our Annual Report and Financial Statements.



1) TRANSFORMING AND GROWING OUR UK BUSINESS

Following a review of our UK business, we are announcing a major, five-year UK 'turnaround and grow' plan. By investing in productivity, network and customer focused initiatives, following a period of margin compression in the early stages of the plan due to the cost of the Agreement (see below) and productivity gains weighted toward the latter period, our objective is to restore and enhance the UKPIL adjusted operating profit margin. We are targeting an adjusted UKPIL operating profit margin of three-four per cent in 2021-22. We anticipate the margin will reach five per cent in 2023-24, ensuring a sustainable Universal Service. This transformation is vital. While we expect to handle many more parcels in the years to come, forecasts suggest the number of UK domestic letters in our mail bag will decline by around 26 per cent over the next five years¹. That is a key imperative for change.

An assessment of the productivity and efficiency opportunities under the 2018 Agreement underlined the need for a turnaround programme. The pension settlement achieved under the Agreement delivered significant financial benefits to the Company in terms of avoidance of large increases in costs avoided if the defined benefit pension arrangements had continued. The assessment found that a step change was required in the form of a new transformation plan to fund the overall cost of the Agreement to Royal Mail. While the overall operational direction set out in the Agreement is right – more digitally enabled work tools and better data capture – the review found that the initiatives so far designed to fund it were not enough in themselves to do so; nor were they all at the appropriate stage of readiness. Hence the need for a major shift in focus and pace, including a new transformation plan for our UK operations.

We know this is a demanding change programme: we have informed our unions about our plan. We will engage closely with them, and our colleagues, in the coming months as we work collaboratively through the strategy, detailed design and deployment.

1a) Renewed focus on productivity: operational excellence and key work tools

- **We are targeting a cumulative productivity improvement of 15-18 per cent over the next five years, weighted to the latter years of the plan:** We aim to do so through: (a) a stronger focus on day-to-day productivity gains; and (b) embedding key, digitally-enabled work tools (e.g. PDA Outdoor Actuals, which gives better visibility of outdoor activity). These tools in combination will deliver better alignment of resources to workload and a data driven approach to people management.

¹ The Outlook for UK letter volumes to 2028, PwC, May 2019.



- **A major increase in parcel sorting automation:** About 12 per cent of our UK parcels are machine sorted. Our objective is to increase that to over 80 per cent within five years. We will install parcel sorting machines in our Mail Centres in the early years of the plan.

1b) Extending our UK network to: a) deliver a reduction in the unit cost of handling larger and small parcels; and b) secure productivity gains:

- **Continued combined delivery of letters and small parcels will be a key design principle:** We estimate that we visit around 60 per cent of UK delivery points each day. Our review confirmed the compelling cost advantages of combined delivery.
- **We will extend our UK network to: (a) maximise the benefits of delivering letters and small parcels together; and (b) handle larger and small parcels more efficiently, including a unit cost reduction for both:**
 - Three new, fully-automated parcel hubs will be built, handling all large parcels, later posted items and small tracked parcels. They will operate alongside the existing Mail Centres.
 - Separate van delivery for next day and larger parcels routed through potentially 200-300 of our existing, larger Delivery Offices. We have already informed our unions about our plan. We will closely engage with them on strategy, detailed design and deployment, including a trial for the separate van delivery. The trial will inform the outcome. Delivery of letters and small parcels will remain unchanged through our existing Delivery Office network.

1c) Market leading terms and conditions, a major UK geographical presence and enhanced customer service

- **Royal Mail is one of the UK's biggest employers with the best terms and conditions in the UK delivery industry:** We anticipate an hours reduction of around three per cent per annum. We are committed to working carefully and considerably with our unions and our colleagues in relation to the impact on them of our transformation programme. We have a good track record of delivering change sensitively, through natural turnover, redeployment and voluntary redundancy wherever possible. In line with current agreements, we will continue to deliver change without compulsory redundancies.
- **One of the UK's biggest physical networks:** Potentially 200-300 of our bigger Delivery Offices will receive significant investment to handle more larger and later posted next day parcels.
- **With the new parcel hubs and separate van deliveries in place in 2023, in a major increase in delivery frequency for consumers and SMEs, we will introduce two deliveries a day in most parts of the country:** Firstly, consumers will receive the usual letters and small parcels delivery. Secondly, there will be a delivery later that day of larger or next day parcels they have ordered, in many instances, in less than 24 hours.

SUMMARY OF OUR FIVE-YEAR STRATEGIC PLAN CONTINUED



1) TRANSFORMING AND GROWING OUR BUSINESS CONTINUED

1d) UK Parcels and Letters: becoming a parcels-led business; letters remain important

Parcels

- **Targeting volume growth at above the expected addressable UK parcel market growth rate:** We expect addressable UK parcel market volume growth of four-five per cent per year². We are targeting revenue growth of over five per cent CAGR over five years.
- **Major new customer and e-retailer initiatives coming on stream:** In the single biggest repurposing of our postbox network for some time, we will introduce c.1,400 parcel postboxes across the UK. The majority of these postboxes will be in place by the end of 2019-20. We will also for the first time begin collecting returns from consumers at their home, and offering more in-flight redirections for individual parcels. Further initiatives will follow.

Letters

- **Letters – and letters communication – will continue to be important to Royal Mail and the UK:** After Germany, the UK currently has the most letters per capita (151 per annum) in Europe³.
- **The structural decline of letters will continue but, even on a five-year view, there will still be significant numbers of letters in our mailbag:** According to research we commissioned from PwC, the number of UK letters will decline by around 26 per cent from 10.3 billion today to 7.6 billion in 2023⁴.
- **Addressed letter volume declines:** Royal Mail forecasts UK addressed letter volume declines will return to our medium-term rate of four-six per cent per annum (excluding political parties' election mailings) from 2020-21, as GDP recovers and the impact of GDPR diminishes.

² Triangle/RMG UK Fulfilment Market Measure; RMG analysis.

³ Annual reports, IPC, Statistical Database, Worldometer.info.

⁴ The Outlook for UK letter volumes to 2028, PwC, May 2019.



2) SCALING UP AND GROWING GLS

GLS is one of the largest, ground-based deferred parcel networks in Europe, with a growing presence in the US and Canada. It includes a diverse portfolio of businesses which are local, flexible and close to customers. Our strategy is designed to ensure that GLS builds on its strong, 30-year track record and makes a major contribution to the Group's product and geographical diversification over the next five years. We are also implementing improvement plans in the US, France and Spain. These three markets represent 20 per cent of revenue. More broadly, the GLS overall focus will be on profitable revenue growth, including focused yield management. We will bring together the best of Royal Mail and GLS to grow our own cross-border and global parcel propositions.

- **We are targeting around €4.5 billion revenue in 2023-24:** We expect to deliver this through organic growth.
- **Continued focus on B2B, selective growth in B2C:** The GLS B2C approach will be centred on service and margin management, a balanced e-retailer portfolio and tailored solutions for local market needs.
- **GLS well placed to benefit from growing cross-border parcels:** International shipments have grown in recent years. GLS will enter the small parcel market, working with Royal Mail International, to improve its export offering to Europe and North America (see below).
- **We are targeting a GLS adjusted operating profit margin of six-seven per cent per annum:** Network optimisation, a focused pricing strategy and an emphasis on high margin products will underpin the margin.



3) ENHANCING OUR CROSS-BORDER PROPOSITION

Royal Mail Group currently generates combined annual revenue of around £1.7 billion from its cross-border parcel and letter business. The cross-border parcels market is a large, attractive growth opportunity for the Group. Cross-border, B2C spend, driven by e-commerce, has been predicted to grow by 33 per cent CAGR⁵. We will combine the best of Royal Mail International and GLS to offer a global proposition in smaller and larger cross-border parcels.

- **Focused strategy centred on deferred parcels and small parcel shipments (mainly untracked):** We will leverage Royal Mail International's (small parcels) and GLS' (deferred, larger items) combined strengths. Small and deferred parcels account for around 75 per cent of all cross-border deliveries.
- **We expect to grow the Royal Mail International share of the UK export parcels market:** With GLS, Royal Mail International will, for the first time, offer export parcel delivery services above the current 2kg limit to key account customers.
- **GLS will leverage Royal Mail International's cross-border expertise and reach in small parcels:** approximately 70 per cent of e-commerce cross-border deliveries are below 1kg. National postal operators have strong economics in this segment through combined foot delivery. Through Royal Mail, GLS will have access to this network and will extend its service proposition accordingly.
- **Royal Mail International and GLS are jointly developing a pan-European solution for Asian imports:** The Asia-Pacific market is the fastest growing cross-border e-commerce market globally. Royal Mail International and GLS will participate in this market by offering a joint, consolidated import solution across Europe.

⁵ 2014-2020 data; Why Cross Border Ecommerce is the Future of Ecommerce, 2017.



BUSINESS REVIEW 2018-19

This section reviews our business, financial and operating performance for the full year to 31 March 2019 on an adjusted 52 week basis. Our reported results are set out in the 'Group' section of the Financial Review on page 40-63. Its structure reflects our previous strategic framework, which was based on three strategic priorities: winning in parcels; defending letters; and adding value and expanding our networks. This is the last year that we will review performance against these priorities, as we have a new strategic framework and approach (see the CEO Review on pages 14-19).

Reported Results

Group revenue increased by £409 million. This was largely due to the 53rd week in UKPIL and higher parcels revenue in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. Operating profit before transformation costs increased by £238 million, largely due to the reduction in the IAS 19 pension charge in UKPIL of £371 million, following the closure of the RMPP to future accrual in its previous form from 31 March 2018. Operating specific items increased by £124 million, largely due to the impact of the impairment of the GSO and Postal Express businesses in GLS and the accounting consequences of the purchase of a further buy-in insurance policy for the Royal Mail Senior Executives Pension Plan (RMSEPP).

Group operating profit increased by £94 million to £160 million. Profit before tax increased to £241 million, of which UKPIL accounted for £160 million (2017-18: £39 million) while GLS accounted for £81 million (2017-18: £173 million). Basic earnings per share decreased to 17.5 pence.

Adjusted Results

It has been a challenging year. Trading conditions in the UK, including but not limited to the impact of GDPR and ongoing economic uncertainty around Brexit, have been difficult. Tight European labour markets created margin pressure for all delivery operators, including GLS. We were very disappointed to announce in October 2018 that we would not deliver our productivity improvement and cost avoidance targets. This was due to the after effects of the industrial dispute, delayed implementation of cost avoidance projects and the complexity of implementing elements of our Agreement with CWU. It is important to note that, as expected, our performance improved in the second half of 2018-19. Productivity in collections, delivery and processing improved to 0.9 per cent; an improvement, but not where we want to be.

Adjusted UKPIL operating costs before transformation costs¹ increased by two per cent on an underlying basis, driven by an increase in both people and non-people costs. As previously announced, we were disappointed, following our poor productivity performance, to have to lower our cost avoidance target from £230 million to £100 million for 2018-19. We have achieved our revised target, with a performance of £107 million. This reflects an improved performance in the second half. Group adjusted operating profit before transformation costs was £509 million, within our revised range of £500-530 million.

Turning to our overall revenue performance, at the Group level, revenue increased by two per cent. UKPIL revenue was flat. A six per cent decline in total letter revenue (mitigated by business mail price increases) was offset by the strongest growth in parcel revenue since 2013-14. Adjusted UKPIL operating profit margin after transformation costs declined from 5.1 per cent to 2.6 per cent. GLS revenue rose eight per cent on an underlying basis. Volumes were up five per cent. Adjusted GLS operating profit margin of 6.1 per cent was in line with our expectations of over six per cent.

Winning in parcels

In 2018-19, we handled around 1.3 billion parcels in the UK. The addressable parcels market has, according to our estimates, returned to its medium-term growth rate of four-five per cent per annum². Our parcel volume growth in key areas has outpaced the addressable market growth rate for some years, including 2018-19, when our combined Royal Mail Tracked 24®/48® and Tracked Returns® volumes grew by 24 per cent.

Customers – both senders and recipients – rate us highly on trust and reliability. Royal Mail is the UK's most trusted delivery provider. Three out of four people trust Royal Mail to deliver their online purchases³.

GLS provides the Group with significant geographical diversification and has a leading position in its major markets. More than half its volumes (60 per cent) are generated by B2B parcels (2017-18: c.55 per cent); 40 per cent comes from B2C traffic. During the year, GLS delivered 634 million parcels. Revenue growth was achieved in the majority of GLS' developed European markets, with its largest markets (Germany, France and Italy) contributing 57 per cent of the total. There was strong, double digit revenue growth in all developing/emerging European markets. GLS is also underpinning its margins by optimising both its line haul and last mile logistics operations. This includes aligning cross-border and domestic line haul networks and developing route optimisation software tools for delivery partners.

1 For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 31 March 2019, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.' Movements are presented on an underlying basis.

2 Triangle/RMG UK Fulfilment Market Measure; RMG analysis.

3 Delivery Matters, 2018; RMG analysis.





In September 2018, we announced the acquisition of Dicom Canada for a total consideration of C\$360 million (c. £212 million). Canada is the world's tenth largest economy⁴, with Ontario and Quebec – Dicom's two key markets – accounting for two thirds of the Canadian Courier, Express and Parcel market. Since its acquisition, Dicom's performance has been in line with our expectations. In our Half Year 2018-19 Results, we recognised a £68 million impairment against goodwill and other assets related to the acquisition of GSO and Postal Express in the Western US. The impact of local cost pressures, refocusing the customer base, and transitioning to a new business model mean that expected synergies and benefits will take longer to be realised.

Turning to important broader considerations, the shape of the future relationship between the UK and the EU continues to be unclear. It is therefore not appropriate, at this stage, to set out with any degree of accuracy the impact of various Brexit eventualities on the Group. We believe the immediate risk to our domestic operations is low. We are working with key suppliers to ensure our supply chain remains secure. Internal procedures are in place to monitor and manage ongoing risks. As previously outlined, the main issues for the Group are expected to relate to any potential economic downturn and changes associated with customs and VAT processing.

Defending letters

Letters continue to be important to Royal Mail, accounting for 51 per cent of UKPIL revenue. Letters are a powerful communications tool, with many advantages compared with social media and email. For example, recent research found that letters have a 35 per cent better recall rate among consumers compared to social media, or 49 per cent better compared to email. They are also a proven driver of sales for businesses: around one third of addressed advertising mail generates a commercial action⁵.

While addressed letter volumes are in structural decline, the UK mail bag continues to be one of the biggest in Europe. After Germany, the UK currently has the most letters per capita (151 per annum) in Europe⁶. For some years, addressed letters have declined within our forecast four-six per cent range, primarily driven by e-substitution. This year, however, while the rate of e-substitution is broadly unchanged, addressed letter volumes have declined by eight per cent (excluding political parties' election mailings), in line with our updated expectations. Marketing mail revenue declined by ten per cent, largely reflecting the impact of GDPR.

During the year, we introduced a number of customer-led initiatives. For marketing mail (around one third of addressed mail volumes), we launched a partially addressed product for advertisers, which enables brands to target potential customers without using third party data. A new magazine subscription product for publishers provides them with more notice of any price changes, giving them greater certainty when they set subscription levels for their customers.

In February 2019, we announced that First Class and Second Class stamp prices would increase from 25 March 2019, to 70 pence and 61 pence, respectively. Royal Mail's stamp prices are among the best value in Europe compared with other postal operators. In October 2018, we announced an average nine per cent increase in wholesale business mail pricing, which affects companies like banks and insurance companies. We know many households and companies are finding it hard in the current economic environment. We considered these changes very carefully. They are necessary to help ensure the sustainability of the Universal Postal Service.

⁴ The World Bank GDP ranking, 2017.

⁵ JICMAIL, Kantar TNS, Q2 2017 – Q1 2018.

⁶ Annual Reports, IPC, Statistical Database, Worldometer.info.



In August 2018, we announced that we would appeal Ofcom's competition law infringement decision. The decision, and fine of £50 million, relates to a price change announced in 2014 – never implemented or paid – under our Access Letters Contract. The announced price change had been robustly stress tested by Royal Mail under competition law and the relevant regulatory framework. Royal Mail has now lodged an appeal with the Competition Appeal Tribunal to have both Ofcom's decision and fine overturned. No fine is payable until the appeals process is exhausted.

Adding value and improving our network

GLS continues to innovate in processing and delivery, including initiatives to pursue targeted growth in B2C parcels. Customers of GLS Germany can view expected delivery times on almost all parcels. The Company has introduced a letterboxable parcel delivery service, offering customers a fully trackable service and 24-hour delivery. Items can be delivered first time, even if no one is at home to receive them. It has enhanced its parcel tracking service, with five separate pictograms to show delivery progress.

GLS' customer offering is built upon the customer convenience and flexibility of one of the largest, ground-based deferred parcel delivery networks in Europe. This includes a presence in 41 countries across Europe, around 26,000 delivery vehicles and around 23,000 ParcelShops for customer collection. Following the acquisition of ASM in 2016-17, GLS became one of the biggest B2C delivery players in Spain. Its Spanish network of more than 450 agents means that it is close to business customers and parcel recipients. GLS Italy's diverse fleet, including e-vans, e-bikes, e-scooters and diesel vans can be flexed to suit the needs of the local area. GLS is harvesting the growth in cross-border e-commerce. FlexDeliveryService, available in 21 European countries, makes it easier for online shoppers to receive goods

purchased abroad. Anyone shopping beyond national borders in linked countries can choose from a range of delivery options.

In July 2018, Parcelforce Worldwide launched an online dashboard enabling sending customers to track the delivery of their UK and International parcels. It shows which items have been delivered and which are in transit, helping businesses identify and monitor priority customers where extra focus might be required. In October 2018, Parcelforce Worldwide opened its new South East Processing Centre (SEPC) in Hatfield, Hertfordshire.

The 60,000 sq. ft. operation uses the latest parcel handling and processing technology. It can process more than 50,000 parcels a night – increasing to 60,000 in peak periods.

With the UK's largest 'feet on the street' network of around 90,000 postmen and women, Royal Mail plays a key role in keeping carbon emissions low. Across our UK fleet of around 48,000 vehicles, including around 2,600 trailers, we are committed to reducing our carbon footprint. Alongside the introduction of 100 electric vans in a number of locations in 2017-18, we have launched a trial of zero-emission e-Trikes in Stratford (East London), Cambridge and Sutton Coldfield. SEPC (see above) will help to reduce Parcelforce Worldwide's carbon footprint for parcels that can be processed locally within the South East.

Becoming more digitally-enabled

In October 2018, we launched a new mobile app to help consumers track their items from their smartphone. With a reference number, parcel recipients can check the progress of deliveries. They can book a redelivery if it has not been possible to deliver an item, or arrange for a redelivery to their address, neighbour or a local Post Office – all via the app. Amazon Alexa was launched on the app in April 2019, and allows you to quickly track the status of your Royal

Mail deliveries, by providing Alexa with your Royal Mail tracking number. This is available through all Alexa voice enabled devices. More enhancements will make it even easier for recipients to manage deliveries.

In June 2018, we launched a new shipping tool designed to help larger businesses and retailers fulfil complex shipping needs. 'Pro Shipping' makes it simpler for retailers to manage orders and returns across distributed sites. It complements the suite of in-house shipping tools to ensure: the easy management of large lists of recipients or customers; the ability to print outward and return labels simultaneously; and multiple user access from different locations and the automatic printing of customs documentation. Alongside the shipping tool, Royal Mail API Shipping makes it easier for firms to integrate their systems with Royal Mail. Both tools have been developed by Intersoft, a software development company acquired by Royal Mail in 2016.

Our workforce

We provide high-quality jobs and industry leading employment conditions. We are making Royal Mail a fairer place to work and providing equal employment opportunities for all. In the UK, our Annual Gender Pay Gap Review 2018 showed that, on a mean basis, women are paid 0.6 per cent more than men. On a median basis, men are paid one per cent more than women, due to men selecting more work that qualifies for allowances, like shift work during the evening or at night. We pay bonuses equally to men and women on a median basis. The bonus gap is 22.7 per cent in favour of women on a mean basis, compared to 9.1 per cent in the previous year. We have also seen an increase in the number of women hired across Royal Mail. The Times has named Royal Mail a Top 50 Employer for Women for the sixth consecutive year.

Our Agreement with the CWU secured a fair and sustainable pension solution for the Company and its people. Regrettably, it was necessary to close the Royal Mail Pension Plan (RMPP) to future accrual in its previous defined benefit form on 31 March 2018. Without this action, we could not have avoided an expected increase in cash contributions to around £1.2 billion every year – an unaffordable amount. From 1 April 2018, transitional arrangements have been in place. RMPP members participate in a Defined Benefit Cash Balance Scheme. Employees receive a total contribution from the Company of 15.6 per cent of pensionable pay towards their retirement benefits and life assurance. Members of the Defined Contribution Plan have benefitted from an increased contribution from the Company.



Working with the CWU, we are lobbying Government to make the necessary legislative and regulatory changes to enable the introduction of a Collective Defined Contribution (CDC) pension scheme. We were pleased to see that in March 2019 that, after a consultation, HM Government confirmed that primary legislation would be brought forward to introduce CDC pensions as soon as Parliamentary time allows. This is an important step towards allowing the introduction of a CDC scheme for our employees as soon as possible.

In March 2019, we confirmed a two per cent pay award for CWU grade employees. The award, effective from 1 April 2019 onwards, was specified in the Agreement, alongside the prior five per cent award from October 2017 – March 2019. In October 2018, we confirmed the implementation of the first hour's reduction as part of the Shorter Working Week. Subsequent hours off the working week are subject to a joint evaluation of factors including ongoing efficiency improvements, implementation of changes from trials in the operation and technological changes.

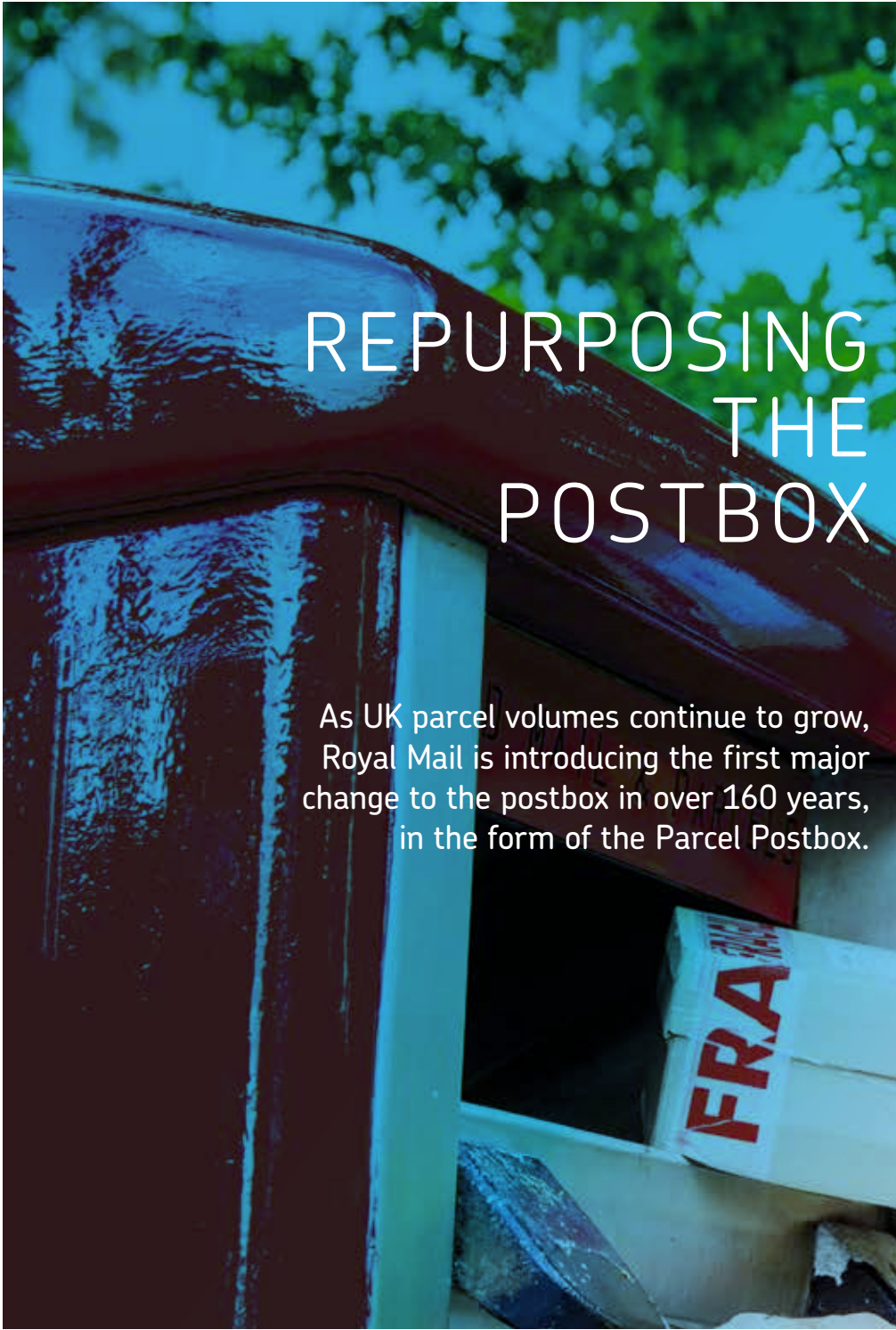
We saw an increase in our employee engagement score to 60. Our annual employee engagement survey also measures our employees' pride to work for Royal Mail, which increased to 70, and how likely our people would be to recommend us as an employer to friends and family, up 1 point to 60. Employee turnover remained low at 7.2 per cent, compared to the UK average of 23 per cent.

Customer focus

We are making our services simpler and more flexible to remain competitive. In August 2018, we announced the trial of 30 new parcel postboxes to support growth in e-commerce. The postboxes allow SMEs and marketplace sellers to post pre-paid parcels as they currently post letters. 17 parcel postboxes were trialled in Northampton and 13 in Leicester. Our Mail Centres accept parcels from e-retailers up to 1.30am for next day delivery.

In March 2019, we noted Ofcom's provisional decision not to impose a financial penalty with respect to its investigation into our Quality of Service performance for 2017-18. Ofcom itself said that Royal Mail's performance was disrupted by certain events beyond its control – in particular, the severe weather in February and March 2018. We are disappointed that our regulatory First Class Quality of Service performance for 2018-19 was 91.5 per cent, below the target to deliver 93 per cent of this mail the next working day. Second Class Quality of Service met the regulatory target. We delivered 98.6 per cent of this mail within three working days, against a target of 98.5 per cent. We take our commitment to delivering a high quality service very seriously. We are redoubling our efforts to tackle quality issues where they arise.

Digital enhancements have enabled us to introduce a range of improved products and services for customers. We offer customers a two-to-four hour estimated delivery window for parcels, shared the day before delivery. Customers who are not in can request delivery to neighbour or a digital Something for You card. Our mean business customer satisfaction score was 78, in line with our performance in 2017-18. Our Net Promoter Score, which measures the loyalty of our business customers, was 39 in the period, down from 40 in 2017-18.



REPURPOSING THE POSTBOX

As UK parcel volumes continue to grow, Royal Mail is introducing the first major change to the postbox in over 160 years, in the form of the Parcel Postbox.





KEY FACTS

1,400

the number of Parcel Postboxes
to be introduced nationwide

160 years

since the postbox was first introduced

Following a successful trial, Royal Mail will introduce 1,400 new Parcel Postboxes across the UK. The majority of these postboxes will be in place by the end of 2019-20. Small businesses and marketplace sellers will be able to post pre-paid parcels through securely designed parcel postboxes, in the same way that they currently post a letter.

The roll-out involves adapting pre-existing meter boxes, which have a wider aperture and secure design for mailing larger items – making parcel posting for small businesses and marketplace sellers both safe and convenient.

Parcel Postboxes will be introduced in locations across the UK, from Dagenham to Dundee. The launch represents the first major change of use for the UK postbox since it was first introduced over 160 years ago.

 More information – www.royalmailgroup.com

RAPID GROWTH IN THE UK SUBSCRIPTION BOX MARKET

A subscription box is a recurring, physical delivery of products packaged as an experience and designed to offer additional value on top of the actual retail products contained in the box, such as through surprise, a saving on what is on offer in the shops, or by giving the user a chance to experiment with a tailored selection of products. Royal Mail's 'UK Subscription Box Boom report' forecasts exponential growth in this market by 2022. Compiled by GlobalData, the market was sized and forecasted using a combination of data from consumer and B2B surveys, company financials, other secondary data (such as industry reports, macro-economic and population data) and GlobalData's own proprietary database of consumer, market and retailer data.





KEY FACTS

£1bn

estimated value (per annum) of the subscription box market by 2022

27%

UK customers already signed up to a subscription box service

72%

the forecast growth of the total UK subscription box market by 2022

A report we commissioned from GlobalData found consumer demand for subscription box services, and an appetite amongst UK businesses to invest time and money to participate in the future success of this part of the delivery market. The UK subscription box market is still in relative infancy compared to mature markets like the US. But it is in a phase of rapid growth.

Spurred on by the growth of mobile devices, subscription commerce has moved on from a past focus on magazines and newspapers to embrace everything from recipe food kits, to pet food, to shaving gear and self-care. By 2022, the number of subscription box deliveries is set to grow to an estimated 65.3 million.

At Royal Mail, we are ready to help businesses across the UK to succeed in the subscription space whether they already have a subscriber base or are looking to enter the market.

 More information – www.royalmailgroup.com

ROYAL MAIL PLAYS A CRUCIAL ROLE IN THE UK ECONOMY AND IS WELL POSITIONED TO CAPTURE GROWTH IN ITS INTERNATIONAL MARKETS



In this section, we review the major market developments in the UK. This includes insights from a major new report by PwC, commissioned by Royal Mail, looking at the outlook for UK letters to 2028. We are also increasing our analysis of international parcels markets to reflect our areas of strategic focus.

COUNTRIES COVERED

44

POSTMEN AND WOMEN THE UK

90,000

UK DELIVERY POINTS VISITED DAILY

c.60%

UK PARCELS MARKET

The annual UK parcels market consists of over three billion domestic and international parcels and is valued at over £10 billion. Growth continues to be driven by e-commerce, as consumers increasingly shop online, on mobile and through their smart connected devices.

In 2018, online retail grew more than three times faster than the wider UK retail market, accounting for 17 per cent of the overall market, rising to 23 per cent for non-food retail spending. It is forecast to increase to 20 per cent of total retail spending (28 per cent of total non-food retail spending) by 2023¹.

The UK is Europe's most competitive parcels market, with 15 major parcel carriers. Across the industry, parcel carriers are investing in new capacity, parcel collection points and new technology. At the same time, retailers are expanding their own delivery services.

Personal deliveries (i.e. delivery to an individual's home or office) is the largest and most mature e-retail segment and remains the consumer's preferred delivery option². But, in-store click & collect is expected to outperform personal delivery growth, as more and more consumers opt to pick up their online orders in-store. Parcels collections and returns through parcel shops and locker banks are also growing quickly, albeit from a low base as retailers provide consumers with a wide selection on delivery options.

Growth in streaming services for music, video and computer games is driving declines in physical deliveries of these categories. On the other hand, the clothing and footwear and health and beauty categories are generating volume growth, particularly as retailers develop their online and mobile platforms in these areas.

About half of UK domestic parcels are still delivered later than next day, but, in a competitive retail environment, customers are increasing their use of next day delivery, particularly as a promotional tool during sales events such as Black Friday.

¹ GlobalData E-retail in the UK 2018-2023, 2018.

² Consumer Home Delivery Review 2018/19, IMRG, 2019.

ONLINE ORDER FULFILMENT

Consumers are increasingly shopping when it suits them, including shopping online late in the evenings. Retailers have extended their online order acceptance times for next day delivery, with some accepting orders as late as midnight. Carriers are adapting their networks to facilitate accepting parcels later in the night or early in the morning for next-day delivery.

Online order fulfilment continues to be a key differentiator. Many retailers are investing in a range of flexible purchasing and online delivery options. The use of free delivery is a major draw for consumers; retailers are now offering delivery saver schemes and buy now, pay later payment services as a sales and customer loyalty tool. While these tools successfully drive customer conversion, they can lead to increased returns.

Consumers are demanding more choice in relation to online returns locations. Postal returns remain the preferred channel for 45 per cent of online returns³. Meanwhile, free and easy returns are increasingly important to online shoppers, driving sales and customer loyalty⁴. The value of online returns is expected to increase by more than 27 per cent over the next five years, with clothing and footwear expected to account for almost £7 in every £10 of goods returned⁵.

VALUE OF ONLINE RETURNS
EXPECTED INCREASE IN FIVE YEARS

+27%

RETURNS, CLOTHING AND FOOTWEAR
EXPECTED TO ACCOUNT FOR

£7 in £10

of all goods returned

³ GlobalData Online Returns in the UK, 2018.
⁴ Klarna Re-thinking Returns research paper, 2019.
⁵ E-commerce European B2C Report, 2018.
⁶ Including Amazon – Ofcom Annual Monitoring Report, 2017-18.

INTERNATIONAL PARCELS

E-commerce is fuelling growth in cross-border parcels. The proportion of UK adults purchasing online cross-border has increased substantially, from 28 per cent in 2013 to 43 per cent in 2017⁵. In 2018, European B2C e-commerce is expected to have grown around 13 per cent to €602 billion⁶. In 2017-18, international outbound parcels (exports) represented seven per cent of all parcel volumes shipped, but 23 per cent of revenue⁶.



MARKET OVERVIEW CONTINUED



UK ONLINE RETAILERS

A recent Royal Mail study into the international ambitions of small UK online retailers found that 38 per cent of small businesses think Europe holds the most potential to generate new sales for their business in 2019. 34 per cent think the US and 29 per cent believe Canada are the most promising markets.

Inbound parcel growth rates have experienced high levels of growth, driven in particular by low value items from Asia. Consumers mainly purchase from international sellers offering better prices, unique products or specific brands. They expect clear information about delivery charges, a simple returns process and a seamless cross-border delivery and returns experience⁷. The top three countries for cross-border purchases into the UK are China, the US and Germany. In fact, half of UK consumers purchasing cross-border in 2018 said their most recent purchase was from China⁸. Clothing and footwear, jewellery and watches, health and beauty and consumer electronics were the most frequently purchased items.

In an increasingly competitive environment, operators are providing innovative, high quality services at lower prices. In the UK, there are a range of major operators that deliver cross-border- services, alongside hundreds of smaller operators and online retailers looking to increase market share. Outside the EU, Chinese e-commerce marketplaces are strengthening international cross-border- services. Alibaba has reported that the value of goods sold on its marketplace on Singles' Day (11 November) rose 27 per cent to almost \$31 billion breaking the 2017 record of \$25 billion. Singles Day is the world's largest shopping event, eclipsing both Black Friday and Cyber Monday.

⁷ IPC cross-border e-commerce shopper survey, 2017.

⁸ IPC cross-border e-commerce Survey, 2018.

UK LETTERS MARKET

Letters are important to Royal Mail. They support our joint network with parcels. We delivered around 13 billion letters in 2018-19, of which 78 per cent were addressed letters. But, the volume of addressed letters we deliver has halved since peak in 2004. Research we commissioned from PwC forecasts that total UK domestic letter volumes are expected to fall to 6.2 billion in 2028, a further decline of 40 per cent. Despite this decline, the UK is second only to Germany when it comes to the number of letters per capita.

The UK letters market is highly competitive. While Royal Mail accounts for almost all downstream (final mile) deliveries, the UK 'Access' market is, by some distance, the biggest in Europe. Access competition is where a postal operator other than Royal Mail collects mail from the customer, sorts it and then transports it to our Mail Centres for us to deliver. This enables other operators to offer postal services to larger business customers for letters and large letters without setting up a delivery network. Access operators accounted for 63 per cent of addressed inland letters in the nation's postbag in 2017-18, up from 61 per cent in 2016-17⁹.

We continue to see the impact of GDP performance and overall business uncertainty in the UK on letter volumes, in particular, transactional and publishing mail. There is an ongoing focus by organisations and Government on driving digital uptake, with new technologies such as mobile payments driving further letter volume declines.

Since the EU referendum, non-digital advertising market growth has slowed¹⁰. Television advertising was flat, while print media declined in 2018. Advertisers have shifted from traditional to cheaper digital forms of advertising. Digital forms of advertising account for more than one in every two pounds spent on advertising in the UK, driven by paid search and online display formats, particularly social media and online video. While it is the third largest media by advertising spend, the amount spent on direct mail fell sharply following the introduction of GDPR in May 2018. However, the rate of decline has somewhat recovered in recent months, with customers returning to the direct mail advertising market.

The UK is the number one country in the world for greeting card sales, with consumers purchasing 33 cards a year. Greeting cards make up the majority of social mail volumes, but social letters have experienced a significant decline as consumers opt for alternative, quicker and more convenient means of communication such as social media messaging and email.



E-COMMERCE

UK LEADING IN E-COMMERCE

£1,332

Total online spend per head is set to reach £1,332 in 2018 and continue rising 28 per cent over the next five years to £1,706 in 2023¹¹

BLACK FRIDAY/CYBER WEEK

53%

of consumers delayed making purchases during the 2018 Black Friday period, compared with 48 per cent in 2017

M-COMMERCE

39%

of consumers shop online via smartphone

DELIVERY MATTERS

8 in 10

of online shoppers prefer to have items delivered to their home

SUBSCRIPTION BOXES

27%

of UK consumers are currently signed up to a subscription service

⁹ Ofcom Annual Monitoring Report, 2017.

¹⁰ AA/WARC, Q4 and FY 2018.

¹¹ GlobalData E-retail in the UK 2018-23, 2018.

CONNECTING CUSTOMERS, COMPANIES AND COUNTRIES

Royal Mail benefits from strong focus and significant scale. We operate in 44 countries – including, most recently, in Canada and the Western US. We are building a parcels-led, more balanced and diversified international company. Our business model leverages our resources and relationships, delivering high quality, value for money delivery services for customers all over the world.

Key sources of value



NETWORKS

Our combined parcels and letters UK network delivers the Universal Service. We estimate that we visit around 60 per cent of UK delivery points each day. Our recent review (see pages 16-19) confirmed the compelling cost advantages of joint delivery. Through around 1,200 Delivery Offices, 115,000 postboxes and our commercial partnership with over 11,500 Post Office branches across the country, we are the most accessible delivery operator in the UK.

As one of Europe's largest ground based, deferred parcel networks, GLS operates in 41 countries and nation states across Europe. It has a growing presence in North America through acquisitions in the Western US and Canada. Together, Royal Mail International and GLS have relationships with postal and other partners across the world.

PEOPLE

With around 143,000 colleagues in the UK, we deliver around 13 billion letters and 1.3 billion parcels per annum. We provide the best terms and conditions of employment in the delivery industry. We offer around 19,000 GLS employees secure, fairly-paid employment with long-term prospects and career development. GLS promotes a culture of openness and transparency. It is replicating its independent contractor model in its newly acquired North American businesses.

BRANDS

Royal Mail's postmen and women, our red vans and our postboxes are part of the fabric of the UK. Havas Media's 2019 survey rated Royal Mail one of the UK's top 3 'meaningful' brands, alongside Amazon and Google.

GLS is a highly respected brand, with a leading position in the majority of its European markets. GLS France was awarded a gold trophy in the 'Logistics Innovation' category at the E-Commerce Awards. GLS Poland received the highest rating of 29 logistics operators for several services, including financial services and guaranteed delivery time the next day.

TECHNOLOGY

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

INVESTMENT

Since privatisation, we have invested around £2.1 billion in our UK business. We plan to invest an additional £400-500 million cumulative incremental gross capital expenditure (predominantly in the UK) in the next five years (in addition to our ongoing annual investment capital expenditure of around £400 million). This includes funding an expansion to our existing network so we can participate in parcel market growth driven by UK e-commerce. Our investment also supports targeted and focused investment in GLS, as we seek to grow organically and inorganically. Acquisitions, like the purchase of Dicom, give us a foothold in growing, profitable delivery markets.



Creating value

Our five-year plan focuses on the delivery of three key strategic priorities: 'turnaround and grow' the UK; 'scale up and grow' GLS; and enhancing our cross-border proposition. The delivery of our strategy enables us to realise the benefits of our scale, reach and focus on quality and value for money.

DIVERSIFYING

A 30 year track record of growth in GLS is helping us to become more diversified; revenue outside the UK today accounts for 28 per cent of the Group's total, compared with 17 per cent five years ago. We expect this trend to continue as GLS continues to expand organically and through selected acquisitions.

Driven by a cultural shift in the way we communicate and shop, the delivery market is shifting towards parcels and away from letters. Today, nearly two thirds of our revenue comes from parcels; compared with just over half, five years ago. The expansion of our existing UK network and increasing levels of automated parcel sortation, alongside further growth in GLS and the continued, structural decline in UK addressed letter volumes, will continue to tip this balance.

SYNERGIES

We will combine the best of Royal Mail and GLS, sharing expertise and best practice to benefit our customers and business. For example, we will leverage Royal Mail's (small parcel) and GLS' (deferred, larger items) combined strengths to grow in cross border deliveries, of which 75 per cent are small and deferred parcels. Royal Mail and GLS have also combined to offer a pan-European import product, which aims to tap the full potential of the fast-growing Asian import market.

Sharing expertise can also deliver broader social and environmental benefits. We are piloting e-Trikes in the UK, following the successful adoption of these vehicles in GLS Germany and other European markets.

INVESTING

Our 'turnaround and grow' plan in the UK entails significant investment in the UK over five years. We are targeting a UKPIL adjusted operating profit margin of three-four per cent in 2021-22, and reaching five per cent in 2023-24. It will facilitate further e-commerce growth in the UK and enable us to handle small parcels and more larger parcels more efficiently and effectively, against a continued decline in UK letters. We are targeting GLS revenue of around €4.5 billion in 2023-24.

How we do this

Renewed focus on productivity: operational excellence and key work tools

Extend our UK network to:

- a) deliver a reduction in the unit cost of handling small and larger parcels; and
- b) secure productivity gains

UK Parcels and Letters: becoming a parcels-led business; letters remain important

Scaling up and growing GLS

Enhancing our cross-border proposition

 More information – www.royalmailgroup.com

KEY PERFORMANCE INDICATORS

MEASURING OUR PERFORMANCE

KPI AND STRATEGIC LINK(S) MEASURED BY	KEY ACTIVITIES AND ACHIEVEMENTS IN THE YEAR	PERFORMANCE AGAINST TARGET
NON FINANCIAL KPIS		
Composite safety index (%)¹ 	A composite safety measure, comprising three separate metrics, with Audit Compliance achievement acting as a gateway. Weighting: – Audit Compliance (four percentage points) – Lost Time Accident Frequency Rate (LTAFR) reduction (three percentage points) – Road Traffic Collision (RTC) per 1,000 vehicles reduction (three percentage points)	– Audit Compliance was above target. We reduced our LTAFR by 9.2 per cent and our reported road traffic collisions by 5.3 per cent. 2018-19 Actual: Above target Audit Compliance: 76.2% LATFR reduction: 9.2% RTC reduction: 5.3% 2017-18: Composite safety index not a KPI 2017-18: RTC reduction 9% (above target) 2016-17: RTC reduction 12.3% (above target)
Employee engagement (score) 	Average score from the Ipsos MORI annual employee opinion survey measuring involvement, alignment and loyalty of colleagues through a number of employee engagement questions.	– Our employee engagement score was 60, a one point increase on prior year. 2018-19 Actual: 60 (at stretch) 2017-18: 59 (at stretch) 2016-17: 57 (above target)
First Class Retail Quality of Service (%) 	An independent, audited measure of Quality of Service for First Class retail products delivered by the next working day, which may be adjusted for force majeure.	– Our First Class Quality of Service fell below the 93.0 per cent target. – Achieved the 98.5 per cent Second Class mail target, with a performance of 98.6 per cent. 2018-19 Actual: 91.8% (below target) 2017-18: 91.7% (below target) 2016-17: 93.2% (above target)
Mean business customer satisfaction (score) 	Results from the customer satisfaction survey completed by business customers.	– Levels of satisfaction amongst our business customers were in line with last year. 2018-19 Actual: 78 (above threshold) 2017-18: 78 (at stretch) 2016-17: 78 (above target)
Customer premium parcels composite measure (%)¹ 	The composite premium parcel performance measure was introduced in 2018-19. It is the combined on time delivery measurement of our premium Tracked Parcel Products (Special Delivery Guaranteed, Tracked 24/48® and Tracked Returns®).	– Performance was above target per cent. – Note: Measurement excludes peak period of weeks 35-40 inclusive. 2018-19 Actual: 97.3% (above target) 2017-18: Not a KPI 2016-17: Not a KPI
Productivity for collections, processing and delivery (%) 	Percentage change year-on-year in the number of weighted items per gross hour paid in Delivery Units and Mail Centre Units (delivery and processing, including regional logistics and collections) and Regional Distribution Centres.	– A 0.9 per cent improvement in productivity. – As a result of poor productivity in the first half, we expected our productivity improvement for the full year to be significantly below our target range of two to three per cent. Productivity in the second half was 1.9 per cent, giving a full year productivity improvement of 0.9 per cent. 2018-19 Actual: 0.9 (below threshold) 2017-18: 1.0% (below threshold) 2016-17: 2.7% (above target)

¹ Added to the Corporate Balanced Scorecard in 2018-19.

KEY PERFORMANCE INDICATORS

The 2018-19 Corporate Balanced Scorecard includes 10 equal measures, all weighted at 10 per cent. The 10 measures alongside the relevant key performance indicators (KPIs) are set out below. The Corporate Balanced Scorecard links all managers' remuneration to our performance against a set of key financial and non-financial performance measures.

Further details relating to the link between our KPIs and Executive Remuneration, and the Corporate Balanced Scorecard for 2018-19, can be found in the Directors' Remuneration Report on page 134.

KEY

Link to strategy

-  Winning in parcels
-  Defending letters
-  Growing in new areas
-  Target/stretch
-  Threshold
-  Below threshold

KPI AND STRATEGIC LINK(S) MEASURED BY	KEY ACTIVITIES AND ACHIEVEMENTS IN THE YEAR	PERFORMANCE AGAINST TARGET
FINANCIAL KPIS		
UKPIL costs (£m)²  	Adjusted operating costs for UKPIL. – Adjusted UKPIL costs increased by two per cent on an underlying basis. – This was largely due to a poor performance in people costs as we did not achieve the expected benefits from our business-as-usual initiatives, transformation projects and cost avoidance activities.	2018-19 Actual: £7,365m (above threshold, below target) 2017-18: £7,112m (above target) 2016-17: £7,082m (above target)
Group revenue (£m)³   	Group revenue adjusted for budgeted foreign exchange rate (£16m) and the impact of GLS acquisitions (£84m). – Group revenue was up two per cent. – Adjusted for budgeted foreign exchange rate and the impact of GLS acquisitions, Group revenue was up versus prior year.	2018-19 Actual: £10,481m (above threshold) 2017-18: £10,051m (above target) 2016-17: £9,455m (threshold)
Group operating profit before transformation costs (£m)^{2,3}   	Adjusted Group operating profit before transformation costs, adjusted for budgeted foreign exchange rate (£1m) and the impact of GLS acquisitions (£7m). – Adjusted Group operating profit before transformation costs decreased to £536 million.	2018-19 Actual: £536m (below threshold) 2017-18: £685m (above target) 2016-17: £701m (threshold)
In-year trading cash flow (£m)  	In-year trading cash flow before cash flows relating to London development property portfolio. – In-year trading cash flow was £117 million, due to lower adjusted EBITDA before transformation costs and the timing of the settlement of the 2017-18 frontline pay award (£101 million). The 2017-18 in-year trading cash flow excludes this £101 million timing difference.	2018-19 Actual: £117m (below threshold) 2017-18: £444m (at stretch) 2016-17: £420m (above target)

² Adjusted to reflect the cash impact of pensions.

³ Reported results are adjusted to reflect a constant foreign exchange rate of £1/€1.14 in GLS. Adjustments are also made to remove the impact of the first year of the Dicom acquisition in 2018-19.

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Reported results are set out in the section entitled 'Presentation of results and Alternative Performance Measures' (APMs) and the audited Financial Statements.

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

The APMs used are explained in the section entitled 'Alternative Performance Measures (APMs)' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate. The analysis of underlying movements in adjusted results is provided on a 52 week basis and is set out in the paragraph entitled 'Underlying change' in the sections entitled

'Group Results' and 'Alternative Performance Measures (APMs)'. Commentary is provided on both reported and adjusted results.

Results on a 53 and 52 week basis

The Group and UKPIL reported results are for the 53 week period to 31 March 2019.

In order to provide a meaningful comparison of revenue and costs with the prior year, we are also presenting the Group and UKPIL income statements to operating profit after transformation costs on an adjusted 52 week basis. The adjusted 52 week 2018-19 results are derived by removing an estimate of the 53rd week's revenue and incremental costs. All comparisons between 2018-19 and 2017-18 income statements to operating profit after transformation costs are on a 52 week basis unless otherwise stated. The GLS financial year is 12 months to 31 March 2019.

Further details on the calculation of the 52 week adjusted results can be found in the 'Consolidated adjusted 52 weeks results' paragraph in the section entitled 'Presentation of results and Alternative Performance Measures'.

UK PARCELS, INTERNATIONAL AND LETTERS (UKPIL)

Reported results

Summary results (£m)	Reported 53 weeks March 2019	Reported 52 weeks March 2018
Revenue	7,732	7,615
Operating costs	(7,435)	(7,570)
Operating profit before transformation costs	297	45
Transformation costs	(133)	(113)
Operating profit/(loss) after transformation costs	164	(68)
Operating specific items	(92)	(43)
Operating profit/(loss)	72	(111)
Operating profit/(loss) margin	0.9%	(1.5%)

The detailed UKPIL reported results are set out in the paragraph entitled 'Segmental reported results'. UKPIL reported revenue was £117 million higher than in 2017-18. This was largely due to £137 million of revenue in relation to the 53rd week.

Operating profit before transformation costs increased to £297 million. This was largely due to the reduction of the International Accounting Standards (IAS) 19 pension charge to £628 million (2017-18: £999 million) following the closure of the Royal Mail Pension Plan (RMPP) to future accrual in its previous form from 31 March 2018. Operating costs were also impacted by higher people costs (excluding pension costs), distribution and

conveyance and infrastructure costs. Further explanation of costs are set out in the paragraph entitled 'Adjusted operating costs before transformation costs' in this section.

Operating profit after transformation costs was £164 million, compared with a loss of £68 million in the prior year. Operating profit also included £35 million of profit in relation to the 53rd week. Operating specific items increased by £49 million, largely due to the accounting consequences of the purchase of a further buy-in insurance policy of £64 million for the Royal Mail Senior Executives Pension Plan (RMSEPP) on 21 September 2018. Further details are set out in the paragraph entitled 'Pensions'. UKPIL generated an operating profit of £72 million for the year, £183 million higher than 2017-18.

Adjusted results

The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'. We are presenting the 2018-19 adjusted results on a 53 and 52 week basis.

Summary trading results (£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018	Underlying change ¹
Letters and other revenue ²	2,963	2,909	3,051	(5%)
Marketing mail ²	1,012	994	1,101	(10%)
Total letters ²	3,975	3,903	4,152	(6%)
Parcels	3,757	3,692	3,463	7%
Revenue ²	7,732	7,595	7,615	Flat
Operating costs before transformation costs	(7,365)	(7,263)	(7,112)	2%
Operating profit before transformation costs	367	332	503	(32%)
Transformation costs	(133)	(133)	(113)	18%
Operating profit after transformation costs	234	199	390	(48%)
Operating profit margin after transformation costs	3.0%	2.6%	5.1%	(240bps)
Letters volumes (m)				
Addressed letters	10,455	10,266	11,269	(8%)
Unaddressed letters	2,928	2,880	3,109	(7%)
Parcels volumes (m)				
Royal Mail	1,247	1,224	1,132	8%
Parcelforce Worldwide	100	99	98	1%
Total	1,347	1,323	1,230	8%

1 Movements in revenue, profits and margins are shown on an underlying 52 week basis, taking into account non-recurring or distorting items such as the impact of working days in UKPIL. See paragraph entitled 'Underlying change' for further information.

2 Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate.

Revenue was flat on an underlying basis. Total parcel revenue was up seven per cent, while total letter revenue was down six per cent on an underlying basis.

Our UK parcels business is performing well. Total parcel volumes increased by eight per cent and revenue increased by seven per cent on an underlying basis. Royal Mail domestic account parcels volumes, excluding Amazon, were up eight per cent as we won new customers and gained more traffic from existing customers. Royal Mail Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 24 per cent. Our propositions targeting fast growing sectors and major new features like estimated delivery times supported this growth. Strong Amazon parcel traffic growth resulted in higher volumes

of letterboxable parcels. We benefitted from new volumes due to the extension of our customer Latest Acceptance Times (LATs) for our Tracked 24® product.

Our international parcels business continued to benefit from our initiative to attract cross-border traffic, mainly from Asia into mainland Europe and the UK. This accounted for around two percentage points of the underlying parcel volume growth and around one percentage point of the parcel revenue growth in the year. We saw improved import volumes outside our cross-border initiative. Contract export volumes declined due to the competitive market. Parcelforce Worldwide volumes increased by one per cent, compared with two per cent in 2017-18, largely due to a customer withdrawing from the online retail market during the year.

FINANCIAL REVIEW CONTINUED

Addressed letter volumes (excluding political parties' election mailings) declined by eight per cent on an underlying basis. This was in line with our revised expectation of a seven to eight per cent decline. Letter volumes, including marketing mail, were impacted by ongoing structural decline, business uncertainty and General Data Protection Regulation (GDPR). Excluding the impact of GDPR, addressed letter volume (excluding political parties' election mailings) decline would have been around two percentage points better.

We are expecting a decline of five to seven per cent in 2019-20, due to the impact of GDPR in the first quarter of the year and continued business uncertainty. Our medium-term guidance of addressed letter volume (excluding political parties' election mailings) decline of four to six per cent per annum remains unchanged.

Low average unit revenue (AUR) unaddressed letter volumes were down seven per cent on an underlying basis, reflecting strong growth in 2017-18 due to initiatives that encouraged incremental volume growth.

Total letter revenue (including marketing mail) decreased by six per cent, including the impact of business mail price rises implemented in January 2019. The impact of political parties' mailings related to the General Election in June 2017 did not have a material impact on the underlying change in letter revenue in the full year. Marketing mail revenue decreased by ten per cent on an underlying basis largely due to the impact of GDPR.

Adjusted operating costs before transformation costs

(£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018	Underlying change ¹
People costs	(5,045)	(4,975)	(4,908)	1%
Non-people costs	(2,320)	(2,288)	(2,204)	4%
Distribution and conveyance costs	(842)	(827)	(798)	4%
Infrastructure costs	(826)	(819)	(751)	9%
Other operating costs	(652)	(642)	(655)	(2%)
Total	(7,365)	(7,263)	(7,112)	2%

1 Movements in revenue, profits and margins are shown on an underlying 52 week basis, taking into account non-recurring or distorting items such as the impact of working days in UKPIL. See paragraph entitled "Underlying change" for further information.

Total adjusted operating costs before transformation costs increased by two per cent on an underlying basis. The single largest contributing factor was poor performance in people costs as we did not achieve the expected benefits from our business-as-usual initiatives, transformation projects and cost avoidance activities.

As a result of poor productivity in the first half, we expected our productivity improvement for the full year to be significantly below our target range of two-three per cent. Productivity in the second half was 1.9 per cent, giving a full year productivity improvement of 0.9 per cent. We achieved a 1.1 per cent reduction in core network hours as we implemented and partially absorbed the impact of the one hour reduction in the working week to 38 hours and saw a step up in operational efficiency activities in the second half. This was partially offset by an increase in variable hours during the first half, as a result of high levels of sick absence and resourcing to recover Quality of Service. Workload was 0.2 per cent lower as the decline in letters volume was only partially offset by the increase in parcel volumes.

Given the poor cost performance in the first half, our 2018-19 cost avoidance target was lowered from £230 million to £100 million. The UKPIL cost avoidance programme delivered £107 million of costs avoided for the full year. The costs avoided comprised a number of initiatives, including short-term actions where we saw reductions in discretionary spend and central costs. We performed a review of our organisational structure and management roles in support and central functions which resulted in management headcount reduction that will deliver

financial benefits in 2019-20. We also achieved savings through a reduction in core network hours including partial absorption of the one hour reduction of the working week, modernisation of our Heathrow Worldwide Distribution Centre, a linehaul review, supplier contract renegotiation and rationalisation of operations management.

Adjusted people costs were one per cent higher on an underlying basis, largely due to the frontline and manager pay awards.

Higher people costs in the year included the impact of high-levels of sickness-related absences and adverse weather conditions earlier in the year and additional investment in resourcing to improve Quality of Service. Bonus costs for around 10,500 eligible managers across the UK were £50 million lower as we missed our threshold profitability level. Higher volumes in Parcelforce Worldwide and the implementation of LATs for certain account parcels led to incremental people costs.

Non-people costs were four per cent higher on an underlying basis. Distribution and conveyance costs increased by four per cent on an underlying basis. This was largely driven by higher vehicle repair costs due to adverse weather at the beginning of the year and delays to the delivery of new vehicles, resulting in higher maintenance costs on older vehicles. Total diesel and jet fuel costs increased to £156 million (2017-18: £147 million) as parcel volumes were higher than expected in the second half of 2018-19. We expect diesel and jet fuel costs to be around £162 million in 2019-20 largely as a result of the expected growth in parcel volumes. Terminal dues were £6 million higher largely due to adverse foreign exchange rate movements.

Infrastructure costs increased by nine per cent. Depreciation and amortisation were £44 million higher. This was higher than the £10 million increase we expected. Management conducted a review of investment spend in the year resulting in changes to the investment portfolio. The depreciation charge includes £30 million of impairment costs as a result of this review. Due to the higher than expected decline in letters volumes, management reviewed the estate of letters sorting machinery and plan to decommission some of this equipment over the next three years. £12 million of accelerated depreciation has been incurred because of these anticipated changes. Technology costs increased by £21 million largely due to the implementation of data projects supporting the operations.

Other operating costs decreased by two per cent on an underlying basis largely due to the impact of the cost avoidance programme.

Adjusted operating profit before transformation cost

Adjusted operating profit before transformation costs declined by 32 per cent on an underlying basis. This was due to: the impact of GDPR on marketing mail revenues; poor performance in people costs as we did not achieve our cost avoidance target and increased infrastructure costs.

Transformation costs

(£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2018
Voluntary redundancy	(46)	(44)
Project costs	(87)	(69)
Total	(133)	(113)

Transformation costs of £133 million were lower than our expectation of around £150 million. Voluntary redundancy costs were driven by our short-term actions, which led to a reduction in management headcount across support and central functions. Voluntary redundancy costs were £2 million higher than 2017-18 but below our expectations due to the lower than expected levels of efficiencies in operations.

There was a net reduction of around 840 full-time equivalent employees (FTE)³ to around 147,145 compared with March 2018 as we decreased variable hours. The calculation of FTEs was impacted by a one hour reduction in the working week from 39 to 38 hours. If FTEs for March 2019 were restated to reflect a 39 hour working week, the reduction in FTEs would have been around 3,795, reflecting both a reduction in variable hours and partial absorption of the one hour reduction in the working week. There was a net increase of around 1,600 employees in the year, reflecting an increase in part-time employees.

Project costs of £87 million largely comprised costs associated with initiatives supporting investments and the cost avoidance programme. The increase of £18 million was largely due to operating costs in relation to operations data projects to support future productivity improvements, investment to upgrade our IT and parcel systems and projects related to the implementation of the Defined Benefit Cash Balance Scheme (DBCBS) and development of the Collective Defined Contribution (CDC) pension scheme.

Adjusted operating profit after transformation costs

Adjusted operating profit after transformation costs of £199 million was 48 per cent lower on an underlying basis due to flat revenue and higher costs. Operating profit margin after transformation costs was 2.6 per cent, down 240 basis points compared with 2017-18 on an underlying basis.

GENERAL LOGISTICS SYSTEMS (GLS)

Reported results

Summary trading results (£m)	Reported March 2019	Reported March 2018
Revenue	2,888	2,557
Operating costs	(2,711)	(2,366)
Operating profit before specific items	177	191
Operating specific items	(89)	(14)
Operating profit	88	177
Operating profit margin	3.0%	6.9%

3 FTE numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the standard full-time working hours in the same year. The current year FTE is calculated on a 38 hour week basis (2017-18: 39 hour week basis).

FINANCIAL REVIEW CONTINUED

The detailed GLS reported results are set out in the paragraph entitled 'Segmental reported results'. GLS reported revenue was £331 million higher than the prior year. GLS operating profit was £89 million lower largely due to the impairment of the Golden State Overnight (GSO) and Postal Express businesses in the US, as explained in the paragraph entitled 'USA' in this section. GLS also experienced increased operating cost pressures in the year.

Adjusted results

Adjusted GLS Sterling and Euro results exclude the impact of the impairment of the US businesses and amortisation of intangible assets related to acquisitions. The adjustments made to reported results are set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'.

Summary trading results (£m)	Adjusted March 2019	Adjusted March 2018	Underlying change ¹
Revenue	2,888	2,557	8%
Operating costs	(2,711)	(2,366)	9%
Operating profit	177	191	(9%)
Operating profit margin	6.1%	7.5%	(120bps)
(€m)			
Revenue	3,274	2,899	8%
Operating costs	(3,073)	(2,682)	9%
Operating profit	201	217	(9%)
External volumes (m)	634	584	5%

Overall, GLS delivered a good revenue performance. Volumes were up five per cent on an underlying basis, with growth in both domestic and international volumes in most markets. Volume growth moderated compared with the prior year. This was largely a result of the general competitive environment and yield management activities. Revenue increased by eight per cent on an underlying basis – three percentage points higher than volume growth – largely due to price increases and customer mix changes in several markets.

There was no material foreign exchange impact on revenue in Sterling terms. Including the impact of acquisitions, revenue was up 13 per cent. Revenue growth was achieved in most markets and from a broad customer base. The largest customer accounted for around one per cent of total GLS revenue as our customer base continues to diversify. The three major markets (Germany, Italy and France) accounted for 57 per cent of total GLS revenue. This is down from 60 per cent in 2017-18, reflecting the impact of recent acquisitions and growth in other GLS markets.

Adjusted operating costs (£m)	Adjusted March 2019	Adjusted March 2018	Underlying change ¹
People costs	(667)	(608)	4%
Non-people costs	(2,044)	(1,758)	11%
Distribution and conveyance costs	(1,803)	(1,558)	11%
Infrastructure costs	(169)	(148)	7%
Other operating costs	(72)	(52)	24%
Total	(2,711)	(2,366)	9%

¹ Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS. Revenue from GLS acquisitions in the year was £114 million (2017-18: £105 million), which has been excluded from underlying movements. See paragraph entitled 'Underlying change' for further information.

Total adjusted operating costs were up nine per cent on an underlying basis. People costs increased by four per cent on an underlying basis. This was a result of higher semi-variable costs linked to volumes and higher rates of pay, due to high wage inflation and driver shortages, especially across Central and Eastern European and US markets.

Adjusted non-people costs increased by 11 per cent on an underlying basis. Distribution and conveyance costs were up 11 per cent on an underlying basis. This was driven by higher volumes and increased network costs due to higher contractor costs across the majority of GLS markets. We also incurred increased costs in the US as we transition GSO and Postal Express to a fully independent contractor model.

Infrastructure costs increased by seven per cent on an underlying basis, largely due to higher rents and rates and repairs and maintenance costs. We are also seeing higher depreciation costs as we continue to invest to increase the capacity of our network. Other operating costs increased by 24 per cent on an underlying basis, principally due to higher litigation and claims costs and the impact of provision releases in the prior year.

Adjusted operating profit

Adjusted operating profit was £177 million, nine per cent lower than 2017-18 on an underlying basis. There was no material foreign exchange impact on operating profit in Sterling terms.

Adjusted operating profit margin of 6.1 per cent was in line with our target of over six per cent. This was down by 120 basis points compared with the prior year, largely due to the ongoing cost pressures in the majority of GLS' markets, losses in France and the US and a reduction in profitability in Spain. We do not expect cost pressures to ease in the short-term. We took action through prudent price increases and a review of discretionary spend to help mitigate these cost pressures.

Germany

GLS Germany remains the largest GLS market by revenue. Revenue grew by nine per cent, driven by international volumes and improved pricing. We saw a decrease in operating profit margin due to increased cost pressures and driver shortages.

Italy

GLS Italy revenue grew by five per cent, moderating in line with our expectations. We experienced lower growth compared with the prior year due to the competitive environment, including the impact of the launch of Amazon's own logistics network in the country.

France

France remains a challenging market. GLS France revenue grew by four per cent, driven largely by improved pricing, including service fees for over-sized parcels and higher export volumes. However, operating losses increased by €5 million to €18 million (approximately £16 million).

Improvement plans in France focus on quality and targeting profitable segments. Despite the challenges in the domestic market, GLS France continues to be integral to the GLS network by supporting exports from other markets into France and allowing GLS to provide a comprehensive service across Europe.

Spain

GLS Spain revenue grew by seven per cent on an underlying basis, driven by higher international volumes. ASM has been fully integrated with GLS Spain. Integration of Redyser is proving more complex than anticipated and has resulted in network inefficiencies and one-off costs impacting profitability. An increasing proportion of domestic volumes from relatively low margin customers has also impacted profitability. We expect the integration of Redyser to be completed during 2019-20.

USA

Our US businesses, GSO and Postal Express, provide an interstate overnight parcel delivery service with full US west coast coverage, which is well positioned to serve both the B2B and B2C segments.

In Postal Express, profitability has been impacted by yield management activities to exit low margin customers. The profitability of GSO and Postal Express continues to be impacted by local cost pressures.

As well as pursuing our plans of integrating the businesses, we have accelerated the transition of the businesses to a fully independent contractor model, similar to GLS' business model in Europe. While we are making progress with our plans, the combined impact of local cost pressures, refocusing the customer base and transitioning to the new business model means that the expected synergies and benefits will now take longer to be realised.

Accordingly, we recognised a £68 million impairment against the goodwill and other assets related to the acquisition of these businesses in the first half. This was a non-cash operating specific item. The combined businesses were loss-making in the year, with operating losses of around €15 million (approximately £14 million).

Canada

On 3 September 2018, we announced the acquisition of Dicom, a Canadian parcel delivery company, for a total consideration of C\$360 million (approximately £212 million). Performance has been in line with our expectations in the seven months since acquisition.

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

Revenue growth was achieved in the majority of GLS' other developed European markets. In particular, there was continued strong volume and revenue growth in Denmark as we continue to drive higher B2C volumes by increasing the number of ParcelShops to support growth.

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

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

FINANCIAL REVIEW CONTINUED

GROUP RESULTS

Reported results

	Reported 53 weeks March 2019	Reported 52 weeks March 2018
Summary trading results (£m)		
Revenue	10,581	10,172
Operating costs	(10,107)	(9,936)
Operating profit before transformation costs	474	236
Transformation costs	(133)	(113)
Operating profit after transformation costs	341	123
Operating specific items	(181)	(57)
Operating profit	160	66
Non-operating specific items	15	71
Net finance costs	(13)	(16)
Net pension interest (non-operating specific item)	79	91
Profit before tax	241	212
Earnings per share (basic)	17.5p	25.9p

Group revenue increased by £409 million. This was largely due to the 53rd week in UKPIL and higher parcels revenue in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. Operating profit before transformation costs increased by £238 million, largely due to the reduction in the IAS 19 pension charge in UKPIL of £371 million, following the closure of the RMPP to future accrual in its previous form from 31 March 2018. Operating specific items increased by £124 million largely due to the impact of the impairment of the GSO and Postal Express businesses in GLS and the purchase of a further buy-in insurance policy for the RMSEPP.

Group operating profit increased by £94 million to £160 million. Profit before tax increased to £241 million, of which UKPIL accounted for £160 million (2017-18: £39 million) while GLS accounted for £81 million (2017-18: £173 million). Basic earnings per share decreased to 17.5 pence. A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results'.

Adjusted results

Group revenue

(£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018	Underlying change ¹
UKPIL	7,732	7,595	7,615	Flat
GLS	2,888	2,888	2,557	8%
Intragroup revenue	(39)	(39)	–	
Total	10,581	10,444	10,172	2%

¹ Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days in UKPIL. See paragraph entitled 'Underlying change for further information.

Intragroup revenue represents revenue from trading between UKPIL and GLS. This was due to Parcelforce Worldwide being GLS's partner in the UK. As the amounts involved have no impact on group profit before tax and are not material, the prior year has not been adjusted.

Group revenue was up two per cent on an underlying basis, driven by parcel growth in GLS and UKPIL more than offsetting the decline in UKPIL letters revenue.

Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 63 per cent on a 52 week basis (2017-18: 59 per cent). The main factors impacting revenue are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018	Underlying change ¹
People costs	(5,712)	(5,642)	(5,516)	2%
Non-people costs	(4,325)	(4,293)	(3,962)	6%
Distribution and conveyance costs	(2,606)	(2,591)	(2,356)	7%
Infrastructure costs	(995)	(988)	(899)	9%
Other operating costs	(724)	(714)	(707)	Flat
Total	(10,037)	(9,935)	(9,478)	4%

¹ Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days in UKPIL. See paragraph entitled 'Underlying change for further information.

Group operating costs increased by four per cent on an underlying basis. The increase in UKPIL was largely due to higher people and distribution and conveyance costs. GLS people and distribution and conveyance costs were impacted by cost pressures and higher volumes. The main factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating profit before transformation costs

(£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018
UKPIL	367	332	503
GLS	177	177	191
Total	544	509	694
<i>Operating profit margin before transformation costs</i>	5.1%	4.9%	6.8%

Group operating profit after transformation costs

(£m)	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018
UKPIL	234	199	390
GLS	177	177	191
Total	411	376	581
<i>Operating profit margin after transformation costs</i>	3.9%	3.6%	5.7%

Group operating profit margin after transformation costs was down 200 basis points on a 52 week underlying basis, driven by the lower level of profitability in both UKPIL and GLS.

FINANCIAL REVIEW CONTINUED

Specific items and pension charge to cash difference adjustment

(£m)	53 weeks March 2019	52 weeks March 2018
Pension charge to cash difference adjustment (within People costs)	(70)	(458)
Operating specific items		
Impairment relating to GSO and Postal Express businesses	(68)	–
Accounting impact of RMSEPP buy-in settlement	(64)	–
Employee Free Shares charge	(22)	(33)
Amortisation of acquired intangible assets	(20)	(16)
Legacy/other costs	(7)	(8)
Potential industrial diseases claim credit	–	2
Other	(7)	(10)
Total operating specific items	(181)	(57)
Non-operating specific items		
Profit on disposal of property, plant and equipment	15	71
Net pension interest	79	91
Total non-operating specific items	94	162
Total specific items and pensions adjustment before tax	(157)	(353)
Total tax credit on specific items and pensions adjustment	27	157

The pension charge to cash difference adjustment was £70 million, £388 million lower than in 2017-18. This was due to the closure of the RMPP to future accrual in its previous form from 31 March 2018. The difference between the pension charge and cash cost largely comprises the difference between the IAS 19 income statement pension charge rate of 18.9 per cent for the DBCBS from 1 April 2018 and the actual cash payments rate agreed with the Trustee of 15.6 per cent. There is also a small difference between the pension charge of 41.0 per cent and cash cost of 17.1 per cent for the RMPP for the week of 26 to 31 March 2018. The pension charge to cash difference adjustment is expected to be around £85 million in 2019-20, £15 million higher than in 2018-19 due to the increase in the DBCBS pension charge rate to 19.6 per cent in 2019-20. The increase is due to a reduction in the discount rate used to calculate the DBCBS liabilities as a result of lower year-on-year corporate bond yields.

Operating specific items in the year included a previously announced £68 million impairment of the goodwill and assets related to the acquisition of the GSO and Postal Express businesses by GLS. More details on the impairment are provided in the section entitled 'General Logistics Systems (GLS)'.

Operating specific items also included a £64 million charge in relation to the accounting consequences of the purchase of a further buy-in insurance policy for the RMSEPP on 21 September 2018. A buy-in involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. This is an accounting adjustment in relation to the write off of the closing surplus as a result of the purchase of the policy. It has no cash impact to the Group. Further details are set out in the paragraph entitled 'Pensions'.

The Employee Free Shares charge for the year in relation to our Share Incentive Plans (SIP) was £22 million (2017-18: £33 million). This is expected to be £8 million for 2019-20 and not material thereafter. Amortisation of acquired intangible assets of £20 million largely relates to acquisitions in GLS. Other specific items in the year include the impairment of intangible assets relating to a UK subsidiary. Other specific items in the prior year relate to the integration of Romec into the Group.

Non-operating specific items mainly comprise the net pension interest credit of £79 million (2017-18: £91 million), which was lower than the prior year due to the lower pension surplus position at 25 March 2018 compared with 26 March 2017. The net pension interest credit is expected to be around £86 million in 2019-20.

The profit on disposal of property, plant and equipment of £15 million (2017-18: £71 million) largely relates to the sale of Delivery Offices in the year. The prior year included a £24 million overage payment in relation to the sale of Rathbone Place in 2011, a gain of £22 million from the completion of the sale of the Phoenix Place plot at Mount Pleasant, the £20 million overage payment in respect of the sale of the Paddington Mail Centre in 2014 and £2 million from the sale of vehicles.

The tax credit on specific items and the pension adjustment of £27 million has been recognised at statutory rates. The £130 million reduction compared with the prior year mainly related to the tax impact of the decision to close the RMPP to future accrual in its previous form from 31 March 2018.

Net finance costs

Reported net finance costs of £13 million (2017-18: £16 million) largely comprised interest on the €500 million bond of £11 million (2017-18: £11 million).

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	430	430	2024
Loans in overseas subsidiaries	0.9%	1	1	2022
Revolving credit facility	LIBOR+ 0.55%	1,050	–	2020-22
Total		1,481	431	

The blended interest rate on gross debt, including finance leases for 2018-19, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for in equity.

Taxation

(£m)	53 weeks March 2019			52 weeks March 2018		
	UK	GLS	Group	UK	GLS	Group
Reported						
Profit/(loss) before tax	160	81	241	39	173	212
Tax (charge)/credit	(23)	(43)	(66)	93	(47)	46
Effective tax rate	14%	53%	27%	n/a	27%	n/a
Adjusted						
Profit before tax	229	169	398	378	187	565
Tax charge	(40)	(53)	(93)	(59)	(52)	(111)
Effective tax rate	17%	31%	23%	16%	28%	20%

The UK adjusted effective tax rate of 17 per cent (2017-18: 16 per cent) was higher than the prior year mainly because 2017-18 included a catch up on patent box claims. The effective rate was less than the UK statutory rate of 19 per cent, largely as a result of a patent box claim and a one off, first time recognition of a deferred tax asset on non-trading tax losses, partially offset by non-deductible expenditure.

The GLS adjusted effective tax rate of 31 per cent (2017-18: 28 per cent) is higher than the prior year, largely due to the derecognition of deferred tax assets in GLS US and increased losses in GLS France, for which no deferred tax asset was recognised.

The Group reported effective tax rate was 27 per cent. The effective rate was significantly impacted as there was no tax credit on the impairment of goodwill in respect of GLS US and the cost of the buy-in insurance policy for the RMSEPP. The impact

of these items on the effective tax rate was partially offset by the net pension interest credit, on which there was no tax charge, and profits made on operational property disposals, which were offset by reinvestment relief. The prior year was a tax credit of £46 million on a reported profit before tax of £212 million mainly due to the one-off deferred tax credit of £78 million arising from the closure of the RMPP to future accrual after 31 March 2018.

Adjusted earnings per share (EPS)

Adjusted basic EPS was 30.5 pence compared with 45.5 pence in the prior year. This largely reflected lower UKPIL and GLS operating profit.

FINANCIAL REVIEW CONTINUED

In-year trading cash flow

(£m)	53 weeks March 2019	52 weeks March 2018
Reported EBITDA before transformation costs ¹	865	577
Pension charge to cash difference adjustment	70	458
Adjusted EBITDA before transformation costs	935	1,035
Trading working capital movements	(237)	74
Share-based awards (SAYE, LTIP and DSBP) charge adjustment	7	6
Total investment	(487)	(485)
Income tax paid	(91)	(75)
Research and development expenditure credit	2	5
Net finance costs paid	(12)	(15)
Total	117	545

¹ Reported EBITDA before transformation costs has been adjusted to exclude the share of associate Company profits or specific operating items. For further details of Reported EBITDA before transformation costs, see section 'Alternative Performance Measures'.

In-year trading cash inflow of £117 million was £428 million lower than the prior year mainly due to lower adjusted EBITDA before transformation costs and higher outflows in trading working capital.

Trading working capital outflow of £237 million was £311 million higher than 2017-18. This was largely due to the reversal of the benefit seen in the prior year in relation to the timing of the settlement of the 2017-18 frontline pay award of £101 million. This was paid in the first quarter of 2018-19. There was an impact on working capital due to an additional monthly payroll payment of £47 million and VAT payment of £17 million as a result of the 53rd week.

Excluding these timing adjustments, the in-year trading cash flow would have been £282 million. Trading working capital in 2019-20 will see a benefit of around £64 million from the reversal of the 53rd week timing differences. The remainder of the working capital movement was largely in relation to the lower expectation of bonus payments for around 10,500 eligible managers across the UK in 2018-19.

Income tax paid increased by £16 million largely because there was no tax relief on payments made to the pension escrow in 2017-18. Net finance costs largely comprised interest on the €500 million bond and the decrease is mainly due to the increase in interest received, which includes interest from the RMPP escrow investments.

Net cash investment

(£m)	53 weeks March 2019	52 weeks March 2018
Growth capital expenditure	(224)	(224)
Replacement capital expenditure	(140)	(136)
Transformation operating expenditure	(123)	(125)
Voluntary redundancy	(36)	(56)
Project costs	(87)	(69)
Total investment	(487)	(485)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	25	40
Net cash investment	(462)	(445)

Net cash investment of £462 million was less than our expectation of around £500 million. This was due to the review of investment spend in the year resulting in the deferral of some expenditure whilst the review was conducted.

Growth capital expenditure was flat. We continue to invest in strategic projects in UKPIL and GLS, including expanding the GLS network, IT systems and activities supporting data projects. Total GLS capital expenditure was £113 million. Replacement capital expenditure increased by £4 million due to higher vehicle purchases. This was partially offset by lower property spend on refurbishments and a reduction in IT and data systems replacement costs.

Transformation operating expenditure decreased by £2 million. Voluntary redundancy cash expenditure was £20 million lower than 2017-18, largely due to timing of cash flows in relation to management headcount reduction which will be paid in the first half of 2019-20. This was offset by £18 million higher project costs, largely due to data projects to support future productivity improvements, investment to upgrade our IT and parcel systems and projects related to the implementation of the Defined Benefit Cash Balance Scheme (DBCBS) and development of the Collective Defined Contribution (CDC) pension scheme.

Proceeds from disposal of property (excluding London Development Portfolio) of £25 million largely relate to the sale of Delivery Offices in Whetstone, Hendon and Hampton as well as various other smaller Delivery Offices. 2017-18 included a £24 million overage payment in relation to the sale of Rathbone Place in 2011 and £14 million from the sale of various smaller Delivery Offices.

Net debt

A reconciliation of net debt is set out below.

(£m)	53 weeks March 2019	52 weeks March 2018
Net cash/(debt) brought forward at 25 March 2018 and 26 March 2017	14	(338)
Free cash flow	(71)	562
In-year trading cash flow	117	545
Other working capital movements	6	(3)
Cash cost of operating specific items	(6)	(12)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	25	40
Acquisition of business interests	(220)	(18)
Cash flows relating to London Development portfolio	7	10
Debt transferred on acquisition	–	(3)
Purchase of own shares	(10)	–
Employee exercise of SAYE options	5	28
Foreign currency exchange impact	4	(2)
Increase in finance lease obligations (non-cash)	–	(2)
Dividends paid to equity holders of the parent Company	(242)	(231)
Net (debt)/cash carried forward	(300)	14

Movements in GLS client cash are included within other working capital. The amount held at 31 March 2019 was £20 million (25 March 2018: £24 million).

The cash cost of operating specific items was an outflow of £6 million mainly due to National Insurance contributions on the SIP 2013, 2014 and 2015 employee share sales and industrial disease settlements. Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment of £25 million is explained in the paragraph entitled 'Net cash investment'.

Cash inflow relating to the London Development Portfolio was £7 million. Infrastructure and enabling works costs of £34 million on the Nine Elms and Mount Pleasant sites were offset by £41 million

of receipts. Receipts include £21 million in relation to the Mount Pleasant plots and the £20 million overage received under the agreement for the sale of Paddington Mail Centre.

Purchase of own shares relates to the Company purchasing its own shares to fulfil Save As You Earn (SAYE) options exercised in the year and to meet Long Term Incentive Plan (LTIP) requirements.

Acquisition of business interests in the year largely related to the acquisition of Dicom Canada by GLS (further information is available in the section entitled 'General Logistics Systems (GLS)'). The acquisition of business interests in the prior year related to the acquisitions of Postal Express and Redyser by GLS.

A reconciliation of cash flows relating to acquisitions is shown in the following table:

(£m)	53 weeks March 2019
Dicom Canada	(210)
Trento (Italy)	(2)
Acquisition of business interests, net of cash acquired (see statutory cash flow statement)	(212)
Deferred consideration paid in respect of prior years' acquisitions	(4)
Acquisition of non-controlling interests	(4)
Acquisition of business interests	(220)

FINANCIAL REVIEW CONTINUED

2018-19 approach to capital management

The Group had established four key objectives for capital management during 2018-19. Management proposes actions which reflect the Group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate. The Board keeps this policy under constant review to ensure that capital is allocated to achieve our stated objective of delivering sustainable shareholder value.

OBJECTIVES	ENABLERS	2018-19 UPDATE
Meet the Group's obligations as they fall due	Maintaining sufficient cash reserves and committed facilities to: – meet all obligations, including pensions; and – manage future risks, including those set out in the Principal Risks section	At 31 March 2019, the Group had available resources of £1,286 million (2017-18: £1,650 million); made up of cash and cash equivalents of £236 million (2017-18: £600 million) and undrawn committed revolving credit facilities of £1,050 million (2017-18: £1,050 million). The Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond. As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.
Support a progressive dividend policy	Generate sufficient in-year trading cash flow to cover the ordinary dividend. Maintain sufficient distributable reserves to sustain the Group's dividend policy	The Group reported £117 million of in-year trading cash flow (2017-18: £545 million). In-year trading cash flow included an outflow of £101 million, due to the timing of the cash payment of the 2017-18 frontline pay award and an outflow due to impact of the 53rd week, which included an additional monthly payroll and VAT payment. Reversing the impact of these items would give an Adjusted-in-year trading cashflow of £282 million (2017-18: £444 million), sufficient to cover the full year dividend of 25.0 pence per share (2017-18: 24.0 pence per share). Capital managed by the Group, excluding the net assets of the pension scheme, is £2,284 million (2017-18: £2,273 million). The Group had retained earnings of £4,561 million at 31 March 2019 (2017-18: £4,381 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 a stable outlook from Standard & Poor's.
Retain sufficient flexibility to invest in the future of the business	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating	During the year, the Group made total gross investments of £487 million (2017-18: £485 million) and acquisition of business interests and non-controlling interests of £220 million (2017-18: £18 million) while retaining sufficient capital headroom.

Future approach to capital management

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

However, reflective of the Board's confidence in the Group's updated strategy, strong balance sheet position and future cash generation, the Board is today committing to underpin an annual dividend at not less than 15.0 pence per share from 2019-20 to 2023-24, regardless of Group's annual earnings or in-year trading cash flow. At this level the dividend is expected to be covered by cumulative trading cash flow over both three and five years.

Any excess capital will be used to support further returns to shareholders, fund selected bolt-on acquisitions in GLS and reduce net debt, as appropriate.

Given the level of underpinned annual dividend, the Board would expect to pay an interim dividend each year equal to half the underpinned annual dividend.

Pensions

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

- **Closed in December 2012**
 - Royal Mail Senior Executives Pension Plan (RMSEPP)
- **To 31 March 2018**
 - Royal Mail Pension Plan (RMPP)
 - Royal Mail Defined Contribution Plan (RMDCP)
- **1 April 2018 to 31 March 2019**
 - Defined Benefit Cash Balance Scheme (DBCBS)
 - Enhanced Royal Mail Defined Contribution Plan (RMDCP)
- **Proposed future scheme**
 - Collective Defined Contribution (CDC) together with a Defined Benefit Lump Sum Scheme (DBLSS)

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

Details of each of the above are set out below.

Defined Benefit Cash Balance Scheme (DBCBS)

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

The DBCBS guarantees members a minimum lump sum at age 65. It is therefore being accounted for as a defined benefit scheme in a similar way to the RMPP. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance. An IAS19 deficit of £81 million is shown on the balance sheet. The scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The DBCBS will be subject to triennial valuations.

An IAS 19 pension service charge of 18.9 per cent (£362 million) has been charged to the income statement. The pension charge is greater than the cash contribution rate as the assumed rate of future increases in benefits (4.2 per cent) is greater than the assumed discount rate (2.6 per cent).

The Company has made contributions at 15.6 per cent (£297 million) of DBCBS pensionable pay in respect of the scheme. Members contribute six per cent (including Pension Salary Exchange).

The IAS 19 pension service charge to cash difference adjustment for 2018-19 was £70 million. Pension interest will be calculated on the assets and liabilities as at 31 March 2019 for inclusion in the income statement from 2019-20 onwards. For 2019-20, the interest will be a charge of £3 million.

Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, Company contributions have increased by one percentage point in each tier, up to a maximum of ten per cent. Current and future RMDCP members in the standard section will contribute at the highest contribution tier (employee: six per cent; employer: ten per cent) unless they opt to contribute at a lower level.

Royal Mail Pension Plan (RMPP)

The RMPP closed to future accrual in its previous form from 31 March 2018. The pre withholding tax accounting surplus of the RMPP at 31 March 2019 was £3,696 million, comprising assets of £10,458 million and liabilities of £6,762 million. The pre withholding tax accounting surplus has increased by £434 million in the period, mainly as a result of updated mortality assumptions identified as part of the March 2018 valuation exercise, together with the fact that the decrease in the real discount rate has had a greater impact on assets than on liabilities. After the withholding tax adjustment, the accounting surplus of the RMPP was £2,402 million at 31 March 2019. This is an accounting adjustment with no cash benefit to the Company. For 2019-20, the pension interest will be a credit of £89 million.

The triennial valuation of RMPP at 31 March 2018 is still in progress. The actuarial funding position at that date will not be known until the actuarial valuation has been completed, with the results being very sensitive to the assumptions adopted at that date. However, based on a set of assumptions which we believe could form the basis for the March 2018 valuation and then rolled forward, the RMPP actuarial surplus at 31 March 2019 was estimated to be around £50 million (31 March 2018: £100 million).

Royal Mail Senior Executives Pension Plan (RMSEPP)

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

On 21 September 2018, the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members. A buy-in involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. This insurance policy, alongside the previous insurance policy purchased in April 2016, means that substantially all the liabilities of the scheme are now covered by insurance policies. After consideration of the facts outlined above, Management have concluded that the purchase of this further insurance policy should be treated as a settlement. The difference between the IAS 19 surplus before and after the transaction has resulted in £64 million being charged to the income statement as an operating specific item. This insurance policy includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees.

FINANCIAL REVIEW CONTINUED

As with the previous insurance policy purchased in April 2016, this policy is considered an asset of the RMSEPP and does not confer any rights to individual members. All benefit payments due from the RMSEPP remain unchanged. Further details can be found in the paragraph entitled 'Royal Mail Senior Executive Plan (RMSEPP)' in Note 10 in the notes to the consolidated financial statements.

The RMSEPP triennial valuation at 31 March 2018 has been completed. Based on the rolled forward assumptions used for that valuation, the RMSEPP actuarial surplus at 31 March 2019 was estimated to be £10 million (31 March 2018: £36 million).

In accordance with the updated Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million has been paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 28 March 2019, around £500,000 a year will be paid for the period 1 April 2019 to 31 March 2025 in respect of death-in-service lump sum benefits and administration expenses.

The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMPs). From Royal Mail's perspective, the transfer of RMPP's historic pension liabilities to Government in 2012 included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will not be material. This is still subject to any further clarification from the Court on exact equalisation requirements, and also to the actual equalisation approach adopted by the Trustees.

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

The Government has published its response to the consultation on CDC pension schemes. It has committed to bringing forward legislation to enable CDC pension schemes at the earliest opportunity.

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

In 2019-20, the Company expects to contribute around £400 million in respect of all UK pension schemes.

Financial risks and related hedging

The Group is exposed to commodity price and currency risk. The Group operates hedging policies which are stated in the Notes to the Annual Report and Financial Statements 2018-19. The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2019-20 operating profit to changes in commodity prices and fuel duty.

	Forecast total cost £m	Fuel duty/other costs (incl irrecoverable VAT) – not hedged 2019-20 £m	Underlying commodity exposure (incl irrecoverable VAT) 2019-20 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2019-20 operating profit of a further 10% increase in commodity price £m	Impact on 2019-20 operating profit of a further 10% increase in fuel duty/other cost £m
2019-20 Exposure							
Diesel	153	98	55	85	9	1	10
Jet fuel	9	2	7	88	1	–	–
Total	162	100	62	85	10	1	10

As a result of hedging, it is anticipated that the diesel and jet fuel commodity cost for 2019-20 will be around £6 million higher. Without hedging, the associated cost would be around £12 million higher (based upon closing fuel prices at 31 March 2019).

The Group is exposed to foreign currency risk due 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 exposure to revenue, costs and operating profit.

The average exchange rate between Sterling and the Euro was £1:€1.13, the same as 2017-18. The impact on GLS' reported operating profit before tax in 2018-19 was not material. The impact of foreign exchange transactions in the UK was not material in 2018-19. The net impact on Group operating profit before tax was not material.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 31 March 2019, all of the gross debt of £556 million was at fixed rates to maturity.

Property

We invested £34 million in 2018-19 on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

Mount Pleasant

Further cash proceeds are to be paid in contractually agreed staged payments over the 2019-20 to 2020-21 financial years, with the final balance of consideration to be paid in 2024. All proceeds received up to 2020-21, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works over this year.

Nine Elms

The Mayor of London and Borough of Wandsworth granted planning consent to Greystar and we are currently awaiting the completion of the judicial review period. Subsequent to the judicial review period, we anticipate receipt of £98 million cash proceeds on formal completion of the sale in the first half of the 2019-20 financial year. We have committed to reinvesting around £30 million for infrastructure works associated with these plots.

On 17 January 2019, it was announced that unconditional contracts had been exchanged for the sale of Plot C at the Nine Elms site to Galliard Homes for a total consideration of £22 million in cash. We are expecting to receive this payment in the first half of 2019-20.

IFRS 16 'Leases'

The Group will apply IFRS 16, which replaces IAS 17, with effect from 1 April 2019. The standard will have a material impact for the Group as it introduces a new lessee accounting model and requires the recognition of assets and liabilities for the majority of leases. Rental costs currently recognised in operating profit will be replaced by depreciation of the assets and finance costs on the liabilities. The total cash outflow for lease payments will not change. However, the payments related to the principal liabilities will be presented as cash outflows from financing activities, as opposed to the current treatment as cash outflow from operating activities.

At 31 March 2019, the Group held a significant number of operating leases for which the future undiscounted minimum lease payments amounted to £1,327 million as disclosed in note 25 to the consolidated financial statements. On adoption of IFRS 16, the expected effect on the balance sheet is the recognition of 'right of use' assets of around £0.8-1.0 billion, a corresponding lease liability of around £1.0-1.2 billion and a decrease in equity by around £100-200 million after tax. The expected effect on the income statement in 2019-20, based on the leases held on transition, will be an increase in the Group annual depreciation charge of around £120-130 million and an improvement in operating profit after transformation costs of around £35-45 million.

The Group will continue to implement and refine procedures and processes to apply the new requirements of IFRS 16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above, before the half year results to 29 September 2019 are issued. However, at this time these are not expected to be material. Further detail of IFRS 16 is provided in the section entitled 'Significant Accounting Policies' in the Notes to the consolidated financial statements.

Dividends

The final dividend of 16.3 pence per share in respect of the 2017-18 financial year was paid on 31 August 2018, following shareholder approval.

The interim dividend of 8.0 pence per share in respect of the 2018-19 financial year was paid on 16 January 2019, following shareholder approval, to shareholders on the register at the close of business on 7 December 2018.

Dividend in respect of 2018-19

The Board of Royal Mail recognises the importance of dividends to shareholders as well as the imperative to invest in the business to ensure the long-term sustainability of the Group to drive shareholder value.

Taking into account certain timing difference, the in-year trading cash flow in 2018-19 supports our stated progressive dividend policy. The Board is therefore recommending a final dividend of 17.0 pence per share, giving a full year dividend of 25.0 pence per share for 2018-19, an increase of four per cent.

FINANCIAL REVIEW CONTINUED

Underlying change

Movements in revenue, costs, profits and margins are calculated on an adjusted 52 week basis. We also made adjustments for the first year impact of the Redyser and Dicom acquisitions. There was no movement in foreign exchange in GLS this year (2018-19: £1:€1.13; 2017-18: £1:€1.13).

We have made adjustments for working days in UKPIL. The UKPIL 53 week period consisted of 310.0 working days in 2018-19. The UKPIL working days for 2018-19 on a 52 week basis is 304.5 days (2017-18: 305.0 working days).

(£m)	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018	Working days	Acquisitions	Underlying 52 weeks March 2018	Underlying change
Revenue						
UKPIL	7,595	7,615	(12)	–	7,603	Flat
GLS	2,888	2,557	–	114	2,671	8%
Intragroup revenue	(39)	–	–	–	–	–
Group	10,444	10,172	(12)	114	10,274	2%
Costs						
UKPIL						
People	(4,975)	(4,908)	–	–	(4,908)	1%
Non-people costs	(2,288)	(2,204)	–	–	(2,204)	4%
Distribution and conveyance costs	(827)	(798)	–	–	(798)	4%
Infrastructure costs	(819)	(751)	–	–	(751)	9%
Other operating costs	(642)	(655)	–	–	(655)	(2%)
Operating costs before transformation costs	(7,263)	(7,112)	–	–	(7,112)	2%
GLS						
People	(667)	(608)	–	(34)	(642)	4%
Non-people costs	(2,044)	(1,758)	–	(76)	(1,834)	11%
Distribution and conveyance costs	(1,803)	(1,558)	–	(61)	(1,619)	11%
Infrastructure costs	(169)	(148)	–	(9)	(157)	7%
Other operating costs	(72)	(52)	–	(6)	(58)	24%
Operating costs	(2,711)	(2,366)	–	(110)	(2,476)	9%
Group						
People	(5,642)	(5,516)	–	(34)	(5,550)	2%
Non-people costs ¹	(4,293)	(3,962)	–	(76)	(4,038)	6%
Distribution and conveyance costs ¹	(2,591)	(2,356)	–	(61)	(2,417)	7%
Infrastructure costs	(988)	(899)	–	(9)	(908)	9%
Other operating costs	(714)	(707)	–	(6)	(713)	Flat
Operating costs before transformation costs ¹	(9,935)	(9,478)	–	(110)	(9,588)	4%

(£m)	Adjusted 52 weeks March 2019	Adjusted 52 weeks March 2018	Working days	Acquisitions	Underlying 52 weeks March 2018	Underlying change
Profit, margin and EPS						
UKPIL						
Operating profit before transformation costs	332	503	(12)	–	491	(32%)
Transformation costs	(133)	(113)	–	–	(113)	18%
Operating profit after transformation costs	199	390	(12)	–	378	(48%)
Operating profit margin after transformation costs	2.6%	5.1%			5.0%	(240bps)
GLS						
Operating profit	177	191	–	4	195	(9%)
Operating profit margin	6.1%	7.5%			7.3%	(120bps)
Group						
Operating profit before transformation costs	509	694	(12)	4	686	(26%)
Transformation costs	(133)	(113)	–	–	(113)	18%
Operating profit after transformation costs	376	581	(12)	4	573	(34%)
Operating profit margin after transformation costs	3.6%	5.7%			5.6%	(200bps)

1 Group Distribution and Conveyancing costs includes a £39 million adjustment for intragroup costs between UKPIL and GLS. This was due to Parcellforce Worldwide being GLS's partner in the UK. This was not previously disclosed as the amount was not material. Total intragroup revenue has grown to a material amount in 2018-19 and we are therefore disclosing it separately. No prior year restatement is required.

FINANCIAL REVIEW CONTINUED

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMS)

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

APMs should not be considered in isolation from, or as a substitute to, 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 (APMs)'.

Reported to adjusted results

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

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operational performance of the Company. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended 31 March 2019 was £1,256 million compared with cumulative 53 week adjusted profit after tax of £2,048 million. Annual reported profit after tax showed a range of £175 million to £328 million. The principal cause of the difference and volatility is due to pension-related accounting.

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

Underlying change

Movements compared with prior year in volumes, revenue, costs, profits and margins are shown on an underlying basis on a 52 week basis. Underlying movements improve comparability between periods by making adjustments to the prior year to take into account differences in working days in UKPIL and movements in foreign exchange in GLS. We only adjust for items with a full year impact greater than £10 million.

In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable, such as the first year impact of acquisitions. For volumes, underlying movements are adjusted for working days in UKPIL and the first year impact of acquisitions. It also excludes political parties' election mailings in addressed letter volume movements.

The paragraph entitled 'Underlying change' provides further details on the adjustments we have made to the prior year to calculate the underlying change.

Presentation of results

Consolidated reported and adjusted results

The following table reconciles the consolidated reported results, prepared in accordance with IFRS, to the consolidated 53 week adjusted results.

	53 weeks March 2019			52 weeks March 2018		
	Reported	Specific items and pension adjustment	Adjusted	Reported	Specific items and pension adjustment	Adjusted
(£m)						
Revenue	10,581	–	10,581	10,172	–	10,172
Operating costs	(10,107)	(70)	(10,037)	(9,936)	(458)	(9,478)
People costs	(5,782)	(70)	(5,712)	(5,974)	(458)	(5,516)
Non-people costs	(4,325)	–	(4,325)	(3,962)	–	(3,962)
Distribution and conveyance costs	(2,606)	–	(2,606)	(2,356)	–	(2,356)
Infrastructure costs	(995)	–	(995)	(899)	–	(899)
Other operating costs	(724)	–	(724)	(707)	–	(707)
Operating profit before transformation costs	474	(70)	544	236	(458)	694
Transformation costs	(133)	–	(133)	(113)	–	(113)
Operating profit after transformation costs	341	(70)	411	123	(458)	581
Operating specific items:						
Impairment of assets relating to GSO and Postal Express businesses	(68)	(68)	–	–	–	–
Accounting impact of RMSEPP buy-in settlement	(64)	(64)	–	–	–	–
Employee Free Shares charge	(22)	(22)	–	(33)	(33)	–
Legacy/other costs	(7)	(7)	–	(8)	(8)	–
Amortisation of intangible assets in acquisitions	(20)	(20)	–	(16)	(16)	–
Operating (loss)/profit	160	(251)	411	66	(515)	581
Non-operating specific items:						
Profit on disposal of property, plant and equipment	15	15	–	71	71	–
Earnings before interest and tax	175	(236)	411	137	(444)	581
Finance costs	(18)	–	(18)	(19)	–	(19)
Finance income	5	–	5	3	–	3
Net pension interest (non-operating specific item)	79	79	–	91	91	–
Profit before tax	241	(157)	398	212	(353)	565
Tax (charge)/credit	(66)	27	(93)	46	157	(111)
Profit for the period	175	(130)	305	258	(196)	454
Profit for the period attributable to:						
Equity holders of the parent Company	175	(130)	305	259	(196)	455
Non-controlling interests	–	–	–	(1)	–	(1)
Earnings per share						
Basic	17.5p	(13.0p)	30.5p	25.9p	(19.6p)	45.5p
Diluted	17.5p	(13.0p)	30.5p	25.7p	(19.5p)	45.2p

FINANCIAL REVIEW CONTINUED

Consolidated adjusted 52 week results

We are presenting the Group and UKPIL 2018-19 income statements to operating profit after transformation costs on an adjusted 53 and 52 week basis. The 52 week adjusted results provide a direct comparison of revenue and costs with 2017-18 by removing an estimate of the 53rd week's revenue based on working days and incremental costs for frontline staff, distribution and conveyance, property rates and utilities and Post Office commissions. Incremental costs exclude monthly staff salaries, depreciation and amortisation and technology costs.

The following table reconciles the consolidated 53 week adjusted results to the consolidated 52 week adjusted results.

(£m)	Adjusted 53 weeks March 2019	53rd week revenue and costs	Adjusted 52 weeks March 2019
Revenue	10,581	(137)	10,444
Operating costs	(10,037)	102	(9,935)
People costs	(5,712)	70	(5,642)
Non-people costs	(4,325)	32	(4,293)
Distribution and conveyance costs	(2,606)	15	(2,591)
Infrastructure costs	(995)	7	(988)
Other operating costs	(724)	10	(714)
Operating profit before transformation costs	544	(35)	509
Transformation costs	(133)	–	(133)
Operating profit after transformation costs	411	(35)	376

Segmental reported results

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

(£m)	53 weeks March 2019				52 weeks March 2018		
	UKPIL (UK operations)	GLS (Non-UK operations)	Intragroup elimination	Group	UKPIL (UK operations)	GLS (Non-UK operations)	Group
Revenue	7,732	2,888	(39)	10,581	7,615	2,557	10,172
People costs	(5,115)	(667)	–	(5,782)	(5,366)	(608)	(5,974)
Non-people costs	(2,320)	(2,044)	39	(4,325)	(2,204)	(1,758)	(3,962)
Operating profit before transformation costs	297	177	–	474	45	191	236
Transformation costs	(133)	–	–	(133)	(113)	–	(113)
Operating profit/(loss) after transformation costs	164	177	–	341	(68)	191	123
Operating specific items	(92)	(89)	–	(181)	(43)	(14)	(57)
Operating profit/(loss)	72	88	–	160	(111)	177	66
Non-operating specific items	14	1	–	15	71	–	71
Earnings before interest and tax	86	89	–	175	(40)	177	137
Net finance costs	(5)	(8)	–	(13)	(12)	(4)	(16)
Net pension interest (non-operating specific item)	79	–	–	79	91	–	91
Profit before tax	160	81	–	241	39	173	212
Tax (charge)/credit	(23)	(43)	–	(66)	93	(47)	46
Profit for the period	137	38	–	175	132	126	258

ALTERNATIVE PERFORMANCE MEASURES (APMS)

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

Reported operating profit before and after transformation costs

These measures are in accordance with IFRS and are a means by which Management can understand the financial performance of the Group, taking into account business-as-usual (BAU) costs e.g. people, distribution and conveyance, infrastructure and other operating costs excluding operating specific items. They are presented before and after transformation costs, to provide Management with a view of the ongoing impact of the costs of transforming the business.

Reported operating profit

This measure is in accordance with IFRS and is a means by which Management can understand the financial performance of the Group. It is based on reported profit after transformation costs (see above) including operating specific items.

Adjusted operating profit before and after transformation costs

These measures are based on reported operating profit before and after transformation costs (see above) further adjusted to exclude the volatility of the pension charge to cash difference adjustment, which Management considers to be a key adjustment in understanding the underlying profit of the Group at this level.

Adjusted operating profit

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

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

Adjusted operating profit margin after transformation costs

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

Earnings before interest, tax, depreciation and amortisation (EBITDA) before transformation costs

Reported EBITDA before transformation costs is reported operating profit before transformation costs with depreciation and amortisation and share of associate company profits added back.

Adjusted EBITDA before transformation costs is reported EBITDA before transformation costs with the pension charge to cash difference adjustment added back.

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

The following table reconciles adjusted EBITDA before transformation costs to reported operating profit before transformation costs.

(£m)	53 weeks March 2019	52 weeks March 2018
Reported operating profit before transformation costs	474	236
Depreciation and amortisation	391	341
Reported EBITDA before transformation costs	865	577
Pension charge to cash difference adjustment	70	458
Adjusted EBITDA before transformation costs	935	1,035

FINANCIAL REVIEW CONTINUED

Adjusted earnings per share

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

People costs

These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs.

Distribution and conveyance costs

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

Infrastructure costs

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

Other operating costs

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

Transformation costs

These costs relate to the ongoing transformation of the business, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge rate of 41 per cent for the RMPP to 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018 and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent of pensionable pay for RMPP to 31 March 2018 and 15.6 per cent for the DBCBS. 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.

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.

Employee Free Shares charge

These relate to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2013, 2014, 2015 and 2016) with no direct cash impact on the Group.

Amortisation of intangible assets in acquisitions

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

Legacy/other costs

These costs relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision) or restructuring costs.

Non-operating specific items

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

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

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

Profit/loss on disposal of business

These non-recurring events are excluded on the basis that by their nature they are individually unique and therefore distort comparison of year-on-year business performance.

Free cash flow

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

In-year trading cash flow

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

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

(£m)	Reported 53 weeks March 2019	Reported 52 weeks March 2018
Net cash inflow from operating activities	493	905
Adjustment for:		
Other working capital movements	(6)	3
Cash cost of operating specific items	6	12
Purchase of property, plant and equipment	(264)	(219)
Purchase of intangible assets (software)	(100)	(141)
Net finance costs paid	(12)	(15)
In-year trading cash inflow	117	545
Add back 2017-18 pay award	101	(101)
Add 53rd week payroll and VAT payments	64	–
Adjusted in-year trading cash flow	282	444

In-year trading cash flow included an outflow of £101 million, due to the timing of the cash payment of the 2017-18 frontline pay award and an outflow due to impact of the 53rd week, which included an additional monthly payroll and VAT payment. Reversing the impact of these items would give an Adjusted in-year trading cashflow of £282 million (2017-18: £444 million), sufficient to cover the full year dividend of 25.0 pence per share (2017-18: 24.0 pence per share).

Net cash investment

Net cash investment is a measure of the cash utilised by the Group in the period on investment activities netted off against cash received on the disposal of property, plant and equipment. It is a measure used by Management to monitor investment within the Group. The items making up this balance in the statutory cash flow are indicated in the section 'Condensed consolidated statement of cash flows'.

Net debt

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

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

(£m)	At 31 March 2019	At 25 March 2018
Loans/bonds	(431)	(437)
Finance leases	(125)	(169)
Cash and cash equivalents	236	600
Pension escrow (RMSEPP)	20	20
Net debt	(300)	14

Net debt excludes £187 million (2017-18: £178 million) related to the RMPP pension scheme of the total £207 million (2017-18: £198 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

Adjusted effective tax rate

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

RISK OVERVIEW

PRINCIPAL RISKS AND UNCERTAINTIES

The table below details each principal business risk, those aspects that would be impacted were the risk to materialise, our assessment of the status of the risk and how the Group mitigates it.

Principal risk	Status	How we are mitigating the risk
Pensions, Pay and Pipeline Agreement and the risk of industrial action There is extensive trade union recognition in respect of our workforce in the UK, with a strong and active trade union. As Royal Mail Group continues to transform in order to remain competitive in the letters and parcels markets, including delivering its 'turnaround and grow' plan in the UK, there remains a risk of industrial action.		
Industrial action		
 There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action. The absence of major industrial action is a key assumption underpinning the 'turnaround and grow' plan in the UK. But, the plan requires a high level of operational change in an increasingly competitive market, which may put additional strain on the stability of our industrial relations. Widespread localised or national industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing significant loss of revenue for the Group. It may also cause Royal Mail to fail to meet the Quality of Service targets prescribed by Ofcom, which may lead to enforcement action and fines.	 The Agenda for Growth agreement developed jointly with the Communication Workers Union (CWU) represented a fundamental change in our relationship with the CWU, and continues to promote stability in industrial relations. In February 2018, following an industrial dispute late in 2017, we announced the Pensions, Pay and Pipeline Agreement (the '2018 Agreement') with the CWU, which the union membership subsequently ratified. As part of the Agreement, Royal Mail and the CWU committed to a broad programme of operational change, as well as pension reform, changes to pay and terms and conditions. The after effects of the industrial dispute, delayed implementation of cost avoidance projects and the complexity involved in implementing elements of the Agreement contributed to our announcement in October 2018 that we would not deliver our productivity and cost avoidance targets for 2018-19. Subsequent analysis of the productivity and efficiency opportunities under the 2018 Agreement found that a step change was required in the form of a new transformation plan to fund the overall cost of the Agreement to the Company. While the overall operational direction set out in the Agreement is right the review found that the initiatives so far designed to fund it were not enough in themselves to do so; nor were they all at the appropriate stage of readiness. Hence, the need for a new transformation plan.	Our Agenda for Growth agreement with the CWU provides a joint commitment to improved industrial relations and to resolving disputes at pace in a way that is beneficial to both employees and Royal Mail. Our transformation plan will be carefully sequenced, with a foundation period, including parcels automation in all our existing Mail Centres, followed by the embedding of the new work tools across our UK operations and the deployment of a new network design. We have informed our unions about our plan. We will work closely with them on strategy, detailed design and deployment. We are committed to working corroboratively through these changes – including new ways of working new trials and more flexibility – with them. Under the Agenda for Growth, there is a prescribed resolution process for disputes which requires trained mediators nominated by and representing both the CWU and the business. This must be followed before any industrial action can take place. The Agenda for Growth agreement has legally binding protections for the workforce in respect of future job security and our employment model. These can be rescinded in a number of circumstances, including in the event of national industrial action.

KEY

Link to strategy	Relative severity	Change during the year	Speed at which the risk could impact
 Winning in parcels	 High	 Increasing risk	 Fast: 6 months
 Defending letters	 Medium	 Decreasing risk	 Medium: 6-12 months
 Growing in new areas	 Low	 Stable	 Slow: >12 months
		 New	

Principal risk	Status	How we are mitigating the risk
Pension arrangements		
 We recognise that pension benefits are important to our people and that we need to continue to provide sustainable and affordable pensions arrangements that are acceptable to our people and unions. There is a risk that we may be unable to obtain the necessary legislative changes to enable us to implement the UK's first Collective Defined Contribution (CDC) pension scheme as agreed with the CWU.	 The Royal Mail Pension Plan closed to future accrual in its Defined Benefit form on 31 March 2018. A new Defined Benefit Cash Balance Scheme was put in place from 1 April 2018. The overall ongoing cash cost of both the transitional arrangements and the proposed CDC scheme are expected to continue to be around £400 million per annum. The Government has published its response to the consultation on CDC pension schemes. It has committed to bringing forward necessary legislative changes to enable CDC pensions as soon as Parliamentary time allows.	We are continuing to work with Government to make the necessary legislative and regulatory changes required to introduce the CDC pension scheme.
Efficiency		
 Royal Mail must become more efficient and flexible in order to compete effectively in the parcel and letter markets. The success of our strategy relies on the effective control of costs across all areas of the business and the delivery of efficiency benefits. We continue to operate a tight balance between achieving efficiency improvements whilst delivering high service levels. This requires careful management of efficiency and Quality of Service. Royal Mail is launching its 'turnaround and grow' plan in the UK. There is a risk we will not be able to deliver our transformation programme and meet our required cost avoidance and productivity improvement targets during the life of the plan.	 In recent years, the profits generated by our UK business have been in decline and our costs have increased. Our productivity has slowed appreciably due to the absence of both new working tools and network enhancements. The 'turnaround and grow' plan is about a renewed focus on our efficiency and productivity and our UK network through a range of new, digitally enabled work tools, operational excellence and targeted investments. This five-year plan will enable us to maximise the benefits, particularly in delivery and processing, of joint letter and parcel delivery, and facilitate our transition to become a parcels-led business where letters in the UK continue to be important. There will be an even greater emphasis on standardised processes to drive efficiency gains.	Our 'turnaround and grow' programme in the UK is about a renewed focus on our efficiency and productivity and our UK network through a range of digitally enabled work tools and targeted investments. Operational excellence is another key feature of the plan. This is a demanding change programme. We have informed our unions about our plan. We will work closely with them on strategy, detailed design and deployment (See 'Industrial Action' above). Change underpins our future, with the absence of major industrial action a key turnaround assumption. Our ambition is to deliver around £1 billion of costs avoided, and a cumulative productivity improvement of 15-18 per cent over the life of the plan.

RISK OVERVIEW CONTINUED

Principal risk	Status	How we are mitigating the risk
Customer expectations and Royal Mail's responsiveness to market changes The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.		
Customer expectations and Royal Mail's responsiveness to market changes		
 Changes in customer expectations and changes in the markets in which the Group operates, could impact the demand for our products and services. Given the major cultural shift underway in UK society – more e-commerce and therefore fewer letters and more parcels – it is very important that Royal Mail changes too. While we expect to handle many more parcels in the years to come, work we commissioned from external consultants indicates we should expect domestic letter volumes to fall by about 26 per cent over the next five years or so. This structural decline will continue to be driven by e-substitution, lower GDP, the impact of GDPR and business uncertainty. Our renewed focus on productivity, through operational excellence and key work tools, is vital to remaining competitive in the UK parcels market – one of the most developed e-commerce markets in the world. So too is our network extension, which, in combination with productivity gains, should enable us to future proof our UK business against a backdrop of significant changes in customer demand.	 The impact of GDPR led to a reduction in marketing mail volumes. We expect addressed letter volumes (excluding political parties' election mailings) to decline by five-seven per cent in 2019-20, due to the impact of GDPR and continued market uncertainty. We expect addressed letter volume declines to return to our medium-term forecast range of four-six per cent thereafter. The rate could move outside of this range if economic conditions falter or business uncertainty deteriorates. Competition in the UK domestic and international parcels markets is intense, with competitors offering innovative solutions that include convenient, reliable delivery and return options, improved tracking services and features that put recipients increasingly in control of their deliveries. Our UK Network review found that our existing network has many strengths. It provides us with good economics, particularly in letters and small parcels, with the latter accounting for most of our parcel volumes. The review established that our network is not optimised for the anticipated increase in the proportion of next day delivery and larger parcels, including our current reliance on manual sortation and a two-sort approach. Our approach is to therefore seek the best of all worlds. This means maintaining our existing network for letters and small, parcels, and a greater proportion of next day delivery items extending our network to handle large parcels more cheaply and more competitively.	We plan to leverage the Parcels technology investments of recent years by bringing to market new features that improve convenience and customer control of parcel deliveries, such as the Estimated Delivery Window feature we have just launched or the Inflight Redirection feature that forms part of this coming year's development plan. Our 'turnaround and grow' plan underpins the future of our UK business – never forgetting the importance of letters – as e-commerce and other societal changes profoundly impact on how we all go about our daily lives. We are extending our UK network to a) maximise the benefits of delivering letters and small parcels together and b) handle more next day delivery and larger parcels more efficiently. This will facilitate e-commerce growth and increase demand for our services. We are targeting UK parcel volume growth at above the expected UK addressable parcel market growth rate, underpinned by continued investment in customer-led features and channels. We will continue to promote the case for mail in a post GDPR environment. During the year, we helped expand the usage and availability of JIC MAIL data (Joint Industry Committee) to offer standardised data on the reach and frequency of mail through all mainstream media and campaign planning tools. JIC MAIL data helps demonstrate more clearly to the market how consumers interact with all mail types and the commercial benefits this drives for brands.

Principal risk	Status	How we are mitigating the risk
Economic and political environment		
 Historically, there has been a correlation between economic conditions and the level of letter and B2B parcel volumes. Low rates of economic growth could impact our ability to maintain and grow revenue, either by reducing volumes or encouraging customers to adopt cheaper products or formats for sending letters and parcels. The UK voted to leave the EU in 2016. The shape of the future relationship between the UK and the EU remains unclear. The Labour party's 2017 manifesto included a pledge to bring a number of private companies, including Royal Mail, back into public ownership	 The Board continues to monitor the economic and wider external environment in the UK and the Group's other markets. Specific areas of focus include: – Business uncertainty, with the recent slowdown in economic activity, this may be an indicator that business customers will look to reduce costs and compete aggressively for contracts, impacting letter volumes, in particular marketing mail. – A decline in the value of Sterling, which impacts our International business in terms of the exchange rate effect on imports and exports, higher inflation resulting from increases in the prices of UK imported goods and services, increase terminal dues and wage increases. – Economic growth in the Eurozone has recently shown signs of weakening in some countries (notably Germany and Italy). The Board will continue to monitor this position in terms of the impact on our international parcel volumes, including those handled by GLS. More broadly, Royal Mail's business performance remains closely aligned to UK economic growth. We assume that GDP growth will remain below average in the near-term, and return to a typical growth rate in the medium-term. While the shape of the future relationship between the UK and the EU remains unclear, it is not possible to predict with any degree of accuracy the impact the UK's departure from the EU could have on the Group. The main issues relate to any potential economic downturn, and changes associated with customs and VAT processing. We believe the immediate risk to our domestic operations is low. We are working with key suppliers to ensure our supply chain remains secure. We continue to monitor the development of Labour Party policy on nationalisation closely. We continue to monitor the development of Labour Party policy on nationalisation closely.	Macroeconomic risk assessments are embedded within the monthly Letters forecasting processes. The Group also has the following strategies in place: – A cost avoidance programme to respond to possible revenue headwinds. – Business initiatives that are responding to fluid competitive pressures. – A possible, absorbable reduction in investment in the short term to protect the cash and indebtedness position of the business. Internal procedures are in place to monitor and manage ongoing risks associated with the UK leaving the EU. Material risks are reported to and handled through a Brexit steering group. This is led by the Group's Chief Risk and Governance Officer and is comprised of senior executives. The impact on cross-border parcel volumes will depend on the nature of the UK's future trading relationships, and what the future EU/UK customs and VAT arrangements will be. In a 'no deal' situation, we expect the rules which apply to non-EU imports to be extended to EU items. Similarly, we would expect the EU to treat UK imports as it does non-EU imports today. We are well placed to manage the impact of changes to customs processing. We are working closely with Government to put in place systems to ensure the movement of cross-border parcels continues to operate effectively. We have developed a new model for the collection of taxes and duties with Government. We are also engaging with Ofcom and the Department for Business, Energy, and Industrial Strategy (BEIS) on the applicability of Quality of Service targets after the UK leaves the EU. Royal Mail engages regularly with politicians and policy makers, and closely monitors the potential impact of political and policy changes on the company. The Company runs an extensive public affairs programme of engagement with politicians and policy makers. We regularly demonstrate the significant progress that the company has made since privatisation in 2013.

RISK OVERVIEW CONTINUED

Principal risk	Status	How we are mitigating the risk
Growing in new areas		
 Our success in growing in new areas of business is dependent on such factors as our continued ability to identify new profitable and sustainable areas of business, implementing appropriate investments, and having in place suitable structures to support continued transformation of the business.	 Royal Mail Group is well positioned to grow in new markets through its subsidiary, GLS. It has a replicable and scalable business model founded on the development of strong regional businesses. Through increasing its footprint and focusing on growth opportunities in areas such as the deferred parcels space and B2C parcels market, GLS is well positioned to support Royal Mail Group's overall strategy. Royal Mail and GLS together currently generate £1.7 billion in annual revenue from cross-border parcels and letters. The cross-border parcels market is a large, attractive growth opportunity for the Group. We are continuing to seek opportunities to develop a broader revenue base and growth in the UK and overseas.	Our five-year transformation programme aims to build a parcels-led, more balanced, more diversified business. This includes increasing the proportion of Group revenue generated by parcels and increasing our geographical diversification programme through our 'scale up and grow' plan for GLS and our cross-border parcels strategy. These are two of our three strategic priorities. Our strategy is designed to ensure that GLS builds on its strong, 30-year track record and makes a major contribution to the Group's product and geographical diversification over the next five years. The focus will be on profitable revenue growth, including focused yield management. We will combine the best of Royal Mail and GLS to offer a global proposition in smaller and larger cross-border parcels.

Principal risk	Status	How we are mitigating the risk
Regulatory and legislative environment The business operates in a regulated environment. Changes in legal and regulatory requirements could impact our ability to meet our targets and goals.		
Absence of a sustainability framework to sustain the USO		
 USO finances are fragile. The regulatory system applies some constraints to Royal Mail's ability to compete for traffic to support the costs of the Universal Service network. These may impact our revenues and our ability to compete in the highly competitive sectors in which we operate. This could ultimately impact our ability to deliver the Universal Service on a sustainable basis. Given the continuing structural decline in addressed letter volumes, and broader changes in the parcels market, Ofcom is enhancing its monitoring of Royal Mail. It is bringing forward some of the work it plans to undertake as part of its next review of the regulation of Royal Mail, which, overall, will be completed by 2022. The work it will undertake includes: a) a review of Royal Mail's efficiency, designed to give more insights into the future sustainability of the Universal Postal Service; and b) research to review the extent to which the postal market is meeting the reasonable needs of users and consumers and SMEs.	 Ofcom will continue to be focused on monitoring Royal Mail's efficiency. It will complete its delivery cost model to help inform Ofcom's view on how delivery costs might change over time under different scenarios. Ofcom intends to extend this detailed cost modelling work to other parts of Royal Mail's operations. The Universal Service, as we have stressed to Ofcom and Government, needs to meet the 21st century requirements of consumers and SMEs. In short, a contemporary USO is required. We have also noted the importance of considering the revenue pools needed to sustain the Universal Service, alongside the legitimate needs of consumers and SMEs. Given that the USO has high, fixed costs, irrespective of volume, it is also crucial to focus on underpinning USO and non-USO revenue pools to fund it. We have made all of these points both to Ofcom and Government. We have been engaging Ofcom to introduce supportive changes to the regulatory environment that will help to keep the Universal Service market funded. Ofcom has not taken forward our proposal for a proactive sustainability framework. It has also not taken forward the opportunity to raise consumer protection standards across the industry.	A key part of our 'turnaround and grow' plan for our UK business is to underpin the sustainability of the Universal Service. The plan will be challenging to execute, and we will be asking Ofcom for its support, wherever possible, to facilitate its delivery. In doing so, we will note that our transformation is designed to future proof our UK business by enabling us to become even more efficient and better placed to respond to changing customer demands. We will stress the power and economic value of the Universal Service as it makes commerce happen across the UK and connects customers, companies and countries. We will also renew our request to Ofcom for a level playing field across the whole industry, including higher consumer protection standards in parcels and lifting labour standards across the delivery sector. We undertake extensive engagement with Ofcom across all workstreams, including the cost modelling. We will actively engage with Ofcom on both its efficiency and user needs work. We will also engage with the relevant Government departments and consumer interest groups.

RISK OVERVIEW CONTINUED

Principal risk	Status	How we are mitigating the risk
Competition Act investigation		
 On 14 August 2018, Ofcom announced its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million.	 Royal Mail is very disappointed by Ofcom's decision to impose a fine of £50 million. The decision relates to a price change announced in 2014, which was never implemented or paid under Royal Mail's Access Letters Contract. Royal Mail strongly refutes any suggestion that it has acted in breach of the Competition Act, and considers that the decision is without merit and fundamentally flawed. Royal Mail Group lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. The main hearing for the appeal to the CAT will take place in Summer 2019. A final decision is not expected from the CAT until around six to nine months after this hearing. No fine is payable until the appeals process is exhausted.	Royal Mail Group will continue to robustly defend our conduct in the hearing before the CAT.
Strategic workforce planning		
 Workforce planning could be adversely impacted as the demographic of our workforce changes alongside the availability of people with the right skills to join our organisation. We have added this risk to our Principal Risks to reflect its strategic importance.	 As our workforce ages, our physically demanding roles may become more difficult to fulfil. Advancement in technology is leading to increased automation, which requires a different specialist skillset. Availability of people to fill frontline roles may decline as more people enter Further and Higher Education. Economic trends and the impact of Brexit may influence the availability of workers.	We monitor the demographic of our workforce, and track key external metrics such as the employment rate and demographic. We undertake market research and analysis, and perform industry benchmarking. We review our workforce with an active programme of recruitment to fill vacancies as and when they arise.

Principal risk	Status	How we are mitigating the risk
Health, Safety and Wellbeing		
 The health, safety and wellbeing of our employees, contractors, agency workers and members of the public is of the utmost importance to us. There is a risk that a health and safety incident or failure of our processes could result in the serious injury, ill health or death of employees, contractors, agency workers or members of the public. Such an incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and reputational damage for the Group. Similarly, inadequate arrangements for effectively managing the health and wellbeing of our employees could also lead to financial losses and reputational damage through increased sickness absence, lower productivity, civil action or criminal prosecution.	 The business has a large number of employees including seasonal staff and agency workers. It also operates a very large fleet, employs a large number of contractors and interacts extensively with members of the public. A large proportion of our employees spend most of their time working outdoors, on foot or driving, where the environment cannot be controlled. Due to this wide reach and the number of people affected by the business' undertakings, the risk of serious harm to people cannot be totally mitigated. We acknowledge that every health and safety incident has a human impact. A full review of the integrated Safety, Health and Environment Management System (SHEMS) has been carried out in 2018-19 to identify gaps in legal compliance or risk controls, and identify opportunities for simplification to make the SHEMS more accessible for managers.	We will continue to review SHEMS to identify any further opportunities for streamlining and simplification. We are investing in improved technology so that our risk assessment processes can be completed more easily by managers and better meet the needs of our business. Operational implementation of SHEMS is monitored via an annual audit programme and a professional and independent SHE function is in place to provide advice, support and guidance on the implementation of standards. There is an annual SHE initiative and communications plan in place. This is informed by a review of compliance data, risk data, KPI performance and legislative requirements. Employees have access to health and wellbeing assistance through our Feeling First Class website, First Class Support helpline and Occupational Health provision. SHE performance is discussed and reviewed by the Board and senior leaders are committed to driving full compliance to SHEMS.
Major breach of information security, data protection regulation and/or cyber		
 We are subject to a range of regulations, contractual obligations, and customer expectations around the governance and protection of various classes of data. In common with all major organisations, we are the potential target of cyber-attacks that could threaten the confidentiality, integrity and availability of data in our systems. A cyber security incident could trigger material service and / or operational interruption. A major breach of data protection regulation is also considered a risk that could result in financial and reputational damage, including loss of customer confidence.	 While no material losses related to cyber security or data breaches have been identified, given the increasing sophistication and evolving nature of this threat, and our reliance on technology and data for operational and strategic purposes, we consider cyber security and/or a breach of data protection regulation a principal risk.	As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to invest in cyber security. Recognising that this risk cannot be eliminated, we continuously review our security enhancement and investment plans to reflect the changes in the threats we face. We are undertaking activities across the Group to ensure compliance with GDPR. This includes protecting us from loss of data, managing information rights and managing our marketing permissions correctly.

RISK OVERVIEW CONTINUED

Principal risk	Status	How we are mitigating the risk
Talent and capability		
 Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise. The capability, experience and cohesion of senior management is integral to delivering our transformation programme.	 Voluntary turnover in senior management continues at similar levels to previous years but remains a business risk.	The Group's remuneration policy sets out that the overall remuneration package should be sufficiently competitive to attract, retain and motivate executives with the commercial experience to run a large, complex business in a highly challenging context. We operate a succession planning process and have in place talent identification and development programmes.
Environment and sustainability		
 Climate change and governmental actions to reduce its impact may have adverse operational, financial and reputational consequences. The cost of operations is likely to increase as we adapt our business in response to government action to reduce the effect of harmful emissions such as the introduction of Clean Air Zones in UK cities. An increase in the frequency of extreme weather events may result in disruption to our operational pipeline and impact our ability to meet USO requirements. We may also see price rises as a result of resource scarcity such as water shortages. This risk is now being included as a principal risk given its major significance both internally and externally.	 With the UK's largest 'feet on the street' network of around 90,000 postmen and women, Royal Mail plays a key role in keeping carbon emissions low. We have a requirement to maintain a large fleet of vehicles. Growth in parcels is also driving up our energy demand. We recognise our responsibility to reduce the energy we use and emissions associated with our fleet to help improve air quality in the communities in which we operate.	We are investing in new vehicles and technologies, changing driving styles, and making our transport network more efficient. We are undertaking trials and initiatives in our current fleet to drive down fuel consumption. Our fleet also includes electric and liquefied natural gas vehicles. Over time, we plan to increase the number of alternative fuel or advanced technology vehicles to meet current and future legislation. We are also taking proactive steps to reduce our energy and water consumption and to reduce the amount of waste we send to landfill.

VIABILITY STATEMENT AND GOING CONCERN

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

The key factors affecting the Group's prospects are:

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

Further details on these factors can be found on pages 20-23.

While the Directors have no reason to believe that the Group will not be viable over the longer-term, they consider the three financial years to March 2022 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our principal risks. Although forecasts have been prepared for longer periods for the purposes of the strategy day, there is inevitably more uncertainty associated with a longer time frame, and the Group will revert to a three year time frame for future business plans. This period also aligns with the performance criteria in our Long Term Incentive Plans (LTIP).

Business divisions have prepared detailed annual forecasts for a 12 month period and project performance over five years with reference to economic assumptions and strategic initiatives.

The key assumptions within the Group's financial forecasts are outlined in the section entitled 'Strategy and financial outlook: three and five years' on page 8.

- No change in capital structure. The Group has €500m bond which expires in 2024 and a revolving credit facility (RCF), the majority of which expires in March 2022. It is assumed that the RCF could be renewed on similar terms.
- The current Regulatory Framework was extended in March 2017 through to March 2022. It is therefore assumed that there is no change in the Regulatory Framework over this period.

Assessment of Viability

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section on pages 64-72 but focused on those that could have a plausible and severe financial impact over the plan horizon.

This year, the Directors considered:

- (i) the potential impact of industrial action; (Principal risk: Industrial Action);
- (ii) deteriorating economic and market conditions which could result in letters volume decline greater than our projected four-six per cent in the medium term (Principal risk: Economic and Political Environment);
- (iii) a no deal Brexit, which could cause economic conditions to deteriorate further (Principal risk: Economic and Political Environment); and
- (iv) increased competition in the UK parcels sector. (Principal risk: Customer expectations and Royal Mail's responsiveness to market changes).

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

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

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

Viability Statement

Based on the results of their analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2022.

RESPONSIBLE BUSINESS

SUSTAINABILITY

1st

ranked in our industry, Dow Jones Sustainability Index

UK ECONOMY

£10.3bn

Added to the UK economy in 2018-19

CHARITBLE CONTRIBUTIONS

£62m

raised through payroll giving since 1989

WELLBEING

9.2%

reduction in Lost Time Accident Frequency rate from 2017-18

Our corporate responsibility (CR) strategy is an integral part of realising our core strategic priorities. The objectives at the heart of our business and corporate responsibility strategies are the same – to generate sustainable shareholder value.

Our CR strategy comprises six key objectives:

- Deliver economic and social benefit to the communities we serve
- Drive colleague advocacy for the Group and its community role
- Manage the environmental impacts of our business and operations
- Deliver our transformation responsibly
- Operate with integrity
- Communicate our management of corporate responsibilities openly and transparently

Our CR objectives support the delivery of our business strategy. We report progress against them under the areas of Customer, People, Community, Environment and Suppliers. Our CEO has overall responsibility for CR, with members of the senior leadership team taking responsibility for each of the major strands of our CR agenda.

We are committed to communicating with our stakeholders openly and transparently. In line with the requirements of the UK Government's Non-Financial Reporting Directive, this section summarises information relating to Royal Mail's position on, and performance in, social and environmental matters material to our Company. We publish a full report on the outcomes and impacts of our activities in our annual CR report. The CR report is prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards,

at the Comprehensive level. It is reviewed by the Board prior to being published. The CR policies and reports referred to in this section are available at the following address: www.royalmailgroup.com/responsibility.

We engage an external auditor to assure our key non-financial performance indicators, covering customer, people, community investment and environment metrics. The assurance process involves data testing and a review of the key structures, systems, processes and controls for managing and recording information to ensure that the data we report is reliable and complete. Assurance is performed in accordance with internationally recognised reporting standards – ISAE 3000/3410 and AA1000AS. Our 2018-19 assurance statement will be available on our website in due course.



Social and environmental risk management

We assess risks arising from the social and environmental issues relevant to our business at least once a year, using our risk management framework to determine their criticality. The risks deemed most critical to the Company are set out on pages 64-72 in the Principal Risks section of this report. More information about our approach to risk management is given in the Governance section, on pages 113-114. Our non-financial key performance indicators are available on pages 38-39.

Measuring our progress

We are independently rated as a leading responsible business. In 2018, we were named global leader of the Transportation industry group in the Dow Jones Sustainability Indices, ahead of over 135 companies in ground-based transportation, marine and aviation industries. We have been included every year we have been eligible, since our flotation.

We were also included in the FTSE4Good Global Index again in 2018. We were ranked in the top four per cent of companies included, on account of our environmental, social and governance performance.

We respond to the Carbon Disclosure Project (CDP) climate change questionnaire each year. This year, we achieved a score of A-, which was an improvement on last year's score. This is ahead of the Air Freight Transportation and Logistics industry average score of C.

Our customers

Our vision is to be recognised as the best delivery company in the UK and across Europe. This requires us to get customer service right consistently and meet the changing needs of all who depend on our services. We are proud of the role we play in connecting companies, customers and communities across the UK through Royal Mail and overseas through GLS.

With so many options available to consumers, we need to make our services simple and flexible to ensure we remain competitive.

We are introducing new products and services, as well as strengthening those currently available, to provide a better customer experience. For example, in October 2018, we launched a new mobile app to help consumers manage their deliveries more effectively. The new app enables consumers to easily track their items from their smartphone. There is also an option to book a redelivery if it has not been possible to deliver an item. This latest enhancement is part of a programme of innovation making Royal Mail's services more accessible and convenient. In Europe, GLS expanded its FlexDeliveryService, which is now available in 21 countries. This service makes it easier for online shoppers to take delivery of goods they have purchased abroad, with a wide range of delivery options to their home country.

Our Corporate Balanced Scorecard includes three customer service performance indicators. In 2018-19, our mean business customer satisfaction score remained the same at 78 points. Our consumer sending satisfaction score remained the same at 80 points. The mean proportion of business customers rating Royal Mail as being 'Easy to Do Business With' decreased marginally from 80 to 79.

We take complaints seriously. We have developed a 'root cause' approach to managing them. This helps us to resolve customer issues while identifying and addressing the underlying causes. We focus on First Time Delivery, and aim continuously to improve our performance. This year, we received 578,600 complaints, a 0.1 per cent decrease compared to last year, despite delivering more parcels and working an additional week in the financial year. The reduction was driven by improved scanning and recipient notifications to give customers greater awareness of their items. There was also a continued focus on key processes and conformance to standards in our operation, and consistent management of complaints with the emphasis on the timeliness and quality of investigations.



LGBT+

In 2018-19, Royal Mail took part in both London Pride and UK Black Pride. Our LGBT & Friends steering group and local networks hosted a series of Prides across the UK, with over 300 of our colleagues attending. We commissioned Pride-themed vans and a postbox in London, to show our support for our colleagues. The steering group also marked the International Day against Homophobia, Transphobia and Biphobia, Bi-Visibility Day and National Coming Out Day, and partnered with Stonewall for a Role Models event, which empowered 35 colleagues to engage with peers and promote LGBT+ inclusion in the workplace. In addition, the steering group promoted transgender awareness and shared the inspiring stories of our trans colleagues via our Digital Pride Campaign. A series of transgender awareness films featuring Royal Mail transgender employees from across the country were launched as part of this campaign. The group partnered with Gendered Intelligence, a not-for-profit Community Interest Company that works with the trans community, to raise awareness of trans inclusion in the workplace.

CORPORATE RESPONSIBILITY CONTINUED

Our people can also tell us how customer focused our products and services are.

Our annual employee survey asks our people what they think about the customer experience. This year, we received a customer focus score of 70 out of 100, equal to the previous year.

Scam mail

Royal Mail never knowingly delivers scam mail. We understand the upset and distress that it can cause. During the year, we worked with our customers, the National Trading Standards Scams Team and law enforcement agencies to tackle this issue. Our people play a vital role in detecting scam mail. We actively encourage them to report any suspicions, and any concerns about vulnerable households, to their line managers. Since November 2016, we have stopped over 4.3 million items of scam mail from reaching our customers.

Our people

Engagement and culture

Engaged employees, who feel valued by our business, are the foundation of our customer focused culture. As such employee engagement is one of the two people-related key performance indicators on our Corporate Balanced Scorecard. It is measured through our annual Employee Survey.

In 2018-19, we saw an increase in our employee engagement score, from 59 points to 60. Since our flotation in 2013, our engagement score has increased by 6 points. In 2018-19, our employee turnover rate was 7.2 per cent. This compares well against the average UK turnover rate of 23 per cent.

Our values; Be positive, Be Brilliant and Be Part of it, apply to every employee. They represent the way we do things as individuals and as a company. We use our culture index, to understand how aligned our colleagues are with our values. This year, our culture Index score has remained the same at 53 points.

Pay, pensions and terms and conditions

Royal Mail recognises its responsibility to employees. We are proud to offer our people good working condition and fair pay.

Over 99 per cent of our employees are on permanent contracts, offering them competitive salary and benefits such as national insurance contributions, paid holiday and a good pension. Around 69 per cent of our employees work full time, with 31 per cent working part time.

Royal Mail Group wants to provide employees with a positive experience when they have a family, supporting employees during their pregnancy, maternity leave during their return to the workplace by helping them to manage their work-life balance. We have formal policies in place to cover maternity, adoption leave, shared parental and parental leave. Specifically, our policies for maternity and adoption leave offer our employees up to 26 weeks of full pay ordinary leave.

We are committed to providing the best pay and terms and conditions in our industry. We work closely with our unions to agree changes to our working practices. During the year we made agreements with our union, the Communications Workers Union (CWU) on pay increases for frontline colleagues, up to April 2020, and continue to work closely with the CWU to support the Government in its work to introduce a new pension scheme. We have worked with Unite/CMA on new processes to help standardise and improve ways of working at all operational levels. See the Chief Executive Officer's review on pages 14-19 for more information.

Rewarding people fairly

We believe that all our people should be rewarded fairly for their work. Each year, we conduct a Company-wide review to identify any pay discrepancies between men and women. We were pleased to find that, as in previous years, the average salaries paid to men and women are broadly the same.

On a mean basis, women are paid 0.6 per cent more than men. This is due to a greater proportion of women in senior positions, compared to junior and operational roles. On a median basis, men are paid one per cent more than women, due to men selecting more work that qualifies for allowances, like shift work during the evening or at night. We pay bonuses equally to men and women on a median basis. On a mean basis, our Bonus Gap is 22.7 per cent in favour of women – compared to 9.1 per cent in the previous year. This is due to the higher proportion of women in our management populations compared to our operational population. Our full Gender Pay Report is available at the following address: www.royalmailgroup.com/responsibility/our-people.

REPRESENTATION

32%

of senior managers are female

GENDER PAY GAP

0.6%

Women are paid 0.6% more than men (on a mean basis)

CARBON EMISSIONS

29%

reduction in CO₂e since 2004-05 baseline





Investing in our future

Around 87 per cent of our people are Royal Mail shareholders. Since privatisation, 12 per cent of the Company has been awarded to Royal Mail employees through the Royal Mail Share Incentive Plan. All our eligible full-time employees received a maximum of 913 free shares, regardless of their role in our organisation.

Diversity and inclusion

Royal Mail believes that diversity involves more than just a workforce with representation from a wide variety of groups. It also involves giving every one of those groups a voice and valuing contributions from all of our people. As a company, we are committed to placing fairness, diversity and respect at the heart of our business and to creating a welcoming and inclusive environment for everyone.

Gender diversity

At our year end, 29 per cent of our Board were female. We support Lord Davies' recommendation that Boards should have 33 per cent female representation by 2020. At senior management level, 32 per cent of our colleagues are women, compared with 18 per cent in operational grades. In 2018-19, Royal Mail was named as one of The Times Top 50 Employers for Women for the sixth consecutive year.

Career development for women in Royal Mail is one of our key diversity priorities. We have a clear strategy to increase the number of women in management by giving internal candidates the confidence to apply for promotions.

During the year, we adopted the online personal and professional development platform Everywoman. This is designed to empower women to take control of their personal and career development. Open to women and men, over 1,200 colleagues have signed up to the platform. It provides them with webinars, workshops, articles, videos and webcasts aimed at building leadership skills, promoting yourself and developing your personal brand.

We continue to take steps to make our recruitment process more inclusive and accessible. During the year, we updated the language used in our job advertisements to make them more attractive to people with childcare and caring responsibilities. Where appropriate, we use balanced shortlisting to help address the gender balance in our business. In 2018-19, women were hired into 32 per cent of new operational roles.

Ethnic diversity

Royal Mail's ethnic profile is broadly representative of the UK population. According to our 2018-19 Employee Survey, around 14 per cent of employees declared

themselves to be from Black, Asian and Minority Ethnic (BAME) backgrounds. Royal Mail is a signatory of the Race at Work Charter. We work with Business in the Community's Opportunity Now and Race for Opportunity campaigns to ensure we support and follow best practice in gender and race diversity. Our BAME steering group participated in targeted focus groups to better understand the experiences of our BAME colleagues – feedback from which will be used to inform our Diversity and Inclusion strategy.

Supporting people with disabilities

We are committed to supporting disabled applicants and employees at all stages of the employment cycle, including reasonable adjustments to the workplace where appropriate. We introduced mandatory Disability and Reasonable Adjustments training for Operational Managers to ensure they are confidently and effectively supporting disabled colleagues. Approximately 13 per cent of our employees identify themselves as having a disability. Our Disability Confident Employer status was confirmed by the Department for Work and Pensions in August 2018 following the submission of a robust self-assessment.

Supporting our LGBT+ colleagues

We are proud to be part of Stonewall's Diversity Champions programme. It campaigns for equality for lesbian, gay, bisexual and transgender people, and provides access to guidance and good practice in LGBT+ inclusion. Stonewall helps us identify areas for improvement within our LGBT+ programme. One per cent of our employees identify themselves as transgender and five per cent identify themselves as lesbian, gay or bisexual. We worked with Gendered Intelligence, a not-for-profit Community Interest Company that works with the trans community, to undertake a trans-inclusion check to inform our future activities and initiatives. Our LGBT & Friends steering group focused on promoting transgender awareness and sharing the inspiring stories of our trans colleagues via our Digital Pride Campaign.

CORPORATE RESPONSIBILITY CONTINUED

Training and career development

We are committed to investing in our people at all levels of Royal Mail. We aim to provide our employees with the tools, knowledge and resources to deliver our business strategy while offering fulfilling careers and opportunities for continual development. In 2018-19, we invested nearly £6.9 million in training, delivering the equivalent of around 17,000 training days, covering technical health and safety, compliance and job-specific training.

Health and safety

Royal Mail's top priority as an employer is to create a safe and healthy working environment for our people. Our goal is to create a workplace where everyone is free from injury whether physical or mental. Our group-wide Health and Safety policy outlines our commitment to maintaining a safe and healthy workplace. It is operationalised through our integrated Safety, Health and Environment Management system, which sets out our standards and procedures for managing risks and maintaining a safe, healthy and environmentally responsible workplace.

In 2018-19, we recorded a Lost Time Accident Frequency Rate (LTAFR) of 0.49 per 100,000 hours worked, a decrease of 9.2 per cent compared with 2017-18. This improvement is largely attributable to a 22 per cent improvement in slips and trips incidents – our largest root cause of lost time accidents.

We are working hard to reduce road traffic collisions. As such, the Road Traffic Collision Frequency Rate is one of the measures on our Corporate Balanced Scorecard. This year, we reduced our

Road Traffic Collision Frequency Rate by 5.3 per cent, compared with 2017-18. We continue to invest in driver training and road safety campaigns to promote safe driver behaviours. During the year, we updated and expanded the courses that we offer. We also successfully trialled the use of forward facing cameras in Heavy Goods Vehicles and have since expanded the trial with a view to national deployment.

We believe that every life lost is unacceptable. Therefore, it is with great regret that we report that seven people tragically lost their lives in connection with our activities in the UK in the past year. The fatalities were associated with road traffic collisions involving our vehicles. We liaise closely with the relevant authorities and complete our own detailed investigations to determine the root cause of each accident and identify any lessons that can be learned. Investigations are discussed at Board level, and outcomes are communicated across the Group.

During the year, there was an increase in sick absence, from 5.09 per cent in 2017-18, to 5.41 per cent in 2018-19. Musculoskeletal and mental health issues remain the leading causes of long-term illness among our people. Supporting health and wellbeing boosts workplace morale and is crucial to our people strategy. Our five-year mental health strategy, 'Because Healthy Minds Matter', aims to increase awareness of mental health issues; reduce the associated stigma; and provide tools and guidance to our people so they know how to support themselves, their colleagues and their family members.

**ACTION FOR CHILDREN**

Our charity partnership with Action for Children, aims to raise £2 million to fund the Blues Programme, a preventative programme delivered in schools by experienced youth workers. It helps young people, aged between 13 and 19 who are identified as being at risk of developing or having mental health issues. The programme is a six-week course delivered by specialist youth workers that enables young people identify situations that can trigger anxiety, fear or depression and teaches them a range of coping strategies. During 2018-19, 1,306 students completed the programme, with 80.6 per cent saying they had increased confidence, 91.8 per cent gave the Blues Programme a score of 4 or 5 out of 5. Since our partnership began in May 2017, we have raised over £1 million for Action for Children and have rolled out the Blues programme in 91 schools in 10 locations across the UK.

GENDER DISTRIBUTION (NUMBER OF PEOPLE)

	UKPIL		GLS	
	Female	Male	Female	Male
Royal Mail plc Board	2	5	–	–
Senior Management	720	1,551	31	203
Management	1,495	5,523	3,585	3,260
Administration	1,398	974		
Operational	22,531	105,634	2,100	10,042

Our communities

Our main contribution to communities is our social and economic impact. We seek to extend our positive impact through strategic community investments. We leverage our core business competencies, infrastructure, people and brand, to benefit good causes. Our Corporate Responsibility Policy outlines how we interact with, and manage our impacts on, the communities that we serve.

We make the seventh biggest contribution of any UK company to the UK economy. One in every 192 jobs in the UK is provided by Royal Mail¹. We make a significant contribution to social inclusion through the vital employment and earnings that we bring to some of the UK's poorer regions.

In 2018-19, Royal Mail contributed £5.8 million directly to good causes and schemes for disadvantaged groups. That includes around £655,000 in matched giving and grant schemes to support employees' fundraising for charities and good causes. In addition, our people donated £3.1 million to hundreds of charities and good causes across the UK. Over the last 30 years, our people have given £62 million through our payroll giving scheme.

GLS Belgium was chosen as the official transport partner in 2018 for Red Nose Day, responsible for the distribution of red noses free of charge to businesses and individuals. The red noses were then sold to raise money for schools supporting young people with mental health issues. In addition, 57 of GLS' ParcelShops sold red noses in their shops and all GLS' Flemish depots organised fundraising events for the cause.

Our environment

We are embedding environmental management throughout our organisation. We identify and address environmental issues that result from our business through our risk management process. Our Environment Policy sets out our commitment to managing our environmental impacts, such as energy, water and waste, as well as how we work with customers and suppliers on environmental issues.

Our environment strategy drives continuous improvement in our performance. The five year strategy focuses on the following key objectives:

- embedding internal and external environment standards across our operation, such as our Safety, Health and Environment Management System standards for energy, carbon, waste and water management, and developed to

be compliant with the requirements of International Standard ISO14001;

- actively anticipating and responding to emerging environmental issues by working closely with relevant stakeholders and implementing effective governance controls;
- adopting existing and new technologies that will help us to reduce our emissions and resource use;
- building environmental awareness and encouraging behavioural change in our workforce in order to drive performance against our carbon, waste and water targets; and
- promoting the benefits of strong environmental management with customers and through our supply chain.

We will monitor our performance against our strategy using three existing targets: a) reducing our total carbon emissions, b) reducing our water consumption, and c) reducing the waste we sent to landfill.

Climate change risks and opportunities

We welcome the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), an industry-led taskforce founded by the Financial Stability Board following a request from the G20. The TCFD's recommendations aim to standardise climate-related financial reporting to make it easier for investors to assess the impact of climate-related risks and opportunities. Royal Mail is committed to implementing the TCFD recommendations and we will continue to enhance our climate related disclosures as our analysis evolves.

Governance: Overall accountability for the management of climate related risks and opportunities sits at Board level, with support from the Risk Management Committee (RMC) and Audit and Risk Committee. The management of climate related risks and opportunities is integrated into the Company's overarching risk management framework.

Our Environmental Governance Board (EGB) key purpose is to drive the environment strategy for the business. During 2018-19, the EGB established a working group to work on embedding the TCFD recommendations throughout the business. In the coming year the working group will expand its work aimed at increasing our understanding of how climate change could impact different areas of our business for example, our operations, fleet and property.



USING OUR LOCAL PRESENCE

Our postmen and women are the eyes and ears of the local community. Our partnership with Missing People uses this local presence to support the search for vulnerable, high-risk missing people. For the fourth consecutive year, we provided a donation of £60,000 to fund the Missing People's Child Rescue Alert system, specifically for children that have been abducted or who are believed to be in immediate danger. The system runs 24 hours a day, 365 days a year by sending location-specific alerts through our network of handheld Postal Digital Assistants (PDAs) and business television screens. In 2018-19, we enhanced our PDA technology send images of high-risk missing people to postmen and women along with the written description. We hope that this will enhance our ability to help find those missing and provide further hope to their loved ones. During 2018-19, we issued 57 alerts, with 54 people found safe and well.

DIVERSITY

14%

of employees identify themselves BAME

SCAM MAIL

4.3m

items of scam mail intercepted,
since November 2016

¹ CEBR research, conducted for Royal Mail in May 2019.

SAFETY METRICS

	2018-19	2017-18	2016-17	2015-16
Sick absence (%)	5.41	5.09	4.63	4.51
Lost Time Accident Frequency Rate (per 100,000 hours worked)	0.49	0.54	0.49	0.49
Reduction in road traffic collisions from previous year (%) ¹	5.3	9.0	12.3	N/A

¹ Reduction in road traffic collisions was added to the Corporate Balanced Scorecard in 2016-17.



Strategy: The RMC reviews business unit risk registers on a regular basis. It ensures all risks on the Company's consolidated environmental risk register are reflected in business units' risk registers as appropriate. Where climate-related risks and opportunities are identified, individual business units are required to factor the actual and potential impacts into their strategies and financial planning, then develop mitigation plans as necessary.

Risk Management: In line with the TCFD's recommendations, we consider both physical and transitional risks in the risk assessment process, along other types of risk. During the year, the RMC agreed that climate-related risks be added to the Group Principal Risk Profile. We recognise that climate change presents both risks and opportunities for our company. As such, we maintain an environmental risk and opportunity register. The EGB and other relevant internal stakeholders, including the Group Risk team, review and update this regularly. Information about Royal Mail's overarching risk management framework is set out on pages 113-114 of the 2018-19 Annual Report and Financial Statements.

Metrics and Targets: Our public commitment to reducing our carbon emissions relates to the climate-related risks and opportunities that we have identified. Further work is required to quantify the financial risks and opportunities with these climate related risks and associated adaptation, in line with the TCFD. This will form part of the remit of the working group in 2019-20.

We have a target to reduce our absolute carbon emissions by 20 per cent by 2020-21, against a 2004-05 baseline. We are proud to have met this target, with current reduction of 29 per cent against the 2004-05 baseline, as such we are



currently reviewing and updating our emissions target. Over two-thirds of our carbon emissions are derived from our vehicles and transport, therefore, a vital part of maintaining our performance against our carbon emissions reduction target is improving our fleet fuel efficiency.

We will continue to improve our understanding and assessment of both climate and financial risks in line with TCFD recommendations.

Carbon emissions

The table on page 82 sets out our Group carbon dioxide equivalent (CO₂e) emissions for 2018-19. Our current UKPIL target is to keep our carbon emissions at 20 per cent below the levels in 2004-05 until 2020-21. We are proud that we have already met this target four years early. This year, our total UK carbon footprint decreased by 1 per cent compared with the previous year. It was 29 per cent lower than the 2004-05 baseline. On a normalised basis, emissions decreased by 2.9 per cent per £1 million of revenue last year, compared with the previous year.

We are committed to reducing our emissions further, and are pursuing energy-saving opportunities across our fleet and property portfolio to maintain our performance and continue to meet our targets.

Fleet emissions

We recognise our responsibility to reduce emissions associated with our fleet and help improve air quality in the communities in which we operate. We align our fleet strategy to changes in environmental legislation and the growth in parcels, to ensure that we use our existing fleet more efficiently, prioritise vehicle replacements in London and other Clear Air Zones, use the cleanest technology available and the correct size of vans, trucks and trailers. Our approach to reducing fleet emissions focuses on three key areas:

Investing in new vehicles and technologies: We are undertaking a number of trials and initiatives in our current fleet to drive down fuel consumption. When older vehicles come to the end of their lifecycle, they are replaced with new vehicles that meet the latest emissions standards. Our fleet also includes electric and liquefied natural gas (LNG) vehicles. During 2018-19, 100 electric vans were used for delivery and collection in 17 Delivery Offices across the UK. We also trialled an electric LDV van in our Mount Pleasant Mail Centre which is able to support the larger volumetric

requirements within London. Following the success of the trial and introduction of ultra-low emission zone streets in London, we have purchased three electric LDV vans. We have recently purchased a number of zero emission cargo trikes, which we are trialling in Stratford, Cambridge and Sutton Coldfield.

In November 2018, we announced that Royal Mail is part of the Optimise Prime consortium, the world's biggest trial of commercial electric vehicles. The project will deliver a comprehensive understanding of the impact that electrification of commercial vehicles will have on distribution networks (see Case Study for more information).

Changing driving styles: We use telemetry systems to promote safer and more efficient driving. We use our telemetry data in our training to change driver behaviour, and encourage safer and more fuel-efficient driving styles. Around 53 per cent of our vehicle fleet is fitted with telemetry, which in 2018-19 saved us approximately 380,000 litres of diesel, equating to over 990 tonnes of CO₂e.

Making our transport network more efficient. We use cutting-edge routing technology to improve efficiency for our transport networks. We maximise our capacity by loading mail items as efficiently as possible. We are focused on minimising the use of air transport in order to reduce both CO₂e emissions and costs.

Buildings emissions

Reducing energy use in our buildings is a priority for our environment strategy. Due to the size of our property portfolio and the scale of our energy consumption it is important for us to manage energy efficiency. During the year, we launched a new Energy Bureau, to monitor energy use across our UK property estate and highlight sites which are the highest users, or appear to have anomalies in their patterns of consumption. This enables us to understand our energy usage and target both energy and cost savings.

We drive continuous improvement by engaging our people in energy efficiency and investing in technology to monitor and reduce energy consumption. Despite a reduction in total building-related emissions of 8.4 per cent, our total UK electricity consumption increased by 1 per cent, compared with 2017-18. Our total UK gas consumption increased by 8 per cent compared with the same period.



OPTIMISE PRIME

In November 2018, we announced that Royal Mail is part of the Optimise Prime consortium, the world's biggest trial of commercial electric vehicles. The project will deliver a comprehensive understanding of the impact that electrification of commercial vehicles will have on power distribution networks. It will explore opportunities to minimise this impact, such as optimising network and charging infrastructure, providing network services and testing technical and commercial solutions, to save electricity customers £207 million by 2030. As part of the trial, Royal Mail, Centrica and Uber will purchase up to 3,000 electric vehicles and trial depot, home and on-the-road charging solutions. The project will deliver an end-to-end overview of what the switch to electric vehicles means for the cables and substations that deliver electricity to the community, for the businesses that need to invest in new infrastructure, and for the end users that need to power their vehicles. Over time, we plan to increase the number of alternative fuel or advanced technology vehicles in our fleet. Our longer-term ambition is to transition to a low-carbon fleet and ensure that we are investing in a fleet that meets future legislation.

² Principal risks are those identified by the Risk Management Committee which have the potential to threaten the business model, future performance, solvency and liquidity of the group. Informed by financial evaluation of severe but plausible scenarios.

CORPORATE RESPONSIBILITY CONTINUED

CO ₂ e emissions ('000 tonnes)	2018-19			2017-18			2016-17			2015-16		
	Total	UKPIL	GLS	Total	UKPIL	GLS	Total	UKPIL	GLS	Total	UKPIL	GLS
Scope 1	474.2	460.0	14.2	462.3	447.8	14.5	458.2	444.9	13.3	473.7	458.4	15.3
Scope 2	100.4	80.1	20.3	118.1	98.3	19.8	134.4	116.3	18.1	152.2	134.1	18.2
Scope 3	80.9	80.9		83.8	83.8		87.7	87.7		88.7	88.7	
Total	655.5	621	34.5	664.2	629.9	34.3	680.3	648.9	31.4	714.6	681.2	33.4
Tonnes CO ₂ e per £1 million revenue	80.3			82.7			84.7			88.8		
Scope 2 (market-based)	29.0	7.1	21.9	38.3	8.5	29.8	40.3	14.3	26.0	40.7	14.1	26.6

We report our carbon emissions in line with the Greenhouse Gas (GHG) Protocol Corporate Standard. The standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Royal Mail, such as the fuel used in our vehicles. 2017-18 data has been restated for scope 1 emissions following the provision of natural gas data which was previously estimated. Scope 2 emissions are indirect emissions from the generation of purchased energy, such as the emissions from our electricity consumption. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. For Royal Mail, this includes GHGs emitted through the use of third party road or air freight for the transportation of mail.



We use our Building Energy Management System (BEMS) to maximise energy efficiency at our top energy consuming sites. In 2018-19, Solar panels at our Chelmsford Mail Centre generated 82,101 kWh in 2018-19, saving approximately 23,240 KgCO₂e.

Waste and water management

We are committed to reducing the amount of waste sent to landfill. In 2018-19, our target was to divert 95 per cent of our waste from landfill. In total, we diverted 99 per cent of waste, achieving our target for the year. Our 'Green Parts' initiative reuses parts from our vehicles that would otherwise end up in as waste. The project extracts body, engine and gearbox parts from vehicles due for decommissioning to use as spares.

Recognising water as a precious natural resource, we are committed to reducing our water use. We use water for domestic purposes, such as washroom facilities and keeping our vehicles and equipment clean. In 2018-19, our target was to reduce our water consumption by four per cent compared to the previous year. We missed our target, increasing our consumption by 15 per cent, or 242 megalitres. This increase due in part to construction activities at a large site consuming additional water, as well as improved data process across the business.

During the year, we partnered with a new third-party contractor to cover all water purchases in England and Scotland. By switching to a single supplier, we have greater visibility to better monitor our



water use. We calculate average daily water usage for each type of Royal Mail site. This enables us to pinpoint the locations where water consumption is higher than average for the site type, investigate the reasons and take appropriate action.

Our suppliers

Royal Mail acknowledges that our business extends beyond our direct operations through our supply chain. Working collaboratively with our suppliers helps to create economic value for our communities and deliver better experiences for our customers. In the UK, we contributed around £2.3 billion to the economy annually procuring goods and services from around 3,800 suppliers. We are committed to working across our supply chain to have a positive impact on society and the environment, as such we have taken action, to ensure that all our suppliers are complying with internationally recognised standards for CR, including the UN Global Compact principles throughout all stages of our procurement process.

All our suppliers are required to comply with our Responsible Procurement Code of Conduct, helping us to manage associated risks in our supply chain whilst promoting responsible practices across human rights, labour, environment and anti-corruption and adherence to the UN Universal Declaration of Human Rights. Suppliers must also comply with our mail security procedures and our approach to anti bribery and corruption. In 2018-19, we revised the Code to make it clear that

Royal Mail weights social, environmental, ethical factors as Pass / Fail elements in the contract award process.

Ethical principles are embedded in the Partner Code used by GLS Germany. The Code requires suppliers working with GLS to adhere to principles relating to anti bribery and corruption, health and safety, environment and transparency. Further information about our approach to supply chain risk management is available in our 2018-19 Corporate Responsibility Report.

Although we work extensively to address any risks and ensure our suppliers have corrective action plans in place, there are still occasional instances where suppliers fail to meet the standards we expect from them. We may, ultimately, terminate dealings with a supplier if we find that our codes are not being complied with.

Business integrity

Anti-bribery and corruption

Royal Mail Group has a strict zero tolerance policy towards bribery and corruption. The principles of the UK Bribery Act are embedded within our Anti-bribery and Corruption Policy which sets out the standards of behaviour we expect to minimise the risk of bribery and corruption in our business and supply chain. The policy is available on our website.

Our Business Standards outline the expected behaviours we expect to see in all of our people at Royal Mail Group: doing the right thing, following the law, acting honourably and treating others with respect. The standards cover both business and personal behaviour including potential conflicts of interest and anti-bribery and corruption. We encourage our people to report any instances of bribes or suspected bribes through our confidential Whistleblowing hotline Speak Up, which is available to employees, contractors, temporary workers, and suppliers, business partners and their employees. GLS' Code of Business Standards reinforces our strict approach to any form of corruption. The Code is available to all GLS employees and translated into 20 languages.



CORPORATE RESPONSIBILITY CONTINUED

All our employees learn about our zero-tolerance approach through our online and face-to-face training. As part of our induction process, all new employees are required to complete a compliance e-learning course which includes a module on anti-bribery and corruption. Each year, our mandatory compliance refresher training helps to ensure that responsible behaviour is embedded throughout the business. In 2018-19, 100 per cent of Royal Mail managers had completed this training and attested to maintaining our Business Standards. Anti-bribery and corruption sessions are included as part of face-to-face training sessions with our frontline employees. Further information is available in our 2018-19 Corporate Responsibility Report.

Human rights

Royal Mail Group is committed to playing its part to uphold and protect human rights in our business and supply chains. We obey the laws, rules and regulations of every country in which we operate. Our commitment is embedded in our Company-wide Corporate Responsibility Policy, our Responsible Procurement Code and our Business Code of Conduct. We are committed to implementing the United Nations (UN) Guiding Principles on

Business and Human Rights as well as the UN Declaration of Human Rights and the International Labour Organisation Fundamental Conventions. These cover freedom of association, the abolition of forced labour, equality and the elimination of child labour. We recognise that human rights violations, including forced labour and trafficking, can occur in all sectors and countries, and as a responsible business are committed to playing our part to help eliminate it.

We are committed to helping to prevent any incidence of modern slavery throughout our operations. We expect the same level of commitment from all our business partners, suppliers and contractors, and to do the same within their respective supply chains. Our Modern Slavery Act statement, provides an overview of our operations and our approach to responsible business, the risks we have identified and the steps we take to mitigate them. It is available at the following address: www.royalmailgroup.com. We strive to continuous improvement and therefore will take on board feedback on the content of our statement from the Business & Human Rights Resources Centre report – From Disclosure to Action in account when we publish our 2018-19 statement.

Our taxation strategy

Our taxation strategy is published on www.royalmailgroup.com/responsibility/policies. Our taxation strategy sets out our taxation principles, alongside a detailed description of our approach. Royal Mail has a low risk appetite in relation to tax matters. We are committed to complying with all applicable tax laws and will make decisions in relation to tax with due regard to our reputation, integrity and status as a Group whose shares are listed on the London Stock Exchange.

Non-financial information statement

The Company has complied with the Non-Financial Reporting Directive contained in sections 414CA and 414CB of the Companies Act 2006.

The Strategic Report was approved by the Board on 21 May 2019 and signed on its behalf by:

Rico Back
Group Chief Executive Officer
21 May 2019

Stuart Simpson
Chief Finance and Operating Officer
21 May 2019



OUR GOVERNANCE SECTION

The Governance section on pages 86-149
forms part of the Directors' Report on pages 147-149.

CONTENTS

Chair's introduction	86
Group Board of Directors	88
Executive Board	90
Governance structure	92
Board in action	94
Board composition and diversity	97
Our stakeholders	101
Reporting against the 2018 Corporate Governance Code	105
Nomination Committee	106
Audit and Risk Committee	109
Directors' Remuneration Report	116
Shareholder engagement	120
Pensions Committee	146
Directors' Report	147
Statement of Directors' responsibilities	149

CHAIR'S INTRODUCTION



Les Owen,
Chair

On behalf of the Board, I am pleased to present this year's Corporate Governance Report which should be read in conjunction with pages 1 to 84 of the Annual Report and Financial Statements, where we expand on the ways in which the Board has addressed communication with stakeholders, corporate culture and diversity.

Board changes

In the Chair's Statement I have covered the Board changes in 2018-19 and some announced after the reporting period. Please see pages 10-12 for more details.

Reflecting on the 2018 Annual General Meeting (AGM)

We were disappointed by the votes for the Directors' Remuneration Report and re-appointment of the Chair, Peter Long. Since then, led by Orna Ni-Chionna, Chair of the Remuneration Committee and Senior Independent Director (SID), the Board has taken action to address the concerns of our shareholders.

One of the commitments we made at the AGM was to adopt early the recommendation in the UK Corporate Governance Code, ('2018 Code') to publish an update on shareholders' views and actions taken when 20 per cent or more of votes are cast against a resolution. A statement was published on our website on 14 January 2019 with respect to votes against the Chair (34.4 per cent) and votes against the Directors' Remuneration Report (70.2 per cent). In that statement, we outlined the actions we had taken following the AGM and gave an update on the feedback received from shareholders. This included an investor perception study specifically covering their views on strategy, remuneration and governance. We held meetings with many of our larger shareholders and have made changes to our Remuneration Policy which we will put to them for approval at our 2019 AGM. We also met with proxy voting agencies and groups presenting to some of our smaller shareholders.

I would like to thank our shareholders for taking the time to meet with us and for providing constructive feedback. Lessons have been learnt. We take the views of our shareholders very seriously and we have sought to address their concerns. See page 120 for more information on our approach to Executive Remuneration.

Stakeholders

The Board recognises the importance of increasing focus on a wider range of stakeholders, in addition to our investors. We continue to take into account all stakeholder views and interests in the support and development of Royal Mail. As a significant contributor to the economy in the UK, we are aware of our responsibilities to local communities, and our contribution to society.

Engagement with our stakeholders is vital as we embark on a period of major change. We will look at ways to further communicate and engage with them during the year ahead. Details of how we engage with our stakeholders are covered on pages 102-104.

Strategy

Royal Mail's strategy presentation on 22 May 2019 is our first since listing in 2013, where we will provide an update on our strategy for the next five years. A range of presentations set out our plans to develop our UK operations to meet changing customers' requirements, to further improve our productivity and cost efficiency, to underpin the Universal Service in the UK and to deliver sustainable shareholder returns.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2016

The UK Corporate Governance Code published in April 2016 by the Financial Reporting Council applied to Royal Mail's financial year ended 31 March 2019. This Corporate Governance section describes how Royal Mail applied the Code's main principles during the year.

Throughout the year, Royal Mail has been in compliance with the relevant provisions of the Code with one exception. The Board's approach to the evaluation of its own performance and that of its Committees and Directors is set out on pages 98-99.

The Code is publicly available at:

 <http://www.frc.org.uk>.

Compliance with the UK Corporate Governance Code 2016 ('2016 Code') and the 2018 Code

We place a high value on good governance. It is essential for the sustainable growth of our business. We review governance structure and processes periodically, enabling us to discharge our obligations and oversee the Group's performance for the benefit of all our stakeholders. We have placed significant focus on this during the year. The Company complied in full with the provisions of the 2016 Code, except in relation to the timing of the annual evaluation of the performance of the Board, its Committees and Directors which was carried out after the end of the financial year. Further information is set out on pages 98-99.

The 2018 Code applies to accounting periods beginning on or after 1 January 2019. We chose to adopt some of this Code's principles and to comply with some of its provisions on a voluntary basis during the year. These are detailed on page 105. The Codes are issued by the Financial Reporting Council (FRC) and are available for review at <http://www.frc.org.uk>.

Culture, diversity and inclusion

The Board sets the vision, purpose and values of the Group. We recognise the importance of a diverse workforce and an inclusive culture, which promote respect and have a positive impact on performance. Our culture supports our purpose, to "connect customers, companies and countries". We recognise the importance of Royal Mail's culture and actively support its promotion across the business. Following the strategy day we will ensure that our culture is aligned to our strategy over the next year. We are also reviewing aspects of our current culture and how this has been embedded throughout the organisation. We describe this in more detail on page 76.

Royal Mail encourages diversity. Our Equality and Fairness Policy and our 'Thrive' campaign aim for transparency, diversity and fairness at all stages of employment. Our 'Thrive' campaign raises awareness of diversity across our employee base.

During the year, we have celebrated individuals from each diversity work stream, including BAME, gender, LGBT, disability and youth, parents and carers. We are proud that average pay continues to be broadly the same for men and women. On an mean basis, women are paid 0.6 per cent more than men. On a median basis, men are paid one per cent more than women. Our mean bonus gap is 22.7 per cent in favour of women; on a median basis we pay bonuses equally to men and women.

For further details see our 2018 Gender Pay Report (www.royalmailgroup.com/media/10646/royal-mail-group-ltd-gender-pay-report-2018.pdf).

Following a review, the Board updated its Diversity Policy in January 2019. The Executive Board, in consultation with the Nomination Committee, has considered and reviewed our high potential individuals, taking into account the skills and experience (including financial expertise) required for each subsidiary company, and diversity from a BAME and gender perspective. This has led to some changes to the membership of subsidiary boards and we are pleased that, on the majority of our UK subsidiary boards, we have increased female and BAME representation. Further details on the review and the Board's approach to diversity can be found on page 108.

Les Owen
Chair
21 May 2019

“Following a difficult year, we are transforming to address the challenges we face. Good governance, strong stakeholder relationships and an inclusive culture support that transformation, and our purpose to connect customers, companies and countries.”

GROUP BOARD OF DIRECTORS

GROUP BOARD OF DIRECTORS

We are committed to sustainable governance



Les Owen
Chairman

N

Skills and Experience

Les is a qualified actuary with over 35 years' experience in the financial services industry. He has extensive experience of working in international listed companies in the financial, pensions and insurance sectors. Prior to joining Royal Mail, Les was Group Chief Executive Officer of AXA Asia Pacific Holdings Ltd and a member of the Global AXA Group Executive Board responsible for AXA's Asian Life Insurance and Wealth Management operations. He was a Non-Executive Director of Post Office Limited until March 2012 until 14 November 2018.

Appointed to the Board*

Non-Executive Director on 20 September 2013. Chairman on 19 September 2018. Will step down from the Board on 22 May 2019.

External appointments

Non-Executive Director of Discovery Limited, a listed South African financial services company.



Keith Williams
Deputy Chairman

A N

Skills and Experience

Keith Williams is a highly regarded business leader with extensive industrial relations, operational and customer service experience. Keith worked in the UK and internationally before joining British Airways plc in 1998. He worked there for 18 years, including five years as CFO, three years as CEO and two years as Executive Chairman. During that time, he led the transformation of the company, building a leaner and more customer focused organisation with a sustainable future. Prior to British Airways, Keith worked for companies including Reckitt and Colman, Apple Computer Inc., and Boots. He was also an Executive Board member and Chair of the Audit Committee at Transport for London until 2016. Keith is a chartered accountant. Keith will assume the role of Non-Executive Chairman on 22 May 2019.

Appointed to the Board

Non-Executive Director on 1 January 2018. Deputy Chairman on 7 November 2018. Will become Non-Executive Chairman on 22 May 2019.

External appointments

Non-Executive Director and Chair of Aviva plc's Audit Committee until 23 May 2019. Deputy Chairman of John Lewis, Chairman of Halfords Group plc and Independent Chair of a review on behalf of UK Government of British Railways.



Rico Back
Group Chief Executive Officer

Skills and Experience

Rico Back has 30 years' experience as a senior executive in the international parcels industry. A founding member of German Parcel in 1989, which Royal Mail acquired in 1999, Rico has been a Royal Mail Group executive and CEO of GLS for almost 20 years. Under Rico's leadership, GLS has become the leading delivery company of its kind in Europe. He has a strong track record of delivering profitable growth, successfully integrating acquisitions and leading on innovation. In 2016, his remit was extended to include UK parcels and all our international activities. On 1 June 2018, Rico was appointed our Group CEO. His track record, his strong commercial acumen and his deep understanding of the delivery industry are major assets for the Group.

Appointed to the Board

Group Chief Executive Officer and Executive Director on 1 June 2018.

External appointments

None.



Orna Ni-Chionna
Senior Independent
Non-Executive Director

A N R

Skills and Experience

Orna brings to the Board expertise in strategy, particularly in consumer focussed businesses, alongside substantial experience of plc Boards and governance. She has previously held the Senior Independent Non-Executive Director position at HMV plc, Northern Foods plc and Bupa and was also Non-Executive Director of the Bank of Ireland UK Holdings plc and Bristol & West plc. Before this, Orna was a Partner at McKinsey & Company where she co-led their European Retail Practice.

Appointed to the Board*

Appointed Senior Independent Director on 1 April 2011. Non-Executive Director on 20 September 2013.

External appointments

Non-Executive Director of Burberry Group plc, Senior Independent Non-Executive Director of Saga plc, Deputy Chair of the National Trust, Trustee of Sir John Soane's Museum.

**Stuart Simpson**

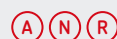
Chief Finance and Operating Officer

**Rita Griffin**

Non-Executive Director

**Simon Thompson**Non-Executive Director
Designated Non-Executive Director
for Engagement with the workforce**Skills and Experience**

Stuart has significant finance, strategy and operational experience. Prior to joining Royal Mail, Stuart worked in the automotive industry for 15 years, where he held senior roles in both finance and strategy, primarily based outside of the UK. He joined the Royal Mail Group in 2009, was appointed as Deputy Chief Operations Officer in January 2014 and was subsequently appointed as Director of Group Finance in July 2015. In November 2018, Stuart took on the additional responsibility of Chief Operating Officer.

**Skills and Experience**

Rita has considerable experience in developing and implementing strategies and leading substantial transformation programmes, which she has gained through her career at BP group. Rita is currently Chief Operating Officer for Global Petrochemicals at BP plc, one of three main divisions of BP's downstream business. She has held a number of leadership positions within BP plc in manufacturing, logistics, retail and functional organisations. Rita was previously Chief Marketing Officer, BP plc.

**Skills and Experience**

Simon has an outstanding record as a global business leader with proven expertise in the digitisation of business and the customer experience. Simon is the Chief Product Officer of Ocado Group plc. Over his career, Simon has held senior executive positions at Apple Inc, HSBC, lastminute.com, Wm Morrison Supermarkets plc, Motorola Inc. and Honda Motor Europe Ltd. In 2019, Simon was appointed as the Designated Non-Executive Director for engagement with the workforce.

BOARD COMMITTEE KEY

- A Audit and Risk Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee
- Member of Committee

* Original appointment dates to the Board of a Royal Mail parent company.

Les Owen: appointed to Royal Mail Holdings plc on 27 January 2010 (retired 1 April 2012). Appointed to Royal Mail Group Limited on 1 April 2012 (retired 12 September 2013).

Orna Ni-Chionna: appointed to Royal Mail Holdings plc on 1 June 2010 (retired 1 April 2012). Appointed to Royal Mail Group Limited on 1 April 2012 (retired 12 September 2013).

Appointed to the Board

Chief Finance Officer and Executive Director on 20 July 2017. Chief Operating Officer on 7 November 2018.

External Appointments:

None

Appointed to the Board

Non-Executive Director on 1 December 2016.

External Appointments:

Chief Operating Officer for Global Petrochemicals, Director of BP Chemicals Investments Limited and BP Chemicals East China Investment Limited.

Appointed to the Board

Non-Executive Director on 1 November 2017. Designated Non-Executive Director for engagement with the workforce on 26 February 2019.

External Appointments:

Chief Product Officer of Ocado Group plc and a member of the Digital Advisory Board of Coca Cola European Partners.

EXECUTIVE BOARD

EXECUTIVE BOARD



Rico Back
Group Chief Executive Officer

For Rico's biography please refer to Board of Directors on page 88.



Stuart Simpson
Chief Finance and Operating Officer

For Stuart's biography please refer to Board of Directors on page 88.



Mel Tomlin
Chief of Staff

Mel has performed a number of senior roles across the Group both in the UK and internationally, most recently as Chief of Staff for GLS and Royal Mail Parcels. She has held senior Group roles in Strategy, HR and Customer Experience. Previously Mel held a number of international Operational Director roles and was Managing Director of GLS Ireland. Prior to joining Royal Mail, she held senior general management roles in the construction materials industry both in the UK and US.

Appointed to the Executive Board

8 June 2018.

External appointments

None



Jon Millidge
Chief Risk and Governance Officer

Jon Millidge has worked across many areas of the business since joining Royal Mail as a graduate in 1985. His experience includes HR, Letters, Parcelforce Worldwide and Pensions. Before being appointed Chief Risk and Governance Officer in June 2018, Jon was Group HR Director and member of the Chief Executive's Committee. From May 2010 to February 2014, he was Company Secretary and prior to that he was the Acting Group HR Director.

Appointed to the Executive Board**

8 June 2018 until 8 April 2019.

External appointments

None



Sally Ashford
Chief HR Officer

Sally joined Royal Mail in June 2015 to head up Reward and Recognition and became HR Director of Parcels. She was appointed Group Human Resources Officer in June 2018. Sally has over 25 years' experience in Human Resources specialising in reward, performance, talent and organisation design. Prior to joining Royal Mail, Sally was HR Director for Telefonica Europe. Sally has also worked in a variety of HR related roles at O2, BT and Tesco.

Appointed to the Executive Board

8 June 2018.

External appointments

Member of Telefonica Deutschland supervisory board and Chair of its Remuneration Committee



Christian Herrlich
Group Chief Information Officer

Christian joined Royal Mail in June 2017 and was appointed Group Chief Information Officer in July 2018. Christian is responsible for Royal Mail's technology estate and specifically for driving digital transformation and IT innovation across the business. Christian has more than 20 years of experience in the postal & parcels industry, providing leadership for numerous successful IT transformations. He was previously Managing Director IT at GLS for five years. Prior to that, Christian spent 13 years at Deutsche Post DHL, most recently in the role of Parcels CIO.

Appointed to the Executive Board

1 August 2018.

External appointments

None



Achim Dünnwald
Chief Strategy & Transformation Officer

Achim is leading the Strategy and Transformation function as it develops and implements projects to support the transformation of our UK business. Achim has extensive experience, including holding senior positions in the international postal and logistics sectors, most recently as CEO DHL Parcel with Deutsche Post DHL Group. Prior to that, he was a partner with the consulting firm McKinsey & Company, where he worked for postal operators in Europe, North America, and the Middle East, and lead the global post, express and parcels service line.

Appointed to the Executive Board

25 March 2019.

External appointments

None



Mark Amsden
Group General Counsel and Company Secretary
Chief Risk and Governance Officer

Mark joined the Company in April 2019. Mark is the former General Counsel and Company Secretary of Wm Morrison Supermarkets plc, and the former Interim Company Secretary of Yorkshire Water. Prior to joining Morrisons, Mark was for 14 years, a partner in the national law firm Addleshaw Goddard LLP where he specialised in corporate litigation and headed up Addleshaw's national IT litigation practice.

Appointed to the Executive Board

8 April 2019.

External appointments

None



Shane O'Riordain
Managing Director of Corporate Affairs, Regulation and Marketing

Shane joined Royal Mail in November 2010 and was appointed to his current role in 2018. Previously he had responsibility for Strategy and Pricing in addition to Corporate Affairs and Regulation. Before joining Royal Mail, Shane was Corporate Affairs and Group Economics Director for a range of major financial services organisations, including Flemings, Halifax, HBOS and Lloyds Banking Group. Shane was previously a diplomat in the Irish Foreign Service

Appointed to the Executive Board**

8 June 2018.

External appointments

None



James Rietkerk
GLS Chief Executive Officer

James was Chief Financial Officer of GLS from 2001 to 2018. He was appointed Chief Executive Officer of GLS following the appointment of Rico Back, former GLS Group Chief Executive Officer, to Group Chief Executive Officer of Royal Mail plc. James was appointed to the Executive Board in June 2018. Before joining Royal Mail, James was Group Financial Controller at Charter plc. He qualified as a Chartered accountant with Price Waterhouse.

Appointed to the Executive Board

8 June 2018.

External appointments

None

** Previously served on the Chief Executive's Committee under Moya Greene as follows: Jon Millidge was appointed to the Chief Executive's Committee. Shane O'Riordain was appointed to the Chief Executive's Committee.

GOVERNANCE STRUCTURE

Board structure and leadership

The Board is responsible for the stewardship of the Company, overseeing its strategy, conduct and affairs to create sustainable value for the benefit of its shareholders. The Board recognises that, to be successful over the long-term, it has a wider duty to a broader stakeholder community whose support is required to create sustainable value. It is therefore essential that the Board considers the impact of the business and its decisions on our colleagues, customers, shareholders, suppliers and the communities in which the Company operates. Pages 100-104 highlight how we consider and engage with our stakeholders. The Board has adopted the governance framework as set out below, which assists us in the exercise of our responsibilities, namely providing strategic direction to the Company in order to create long-term shareholder value.

The Board has established several Committees and has delegated to them authority to carry out certain tasks. During the year, the number of Board Committees has reduced from four to three. The Pensions Committee became a management committee following a review undertaken by Independent Board Evaluation¹ on behalf of the Committee, which assessed the long-term need for a separate Board Pensions Committee. Having closed the Royal Mail Pensions Plan to future accrual and agreed revised pension arrangements with the CWU and Unite/CMA, and in light of the Government's favourable response to the proposed introduction of a Collective Defined Contribution scheme (CDC), which reduced the financial exposure of the Company to pensions risk significantly, it was agreed that the Committee is no longer required to be a committee of the Board. The Pensions Committee is now a management committee and reports to the Audit and Risk Committee. Some material pensions matters remain reserved for the Board.

The terms of reference of each Board Committee, and the Matters Reserved for the Board have been reviewed during the year. Relevant changes have been made in line with 2018 Code, and further detail can be found on page 105. These documents are available at www.royalmailgroup.com. Reports from each of the Board Committee Chairs have been included in this section and can be found as listed below.

Board of Directors

Nomination Committee	Pages 106-108
Audit and Risk Committee	Pages 109-115
Remuneration Committee	Pages 116-145
Pensions Committee*	Page 146

* Now a management committee.

The minutes of each meeting are made available to and approved by Committee Members on a timely basis. Each Committee Chair reports to the Board on matters discussed at Committee meetings and highlights any significant issues that require the Board's attention.

¹ Independent Board Evaluation have no other connections with the Company.

THE BOARD AND ITS COMMITTEES

THE BOARD

The Board is responsible for the stewardship of the Company, overseeing its strategy, conduct and affairs to create sustainable value for the benefit of its shareholders. Responsible for the long-term success of the Group, the Board sets the tone in building company culture. It has oversight and accountability for the interests of wider stakeholders, it sets the objectives and strategy and monitors performance and risk management. It approves major contracts, investments, internal controls and key policies. The Board has three Committees that are set out below.

 More information – www.royalmailgroup.com/en/about-us/governance/

NOMINATION COMMITTEE

Reviews the balance and composition of the Board and its Committees in relation to the diversity of skills, knowledge, independence and experience.

Ensures a progressive renewal of Board membership through orderly succession planning.

Considers talent reviews and succession planning for senior executives.

AUDIT AND RISK COMMITTEE

Reviews and recommends for approval by the Board, all financial statements and associated disclosures.

Satisfies itself that internal controls and risk management processes work effectively.

REMUNERATION COMMITTEE

Determines, and recommends for the Board's approval, the framework for the remuneration of the Group's senior executives.

This includes individual remuneration arrangements for the Chair, the Executive Directors, Executive Board and the Company Secretary.

Agrees targets for any performance-related incentive schemes.

SEPARATION OF CHAIR, CHIEF EXECUTIVE OFFICER AND SENIOR INDEPENDENT ROLES

There is a clear division of responsibilities between the Chair and the Group CEO. The separation of authority, which is set out in writing and agreed by the Board in a policy on the segregation of the roles of the Chairman, Senior Independent Director and the Group CEO, enhances independent oversight of executive management by the Board. It helps to ensure that no one individual on the Board has unfettered powers or authority.

CHAIR

Responsible for the leadership and management of the Board and for promoting high ethical standards. Ensures an effective and complementary Board, including appropriate contribution and sufficient challenge from the Directors. Ensures the Board determines the nature and extent of the significant risks that the Company is willing to accept in implementing its strategy. With support from the Company Secretary, promotes the highest standards in corporate governance. Maintains effective communications with shareholders and makes the Directors aware of their views.

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.

NON-EXECUTIVE DIRECTORS

Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process, providing constructive challenge, and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure. Satisfy themselves of the integrity of financial information and of the effectiveness of financial controls and risk management systems is another key role. Determine the appropriate level of remuneration for Executive Directors

GROUP CHIEF EXECUTIVE OFFICER

Responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy as agreed by the Board and in accordance with the Group's risk appetite and business plan. Promotes the Company's culture and standards.

CHIEF FINANCE OFFICER

Responsible for providing strategic financial leadership of the Company and the day-to-day management of the finance function. Develops and monitors the control systems designed to preserve Company assets and report accurate financial results.

COMPANY SECRETARY

Advises the Board members, particularly in relation to corporate governance practices, induction training and development. Ensures that Board procedures are complied with, applicable rules followed and that good information flows exist to the Board and its Committees. Communicates with shareholders as appropriate and ensures due regard is paid to their interests.

BOARD IN ACTION

BOARD IN ACTION

BOARD ATTENDANCE

	Board	Nomination Committee	Audit and Risk Committee	Pensions Committee*	Remuneration Committee
Les Owen	9/9	2/2	4/4 ^{*7}	2/2	2/2 ^{*10}
Peter Long	3/4 ^{*1}	1/1 ^{*6}			
Rico Back	8/8 ^{*2}				
Moya Greene	0/3 ^{*3}				
Stuart Simpson	9/9			2/2	
Sue Whalley	3/3 ^{*4}				
Keith Williams	9/9	2/2	5/5		
Orna Ni-Chionna	9/9	2/2	5/5		5/5
Rita Griffin	9/9	2/2	5/5		5/5
Paul Murray	2/3 ^{*5}		1/2 ^{*8}	1/1 ^{*9}	
Simon Thompson	9/9	2/2	5/5		3/3 ^{*11}

The attendance above reflects the number of scheduled Board and Committee meetings held during the financial year. During the year there were also a number of ad-hoc Board and Committee meetings to deal with matters arising outside of the usual meeting schedule. The majority of Directors made themselves available at short notice for these meetings.

* Meetings were held up until December 2018.

*1 Peter Long stepped down 19 September 2018.

*2 Rico Back was appointed 1 June 2018.

*3 Moya Greene stepped down 19 July 2018.

*4 Sue Whalley stepped down 7 November 2018.

*5 Paul Murray stepped down 19 July 2018.

*6 Peter Long stepped down 19 September 2018.

*7 Les Owen stepped down as a member of the Audit and Risk Committee on appointment as Chair on 1 February 2019.

*8 Paul Murray stepped down 19 July 2018.

*9 Paul Murray stepped down 19 July 2018.

*10 Les Owen stepped down from the Remuneration Committee on appointment as Chair on 15 October 2018.

*11 Simon Thompson was appointed to the Remuneration Committee on 15 October 2018.

2018-19 Board meetings

The details of the Board's scheduled meeting and attendance during 2018-19 can be found below. The Non-Executive Directors and the Chair met on several occasions without the Executive Directors present. These meetings are an important way to develop working relationships between the Non-Executive Directors and to assess the performance of senior management. In addition, the Senior Independent Director met with the Non-Executive Directors to assess the Chair's performance, without the Chair being present.

Non-Executive Directors regularly met with Management and spent extra time increasing their understanding of the business through site visits, informal briefing sessions and networking sessions. This allows discussions

to take place in a different format to Board meetings and helps to "open out" discussions, enabling formal Board meetings to be more focused. It also helps to reframe Non-Executive Directors' views of their roles, recognising that attendance at Board meetings is only one part of their role and, enabling them to engage as proactively and frequently as possible with the business. For more information on activities of the Board, see page 95.

Directors unable to attend a Board or Committee meeting receive the relevant papers prior to the meeting with the opportunity to provide in advance any comments to the Chair or the relevant Committee Chair. The minutes of the meeting are also available for the Directors to review for their future reference.

Site visits

In order to facilitate employee engagement and give exposure to the Non-Executive Directors of our many different sites and operations, some Board meetings are held away from Royal Mail's Head Office in London. These visits are an opportunity for Board members to talk to the workforce and better understand Group operations. For example, the Company's first UK Employee Voice forum was held in Northampton in February 2019.

Over the year, the Board visited the Mail Centre and Fleet Maintenance Workshop in Sheffield, the GLS depot in Copenhagen, the South Midlands Mail Centre in Northampton and our National Distribution Centre in Northampton.

Board activities

The Board's annual plan is designed to ensure that sufficient time is allocated to ensure all necessary matters are addressed. The agendas are adjusted throughout the course of the year to prioritise relevant issues and ensure focused consideration of strategic priorities. Sufficient time is provided for the Chair to meet privately with the SID and Non-Executive Directors to discuss any issues arising.

The table below outlines specific areas the Board focused on during the course of the year and up until 21 May 2019.

Matter Considered	Activity
Strategy and business plan	
Group Strategy	– Participated in strategy sessions covering UK business functions and GLS. – Reviewed and approved strategy that will be announced at the Strategy Day. – Reviewed and approved: • UK 'turnaround and grow' plan, including UK Network Review, assessment of productivity and efficiency opportunities in the 2018 Agreement with CWU. • GLS Strategy, including acquisitions and expansion in North America. • Royal Mail International. • Pricing Strategy. • Long-term growth in Parcels. • Technology developments including automation.
Business Plan	– Reviewed and monitored progress against Group's long-term business plan.
Budget	– Monitored progress against annual budget for the Group as a whole.
Projects	– Received updates on projects and work streams, and their impact on strategic ambitions.
Leadership	
Organisational change and development of talent in pipeline	– Monitored and received updates on structural changes within the Executive Leadership team. – Considered recommendations from the Nomination Committee and HR about succession and developing talent for colleagues below Executive Board level.
Board composition and succession planning for Board	– Developed a succession plan to replace Non-Executive Directors approaching nine-year tenure. – Continued to refresh Board membership, with a focus on Diversity. – Reviewed and evaluated our skills matrix of Directors individually and as a whole, against the Group's developing strategic ambitions. – Progressed appointment of new Non-Executive Directors. – Refreshed Non-Executive Director Induction Plan.
Succession planning (Chair)	– Developed a succession plan (interim and permanent). – Les Owen became Chair on 19 September 2018, Keith Williams became Deputy Chair on 7 November 2018 and will become Chair on 22 May 2019.
Stakeholder engagement	
Ofcom	– CEO met regularly with Ofcom. – Chair met regularly with Ofcom.
Unions/ Industrial relations	– Conducted regular updates and deep dive reviews of Industrial Relations. – Chair met with the CWU.
Investor relations and Shareholders	– Regularly reviewed investor relations updates and reports at Board meetings. – Received updates provided by Corporate Brokers. – The Chair and Senior Independent Director met with most large shareholders and with proxy advisory groups following the AGM and reported outcomes to the Board for discussion and consideration. – Commissioned an Investor Perception Study.
Pensions	– Held discussions and updates on detail on how the Collective Defined Contribution (CDC) scheme would work and its impact on stakeholders. – Chief Risk and Governance Officer met Pensions Minister, Guy Opperman, MP.

BOARD IN ACTION CONTINUED

Matter Considered	Activity
Engagement with employees	– Through the People Panel, reviewed and oversaw development of an action plan following the results of our employee survey. – Guided development/expansion of People Panel sessions into Employee Voice forum. – Sought feedback from employees regarding proposed mechanism for increased employee engagement and topics they wanted to discuss. – Met with senior leaders in informal settings to get to know people based in different sites and the talent pipeline. – Review of engagement with non-UK colleagues and development of an engagement plan.
Governance	
Board key priorities	– Revisited the Board's key priorities.
Board agendas and meetings	– Reviewed agendas and topics for discussion, identified key topics to be focused on over the course of year.
Board and Committee Evaluations	– Undertook an internal evaluation of the Board and its Committees by questionnaire. – Developed Board objectives for 2019-20. – Completed Board effectiveness review.
Remuneration Policy	– Discussed shareholder feedback on the Remuneration Policy and other issues. – Developing a revised Remuneration Policy, reflecting on feedback and concerns of shareholders. – Implemented early some of the recommendations of the 2018 Code outlined on page 105. – Appointed Deloitte LLP as new remuneration consultants.
New Corporate Governance Code	– Introduced early some of the requirements of the 2018 Code outlined on page 105.
Risk and Internal Controls	
Health & Safety	– Received updates on health and safety matters.
GDPR	– Received regular updates on the Company's compliance with GDPR.
Cyber Security	– Received update on cyber security and the associated risks. – Reviewed the updated cyber security response plan.
Brexit	– Reviewed and discussed potential impacts of Brexit. – Considered the Company's response to various scenarios. – Oversaw planning for Brexit and associated customs impact.
Whistleblowing	– Received reports from Audit and Risk Committee. – Updated Matters Reserved for Board to reflect overall responsibility for whistleblowing mechanisms.
Operational	
CEO Reports	– Discussed regular CEO reports on the operating performance of the Group's business functions and progress of recent acquisitions. – Received updates from GLS CEO. – Received updates on management structure, following CEO changes in June 2018 and updates thereafter.
Property	– Received updates on the Group's property portfolio including discussions regarding the sale of the Nine Elms plots.
Financial	
Performance Reports	– Regularly discussed and considered reports on performance of different business functions.
Cost reduction	– Regularly reviewed cost/efficiency with particular focus on UK business.
Reports and announcements	– Considered half year, full year and trading updates.
Dividend Policy	– Considered the Dividend Policy.

BOARD COMPOSITION AND DIVERSITY

The delivery of the Company's strategy depends on attracting and retaining the right skills across the Group, starting with the Board, as well as the executive management team, and their direct reports. A list of the Company's current Directors, including their biographies, who were in office during the year and up to the date of signing the financial statements, can be found on pages 88 to 89.

As at 31 March 2019 and as at the date of this Annual Report, the Board comprised the Non-Executive Chair, four independent Non-Executive Directors, and two Executive Directors with wide-ranging backgrounds and varying industry and professional experience. The Company complies with the Code's recommendation that at least half the Board should be independent.

The Company's Chair, Les Owen was independent on appointment and Keith Williams will also be independent upon his appointment on 22 May 2019.

Royal Mail recognises the importance and benefits of having a diverse Board. The Board considers that diversity should not be limited to gender and that a diverse Board should include and make good use of differences in skills, geographic and industry experience, background, race, gender and other characteristics of Directors.

The Board seeks to construct an effective, robust, well balanced and complementary Board, whose capability is appropriate for the nature, complexity and strategic demands of the business. The Nomination Committee leads the process for Board appointments as detailed in the Nomination Committee Report.

The Board and the Nomination Committee actively consider the structure, size and composition of the Board and its Committees when considering new appointments and succession planning. A range of diversity factors are taken into account in determining the optimum composition of the Board and its Committees, together with the need to balance their composition and refresh this progressively over time.

The Company's Non-Executive Directors come from a wide range of industries, backgrounds and geographic locations and have appropriate experience of organisations with international reach. The skills and expertise of the Board have been extended and reinforced through the appointments of Maria da Cunha and Michael Findlay with effect from 22 May 2019. The Nomination Committee will continue to consider and develop succession plans for the Board and its Committees. When considering Board appointments and internal promotions at senior level, Royal Mail will continue to take account of relevant codes and voluntary guidelines and the performance of peer companies while seeking to ensure that each post is offered strictly on merit to the best available candidate.

Information and support

The Board receives business and financial performance reports at each Board meeting and reports on health and safety, regulation, market dynamics and governance. The Directors receive regular updates and training on matters such as developments in corporate governance and compliance policies. The Company Secretary is responsible for ensuring the timely provision of information to the Directors. In addition, the Directors also have access to an online Directors' Reference Manual to support them in the performance of their duties.

Board terms of appointment

Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal office hours and by the shareholders at each AGM.

Time commitments

The terms of appointment for the Non-Executive Directors require them to devote a minimum of two days a month to working for the Company.

In practice, they tend to devote considerably more time than this, supporting projects where their areas of expertise can support specific initiatives. Since his appointment, the Chair has devoted a minimum of two days per week to Royal Mail. During the year, the Chair stepped down as Non-Executive Director of Computershare ensuring sufficient time to devote to his responsibilities at Royal Mail. Keith Williams is stepping down from Aviva plc on 23 May 2019.

The Non-Executive Directors were required to declare any of their other 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 are considered by the Chair and agreed by the Board in advance.

BOARD COMPOSITION AND DIVERSITY CONTINUED



Simon
Thompson

EMPLOYEE VOICE FORUM

As the Employee Board Representative, it is my role to make sure that our decisions answer the question: “what would our employees think of that?”.

It is very important as a Board to talk directly to our colleagues so we can understand what matters to them as well as allowing us to understand our business better.

Understanding our reality directly from our people, without any filters, will allow us to make better decisions.

As a business, for many years we have used a number of ways to capture the employee's voice including leadership forums and numerous surveys. This will continue, but in addition we are going further by giving our people the chance to ask us questions directly and confirm straight away, that our answer was clearly understood.

In February this year, we trialled our new Employee Voice Forum at our National Distribution Centre in Northampton, as well as spending time walking the site and seeing the operation during its peak period. It was a great session, and I was really struck by how interested the team were to learn about the increasing demands of the consumer and how we plan to compete and win in the market against the competition.

We have communicated what we learn in our monthly newspaper, Royal Mail TV and through our new employee social media channel.

It is vital that we openly discuss the things that are troubling us all, and work together as a team to share what can be improved to ensure Royal Mail & GLS continue to flourish.

Conflicts of interest

The Companies Act 2006 and the Articles require the Board to consider any potential conflicts of interest. The Board operates a policy to identify and, where appropriate, manage potential conflicts of interest for Directors. The Board considers the conflicts during the financial year and, if appropriate, authorises each Director's reported actual, and potential, conflicts of interest regularly. Each Director abstains from approving their own reported potential conflicts. The Board will continue to monitor the status of each conflict or potential conflict(s). It will also review potential conflicts of interest and take action to mitigate them as necessary.

The conflicts of interest register was reviewed several times during the year by the Board. It concluded that where Directors' conflicts were appropriately authorised, the process for authorisation was operating effectively.

Related party internal controls are in place to ensure Directors advise the Board of any related party transactions involving themselves or their connected persons, and that these are conducted on an arm's length basis. Directors have an ongoing obligation to advise of any changes that are required to be reviewed and monitored by the Board. As at 31 March 2019, no Director had advised the Board of any related party transactions. Note 27 on page 207 sets out the Group's related party transactions over the year.

Board and Committee evaluations**External evaluations**

In accordance with best practice, an effectiveness review is carried out with external facilitation at least once every three years. In early 2018, the Board engaged Independent Board Evaluation to conduct a review of the Board and its Committees, assisted by the Company Secretary.

This externally-facilitated review sought to prioritise issues and risks identified by Board members. It aimed to identify improvements to the oversight framework, and communication with management. There was particular focus on reviewing the quality of Board papers, with a view to reducing unnecessary detail, so that Board discussions could be more focused and effective. Part of the review involved designing a plan to increase Directors' engagement with the workforce and to promote the Company culture.





Key elements of the review were:

- The Board and its separate Committees were provided with self-assessment questionnaires;
- Board and Committee meetings were observed by a representative of Independent Board Evaluation;
- Individual interviews with every Board member were conducted, according to a set agenda; and
- Recommendations were discussed with the Chair and Committee Chairs, before reports were discussed at the relevant Committee or Board meeting.

All the recommendations resulting from the evaluation were implemented.

This evaluation resulted in the decision that there was no longer a need for the Pension Committee to be a formal Committee of the Board and should operate as a Management Committee.

Internal evaluation

The Board had anticipated carrying out a further external evaluation to follow on the external evaluation concluded in March 2018 (and which was referred to in last year's annual report). It was felt at the time that this would assist the Board in its development and with a new Chief Executive and an additional Executive Director.

The year proved to be one of significant change for the Board. In addition to the changes mentioned above, a new Chair was appointed in September 2018 with the brief to strengthen the Board. A long standing Non-Executive and an Executive Director both stood down during the year.

Following a search led by Orna Ni-Chionna, the Senior Independent Director, Keith Williams was announced as incoming Chair with effect from 22 May 2019. In addition and with the support of the specialist search agencies Egon Zehnder Limited and Ridgeway Limited, and observations from Independent Board Evaluation, the Board carried out an analysis of Board capabilities and embarked on a comprehensive search programme to supplement and strengthen Board expertise and experience.

In light of the above the Board did not then conclude the external evaluation. Instead, subsequent to the announcement of the incoming Chair Keith Williams, the Board carried out an internal evaluation of the Board and each of its Committees. This was conducted by the Company Secretary and the Chair and facilitated by board questionnaires with Lintstock Limited. These questionnaires were distributed in April 2019. As such the annual evaluation was undertaken following the financial year end rather than during the period under review as recommended by the 2016 Code.

The results of this internal evaluation largely reflected the work that had been done in preparing for the Board recruitment process. Whilst it concluded that the Board worked effectively, directors acknowledged that the Board needed to be enlarged and strengthened. The Board would also benefit from more Directors with experience in people related change and engagement, industrial relations and relevant industry experience. All of these issues were already being

addressed in the ongoing Board recruitment process.

Outside of Board composition and experience, Directors asked to spend more time on training, in particular Company related issues such as regulation and the wider competitor environment, and to receive better, shorter discussion papers.

Directors also reflected on the Board moves that had taken place in the last year, and how the composition of the Board was undergoing significant change. There was a wish to ensure that the newly constituted Board under Keith Williams should find its cohesiveness as quickly as it can. Accordingly, it was decided to use the services in 2019/20 of a specialist external board evaluator to help the Board form once the new members have joined, and had the opportunity to attend several Board meetings. The Board would then carry out a more formal external board evaluation later in the year.

Committee evaluations

Information on the evaluations of each Board Committee are described within the Committee reports.

BOARD COMPOSITION AND DIVERSITY CONTINUED



Strategy

In prior years, the Board has held one annual Strategy Day. This year, the Board held two sessions, one in June 2018 and one in September 2018 (the Strategy Days). The June session focused on pricing, acquisitions and evaluating UK performance. The Board also considered the outcome of the strategy discussions and the impact on the skills required for future Non-Executive and the Executive Directors on the Board. The September session was held over two days and focused on a strategic overview of the Group and three to five year plans.

In light of our disappointing productivity and cost avoidance performance in 2018-19, and the consequential impact on our profitability expectations, we held a Strategy Day in May 2019 for our stakeholders (the updated strategy presented at the meeting is summarised in the Group Chief Executive Officer's Review on pages 14-19 and the Summary of our Five-Year Strategic Plan on pages 20-23. This covered an extensive review of the UK business and the operational and productivity/efficiency challenges and opportunities, a review of GLS and the growth opportunities we have as we aim to become a parcels-led, more balanced and more diversified business.

The Board dedicated a very significant amount of time and focus to detailed discussions of the strategy. Alongside the annual review of the budget and business plan, this included a number of specific Board meetings to discuss proposals for a UK Network Review. There were also dedicated reviews of our assessment of the productivity and efficiency opportunities under the 2018 Agreement with the CWU.

Colleague Engagement

People Panels

Our "People Panel" sessions were set up after the 2016 Employee Survey as part of our Group Engagement Action Plan. We hold two sessions a year in different Mail Centres. All areas of the business are represented, along with CWU and Unite. These sessions help us review our engagement activity including identifying how Royal Mail can be a better place to work. Our most recent People Panel was held on 10 April 2019 at Wolverhampton. Over 40 colleagues from across the business joined us. Colleagues are given a briefing note to share with their teams after each session and articles are included in our Courier magazine which is received by all colleagues.

Discussions during the year included:

- new uniform and process for future review;
- employee engagement survey results and subsequent action plan;
- tools to support self-development;
- review of the recognition programme and how it can be evolved;
- question and answer sessions with senior leaders; and
- employee benefits.

Employee Voice Forum

During the year, the Board has introduced 'Employee Voice' forums in addition to the People Panels. This initiative aims to give the global workforce a voice on key matters, enabling the Board to hear first-hand from employees across the Group and to consider their views when deliberating Board matters.

Forums will be held in different Mail Centres across the country with 160 – 200 colleagues from across all parts of the business invited to attend each one.

The first of the new Employee Voice forums was held in February 2019 at the National Distribution Centre in Northampton. The session was attended by Les Owen, Rico Back, Stuart Simpson, Orna Ni-Chionna, Simon Thompson and Rita Griffin. Feedback was obtained from attendees regarding how they felt the forum should operate and what topics they would like to see at future events.

Two sessions will be held per year. Some of the topics discussed at the February session included:

- career opportunities;
- our performance against competitors;
- customer perceptions of our quality;
- Royal Mail image and brand strength;
- investment and innovation; and
- new initiatives and trials.

Appointment of a designated NED for workforce engagement

In February 2019, Simon Thompson was appointed the designated Non-Executive Director for engagement with the workforce; Simon has increased his time commitment

to the Company after assuming this role. He has been instrumental in leading the work on culture and stakeholder consultation. The Board believes he will add substantial value to the Royal Mail's plans for engagement with our workforce.

Colleague engagement from 2019-20 onwards

UKPIL: The Board has reviewed how it engages with the UK workforce. A number of existing mechanisms were reviewed including site visits, informal meetings with employees, reports on employee engagement surveys and People Panels. The Board will continue to engage in these ways, in addition to rolling out the Employee Voice Forums.

GLS: Due to GLS' broader geographical spread, and smaller groups of employees in each region, the Board is devising a specific employee engagement approach, to be implemented in 2019-20. A GLS management conference will be held which will include a dedicated session on the Employee Voice. This will enable our leaders to define how the recommendations of the requirements of the 2018 Code should be implemented across GLS. At least one cycle will be completed before the end of the 2019-20 year. Bi-annual reports will be provided to the Board on the outcomes of local employee engagement activity. As previously mentioned, the Board will listen to feedback from local GLS teams during their Board visits to various GLS locations.

STAKEHOLDER ENGAGEMENT

Our stakeholders are integral to the success and sustainability of our business

Royal Mail communicates proactively with our stakeholders through a range of channels. We regularly engage with them to obtain their views and understand their needs and expectations.

Our purpose of connecting customers, companies and countries demonstrates the importance we place on stakeholder relationships and our impact on wider society. We seek to obtain their views about our role and responsibilities as a key part of the UK's economic and social infrastructure. We take issues raised by them into account in our decision making.



This report can be found on our website at:

<http://www.royalmailgroup.com>

OUR STAKEHOLDERS



SHAREHOLDERS

We have one of the broadest shareholder bases in the FTSE. Eight per cent of our shares are held by colleagues as Free Shares.

Board engagement

The Chair and Senior Independent Director (SID) are available to meet shareholders. The Board receives monthly reports from the Director of Investor Relations. Our Corporate Brokers provide updates.

After the 2018 AGM, the Chair and SID held meetings with many of our large shareholders, and with advisory bodies, including those representing retail shareholders, to better understand their concerns. Our response to the shareholder vote at the AGM, in line with the new Code, can be found on royalmailgroup.com.

Further meetings covered our revised Remuneration Policy, which is subject to binding vote at the 2019 AGM.

An investor perception study was commissioned.

Investor relations

We have a comprehensive engagement programme, including for our financial results, trading updates and divisional presentations. The Group CEO and CFO meet institutional investors on a regular basis.



COLLEAGUES

Royal Mail employs around 160,000 people through UKPIL and GLS.

Board engagement

Our first Employee Voice session, led by Simon Thompson, took place in February 2019. Our annual UK employee engagement survey tracks overall engagement, culture and areas for improvement. This year, the Board reviewed and updated its Diversity Policy. The Executive Board and Nomination Committee reviewed high potential individuals, their skills and experience, and diversity from a BAME and gender perspective. This led to some changes in membership of subsidiary boards.

Internal communications

We run one of the UK's largest face-to-face programmes, from 'Town Halls' with senior executives, to team briefings. Internal communication channels include a monthly magazine, a weekly TV programme, daily intranet and extranet updates, WhatsApp and, from 2019, Facebook Workplace. We cover strategy, performance, recognition and operational excellence to improve understanding of our direction, the need for change, and our people's role in delivering it.

Diversity and inclusion

We continue to work towards greater representation of minority groups and increasing the number of women in frontline roles.



UNIONS

We value the input of the Communications Workers Union (CWU) and Unite/CMA, and the role they play in representing the interests of our workforce. We are committed to open and constructive engagement with them.

Board engagement

The Group CEO and CFO meet regularly with senior union leadership. This year, this has included meetings about the challenges we face in the UK.

Engagement across our business

Elected union members in every operational unit, office and plant work closely with managers on a daily basis to plan resources, assess workload and share key initiatives with colleagues. Joint working groups consult on aspects of change and deployment, determined by our framework agreements. Negotiations on national agreements, including pay, pensions, terms and conditions take place at a national level.

Working together

As part of our 2018 Agreement, the Royal Mail Pension Plan (RMPP) closed in its previous form on 31 March 2018. Working with CWU, we are lobbying Government to underpin the retirement plans of employees through a Collective Defined Contribution (CDC) scheme.

GLS works councils

GLS works councils are formed by employees from a specific location in line with the applicable national law. GLS Germany elected its first works council in November 2000. Since it was set up, the council has addressed areas such as working schedules and working behaviours.

Our 2018 Modern Slavery Statement is available at:

 <http://www.royalmailgroup.com>



CUSTOMERS

As the UK's Universal Service provider, Royal Mail delivers to more than 30 million addresses across the country. GLS has c.300,000 customers across 43 countries. From consumers, marketplace sellers and SMEs to the biggest companies and e-retailers, customers expect high quality, access to up-to-date delivery information, and value for money.

Board engagement

Our Regulatory Retail target for First Class Quality of Service is a 2018-19 KPI. Each quarter, we review our performance against a large number of measures, reflecting our performance, and that of our competitors. Mean customer satisfaction – a key advocacy measure – was 78 points. Our Net Promoter Score was +39 – a market-leading performance.

Feedback

Every year we survey thousands of customers, including consumers. We also conduct touchpoint surveys to understand customers' experiences with a range of products, including Tracked and Special Delivery Guaranteed.



REGULATOR

Ofcom has a comprehensive monitoring regime for us as the UK's Universal Service Provider. We provide detailed information on our Quality of Service, complaints, financial and volumetric performance and efficiency metrics, as required by regulatory reporting obligations.

Board engagement

The Chair has met with the Chair of Ofcom. The Group CEO meets regularly with Ofcom's CEO. The Group CEO and CFO lead on engagement with Ofcom's senior representatives on our Business Plan.

Designated team

We have a dedicated regulatory team who work with Ofcom at all levels. It leads on responding to Ofcom's consultations and regularly engages with the regulator through face-to-face meetings.

We have an open dialogue with Ofcom and share, as appropriate, information it needs. We continue to press our case for a supportive regulatory environment that will help to keep the Universal Service market funded.



GOVERNMENT

We remain strictly neutral on political matters but engage with all levels of Government. Key priorities in 2018-19 have been our campaign for CDC pension legislation and preparations for Brexit.

Board engagement

The Board receives regular updates and briefings on matters of political relevance to the business. In 2018-19, Executives met with key politicians, including the Postal Affairs and Pensions Ministers. Updates were provided to the Board as appropriate.

Designated team

The Public Affairs team meets a range of political and Government stakeholders. This includes ministers and officials from BEIS, Treasury and HMRC, DfT and the Home Office, key departments in Brussels and devolved administrations.

We run the UK's largest political stakeholder programme, organising over 900 Christmas visits in 2018. Our 'Walking in a postie's shoes' programme, where individuals accompany a postman or woman on their walk, is popular.

Consultations

We monitor and respond to consultations affecting our business including those focusing on environmental, employment and pensions issues. We respond to relevant Parliamentary Select Committee inquiries.



LOCAL COMMUNITIES

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

Board Engagement

Our Board is committed to reducing our environmental impact, helping to improve air quality in the communities in which we operate. We work with the Centre of Economics and Business Research to assess our contribution to the UK economy. This helps the Board to understand the value we add to UK society above and beyond delivering the mail.

Key programmes

We launched a multi-year campaign “because healthy minds matter” for our colleagues and customers. We encourage involvement in local communities through the provision of matched giving, grants and volunteering opportunities, enabling them to support local and national charities. Our employees are the eyes and ears of local communities, which is reflected in our involvement with the charity Missing People and our funding of the Child Rescue Alert System.



SUPPLIERS

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

Board engagement

A report is provided to the Audit and Risk Committee on Payment Practices regulation for relevant businesses. New contracts considered critical in terms of risk profile (including business dependency, financial status, reputation, compliance and safety) may be referred for Board approval prior to award.

Our standards

Suppliers must state compliance with Our Code. In 2018-19, we updated it so social, environmental and ethical performance are pass/fail elements in the contract award process. Suppliers identified as having high sustainability risk enrol onto a platform that tracks ESG performance and conducts third party audits. Our supplier management portal shows whether suppliers are meeting their ethical, social and environmental obligations, contractual requirements and KPIs.

Our 2018 Modern Slavery Statement is available at www.royalmailgroup.com/en/responsibility

REPORTING AGAINST THE 2018 CORPORATE GOVERNANCE CODE

Further to our confirmation on page 86 that we comply with all provisions of UK Corporate Governance Code 2016, except in relation to the timing of the annual evaluation of the performance of the Board, its Committees and Directors as mentioned on pages 98-99, this section sets out how Royal Mail has applied most of the principles and complied with certain provisions of the 2018 Code on a voluntary basis. Actions that have been taken in 2018-19 to comply with the provisions of the 2018 Code are detailed below.

PROVISIONS	ACTIONS TAKEN
1-8	Board Leadership and Company Purpose The approach as to how the Board will monitor culture has been reviewed and a report will be provided to the Board on a twice-yearly basis. The Matters Reserved for the Board have been updated to reflect the Board's enhanced role regarding the monitoring of culture, whistleblowing, stakeholder engagement, external appointments and conflicts of interest. A statement was published on 14 January 2019 regarding the significant votes against the Chair (34.4%) and the 70.2% vote against the Remuneration Report at the 2018 AGM, including actions taken. An investor perception study was commissioned, and meetings held with shareholders, proxy voting agencies and shareholder representative bodies. Further detail can be found on page 102 of this report. Simon Thompson was appointed as the designated Non-Executive Director for employee representation, and the first 'Employee Voice' Forum was held on 26 February 2019. A review of the approach to stakeholder engagement is being undertaken and a report will be provided to the Board on a twice-yearly basis. The Audit and Risk Committee's Terms of Reference and the Matters Reserved for the Board have been updated to reflect that it is the Board's responsibility to routinely review the whistleblowing reports. Going forward the Board will receive the whistleblowing reports. The Nomination Committee's Terms of Reference have been updated to enhance the responsibilities regarding Directors' conflicts of interest and external appointments. The Board places emphasis on development of diversity within the Group senior management roles.
9-16	Division of Responsibilities The Chair, Les Owen, reached his nine-year tenure on the Board on 26 January 2019. It was announced on 22 March 2019 that Keith Williams will be appointed Chair on 22 May 2019 and that Les Owen will then step down as Chair and a Director. The responsibilities of the Chair, Chief Executive, Senior Independent Director, have been reviewed and updated and published on our website found here http://www.royalmailgroup.com/en/about-us/governance/. A guidance note for the Board has been produced on external appointments and required time commitments.
7-23	Composition, Succession and evaluation The Board diversity policy has recently been reviewed. There are a number of initiatives in place to increase female and BAME representation to the executive and senior management team.
24-31	Audit, Risk and Internal Control Royal Mail complies with all of these principles.
32-41	Remuneration Guiding principles and a remuneration dashboard have been established to provide the Remuneration Committee with oversight of company-wide remuneration policies and practices. The vesting and holding periods for Long Term Incentives are already five years. The Terms of Reference have been updated to reflect the enhanced role of the Remuneration Committee. The remuneration report has been reviewed and refreshed following the significant votes against, including the incorporation of the new reporting requirements.

NOMINATION COMMITTEE



Les Owen
Nomination Committee Chair

Committee members:

Les Owen

Orna Ni-Chionna

Rita Griffin

Keith Williams

Simon Thompson

I am pleased to update you on the Committee's activity for the year ended 31 March 2019. The Committee's main activities were: i) identifying a successor to the Chair and conducting a search for new Non-Executive Directors; and ii) reviewing Executive talent and appointments to the Executive Board following Rico Back's appointment as Group Chief Executive Officer on 1 June 2018.

The Committee reviewed the structure, size, diversity and composition of the Board and its Committees and as part of this process reviewed our skills experience matrix. We reviewed each Board member's experience, independence, tenure, industry knowledge and knowledge of Royal Mail.

I succeeded Peter Long as Chair in September 2018. On 7 November 2018, Keith Williams was appointed as Deputy Chair and increased his commitments to the Company. On 22 March 2019 it was announced that Keith will be succeed me as Chair on 22 May 2019.

The process for identifying a successor for me as Chair was led by Orna Ni-Chionna, the Senior Independent Director with assistance from Egon Zehnder Limited. Myself and Keith Williams were not involved in the selection of my successor. Both internal and external candidates were considered. The identification of potential candidates for both the Chair and Non-Executive Director roles followed a rigorous selection process against an agreed set of criteria. Proposed candidates were from diverse backgrounds. We also employ Egon Zehnder and Ridgeway Partners Limited for Non-Executive Director appointments. Egon Zehnder also assist the Company for Senior Executive appointments. Both firms have signed up to the Executive Search Firms' Voluntary Code of Conduct and neither have any other connections with the Company.

Michael Findlay and Maria da Cunha will be appointed as Non-Executive Directors with effect from 22 May 2019 (see page 11). We are well advanced in the search for additional Non-Executive Directors and expect to be able to make an announcement before the AGM. We have ensured long lists for potential future Non-Executive Directors include at least 50 per cent female candidates.

There was an extensive review of the Executive team leadership structure. An Executive Board was established on 1 June 2018. A Chief Information Officer, a Chief Strategy and Transformation Officer, a Chief Risk and Governance Officer and a Group General Counsel and Company Secretary were appointed.

Other areas we have spent time on include a review of the organisational structure, global talent, diversity and the Board's exposure to a range of senior management. The composition of the subsidiary boards was reviewed and refreshed taking into account development needs, gender and BAME diversity.

Board diversity

The Board has reviewed its Diversity Policy and updated it to include measurable objectives and a commitment to aspire to achieve the diversity targets of the Parker and Hampton-Alexander reviews. The policy also includes a commitment to only engage with search firms who are signatories of the Voluntary Code of Conduct for Executive Search Firms. The Policy is reviewed annually by the Nomination Committee and progress against the objectives reported on.

Committee changes

There were a number of Committee changes during the year. In April 2018 myself, Rita Griffin, Simon Thompson and Keith Williams were appointed as members of the Nomination Committee. When Paul Murray stepped down from the Board in July 2018, he also stepped down as Chair of the Audit and Risk Committee and as a member of the Remuneration, Nomination and the Pensions Committees. Keith Williams was appointed as Chair of the Audit and Risk Committee in July 2018. When Peter Long stepped down September 2018, I assumed the role of the Nomination Committee Chair. Simon Thompson joined the Remuneration Committee in October 2018 and I stepped down from the Committee at that time. I stepped down from Audit and Risk Committee in February 2019.

Corporate Governance developments

The Committee reviewed and updated its Terms of Reference taking into consideration the 2018 Code.

Committee evaluation

The Committees performance was internally evaluated by the members of the Committee by way of self-evaluation questionnaire as referred to on pages 98 and 99. The Committee concluded that it was performing effectively albeit during a year of significant change for both the Board and at the senior executive level.

More information on the Board effectiveness process can be found on pages 98-99. The key priorities for 2019-20 are to:

- further strengthen and refresh the Board;
- further strengthen the senior leadership team;
- review the capability and performance of the top layers of management and to develop succession plans; and
- meeting our diversity objectives with particular regard to the upper level of management and the Board.

Directors independence and re-appointment

The Board reviews the independence of its Non-Executive Directors as part of its Annual Board Effectiveness review. It considers that each of the Non-Executive Directors is independent. This means that, in the view of the Board, they have no links to the Executive Directors and other managers and no business or other relationship with the Company that could impact their judgement. The Board has a majority of independent Directors. Full biographies of each of the Directors are on pages 88-89.

The Committee considered the performance of each individual Director, including whether they continued to be effective and demonstrate commitment to their roles. All Directors are considered by the Board to be fully effective. This supports the proposal for those Directors standing for re-appointment at the AGM.

I am stepping down as Chair and as a Director on 22 May 2019 having reached a nine year tenure on the Board in January 2019.

Composition of the Committee and Responsibilities

The composition of the Committee meets the recommendations of the UK Corporate Governance Code, with all members being independent Non-Executive Directors. The composition and attendance of Committee meetings during the period under review are set out on page 94. The full Terms of Reference for the Committee can be found on our website at www.royalmailgroup.com. The responsibilities for the Committees is outlined on page 93.

Les Owen
Chair

“It has been a year of major change at Board and Senior Executive level. We have made good progress in refreshing and strengthening our Board.”

NOMINATION COMMITTEE CONTINUED

Review of progress against Policy

The Board Diversity Policy ('the Policy') sets out our approach to transparency and diversity in making appointments to the Board on the recommendation of the Nomination Committee.

The Board promotes diversity in its broadest sense, including professional, education, skills, age, gender and ethnic diversity. It is our belief that a diverse Board with different backgrounds and viewpoints in decision making, benefits the Group's stakeholders and the performance of the business.

The Nomination Committee reviews and assesses progress against the Diversity Policy. The principles of this Policy are embedded in the appointment process for Director and Senior Executives. During the year, the Board reviewed and updated the Policy. All appointments to the Board are based on merit and considered against a range of objective criteria.

The Board will report annually against the objectives in the Policy and other initiatives taking place within the Company to promote gender and other forms of diversity. Progress against each objective is described below.

Endeavour to achieve target for 33 per cent female representation on the Board:

The Board is committed to its target for female representation and is mindful of the target set out in the Hampton-Alexander Review of 33 per cent female representation. The Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they would bring to the Board. As at 21 May 2019, the female representation on the Board represents 29 per cent of the membership.

Place emphasis on development of diversity within the Group. Royal Mail is committed to further pursuing diversity, as appropriate and on merit, within the Group senior management roles. Intend to meet where possible the recommendations of the Hampton-Alexander Review of 33% women in senior leadership positions:

We continue to strengthen the pipeline of senior female executives within the business. Our initiatives are outlined on page 77. At senior management level, 32 per cent of our colleagues are women, compared with 18 per cent in operational grades. In 2018-19, Royal Mail was named as one of The Times Top 50 Employers for Women for the sixth consecutive year.

Aspire to achieve the recommendations of the Parker Review by having at least one director on the Board from an ethnic minority background:

The Committee has adopted this in its Policy. There are a number of Company-wide initiatives: the Diversity Council which monitors and progresses the Group's diversity performance in terms of women, ethnic background, parents and carers, disabilities, young and LGBT+; Working with Business in the Community's (BITC) Opportunity Now and Race for Opportunity programmes, Mentoring schemes to increase female and BAME representation and the Spring Forward programme aimed at supporting those relatively new to management, including a BAME programme for under-represented colleagues in higher positions.

In searches for candidates, engage with executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms:

The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms will only engage who have signed up to this Code.

Report annually against these objectives and other initiatives taking place within the Company to promote gender and other forms of diversity:

The Board places a strong emphasis on increasing diversity in senior leadership. It is proud of the many initiatives that were in place during the year to achieve this, such as the Springboard women's development programme which, since 2005, has helped to encourage women into leadership positions. Other schemes include:

- The Diversity Council which monitors and progresses the Group's diversity performance in terms of women, ethnic background, parents and carers, disabilities, young and LGBT.
- Working with Business in the Community's (BITC) Opportunity Now and Race for Opportunity programmes.
- Mentoring schemes to increase female and BAME representation.
- Spring Board programme aimed at supporting women with confidence and personal development.
- Women's Steering Group.
- "W" magazine for women in Royal Mail with copies sent to every woman in the business. Detailing networking events, role models and showcasing activity.
- Vote 100 campaign.
- Series of International Women's Day events and talks.
- Spring Forward programme aimed at supporting those relatively new to management, including a BAME programme for under-represented colleagues in higher positions.
- Everywoman online personal and professional development platform available to all colleagues.

There is also an adopted Equality and Fairness Policy which is our overarching policy for diversity within the Group. A copy of the Equality and Fairness Policy is available on our website at royalmailgroup.com.

This Policy provides a statement of Royal Mail Group's commitment to diversity.

AUDIT AND RISK COMMITTEE



Keith Williams
Audit and Risk Committee Chair

Committee members:

Keith Williams

Orna Ni-Chionna

Rita Griffin

Simon Thompson

I was delighted to become the Chair of this Committee following Paul Murray's retirement from the Board on 19 July 2018. I would like to thank Paul for his support during the transition period and for his contributions to the Committee. I am pleased to update you on the Committee's activity for the year ended 31 March 2019.

During the year we have been primarily focussed on the Group's financial performance as well as the integrity of the Group's financial reporting, including annual and half-year financial statements and announcements. There have not been any significant changes to the Committee's primary functions this year. The Committee, along with management and the external auditor, considered the impact of reporting recommendations published by the FRC, as well as the new accounting and reporting requirements introduced by IFRS 15 Revenue and IFRS 16 Leases and their impact on the Group's financial statements. A area of core continued focus was reviewing the Company's internal controls and systems of internal control and risk management and in particular monitoring the Group risks and their linkage to strategy to Group strategy.

As a Committee we have developed the agenda to enable us over the course of the year, to have active oversight of all key areas of responsibility and to facilitate deep dives into key areas of strategic focus. Deep dives were presented to the Committee by the management team on Technology and Parcels which facilitated a healthy debate between management team and the Committee and enhanced knowledge on these topics.

The Committee also considered the impact of Brexit and associated risks and following the implementation of GDPR we focused on technology, data governance, cyber security, access controls and business continuity and received regular updates through the year from the management team.

Lastly, we have also reviewed and updated our terms of reference with the 2018 Code. The Committee will continue to receive the whistleblowing reports however this is now a matter reserved for the Board.

Keith Williams
Chair

Composition of the Committee and Responsibilities

The composition of the Committee complies with the Code, which provides that all members should be independent non-executive directors. Meetings of the Committee were also attended, where relevant, by the Chair of the Board, the Group Chief Executive Officer, the Chief Financial and Operating Officer, the Director of Internal Audit and Risk Management and other members of senior management and representatives from the external auditor, KPMG LLP. The Committee is supported by the Company Secretary.

The Board regards the Chair of the Committee as having recent and relevant financial experience for the purposes of the Code and the Financial Reporting Council's ('FRC') Guidance on Audit Committees. Biographical details of all Committee members are included on pages 88-89.

The composition and attendance of Committee meetings during the period under review are set out on page 94. The Committee also met without management present before each full meeting. We also met privately with the lead Audit partners, and separately with the Director of Internal Audit & Risk Management after Committee meetings. The full Terms of Reference for the Committee can be found on our website at www.royalmailgroup.com. The responsibilities for the Committees is outlined on page 93.

AUDIT AND RISK COMMITTEE CONTINUED

Key judgment areas

The main areas of focus for the Committee during the year in relation to the financial statements were:

Matter	Action taken by Committee
One-off matters considered due to their materiality or nature Ofcom alleged infringement of competition law On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million.	Following Ofcom's publication, on 14 August 2018, of its decision regarding its investigation into whether Royal Mail had breached competition law, the Committee sought detailed background information from General Counsel and an assessment of accounting treatment from Management. This investigation remains a key agenda item and regular updates have been provided to the Committee throughout the year. We have continued to review and challenge Management's assessment of the issue with reference to the accounting standards. We concluded that it continues to be appropriate to treat this issue as a contingent liability. The Committee has reviewed and approved the wording of its disclosure.
Accounting for GLS acquisition: Dicom The Group acquired the business divisions of Dicom Transportation Group Canada and US John Deere ('Dicom') on 31 August 2018. IFRS 3 requires the purchase price to be allocated between Tangible assets, Intangible assets and Goodwill.	The Committee examined reports from Management which summarised the results of an independent purchase price allocation exercise performed by EY. We also received KPMG's comments on the assumptions and the calculation used to allocate the purchase price. We concluded that the approach taken was appropriate. Details of purchase price allocation can be found in Note 11 in the financial statements.
Carrying value of US goodwill During the year Management performed an impairment review of the assets comprising the GLS US network. The goodwill of £49 million in these businesses was fully impaired, along with other assets with a carrying value of £19 million.	The Committee examined reports from Management summarising the outcome of the impairment reviews performed. Further details of the assumptions can be found in Note 13 of the financial statements. We also received KPMG's comments on the assumptions and the calculation used to perform the impairment review. We concluded that the approach taken was appropriate.

Matter	Action taken by Committee
Ongoing matters considered due to their materiality and/or the application of judgement	
Advance customer payments Included within Advance customer payments is an estimate of the amounts of stamps and meter credits that have been sold but not used prior to the reporting date. At March 2019, this estimate totalled £239 million (March 2018: £234 million). Although the relevant survey and extrapolation is conducted by an independent company, the level at which a stamp holding is considered abnormal, and therefore excluded from the estimate, is a judgement made by Management. This judgement impacts revenue, profit and net assets.	Management as to the level at which a stamp holding is considered abnormal. We compared the level of deferred revenue recognised by Management at each reporting date to ensure a consistent application. Separately, the auditor used its own experts to review the statistical processes and assess the judgemental assumption. We concluded that the level of deferred revenue remained appropriate.
Pension surplus calculation and recognition The valuation of the pension liabilities and assets relies on the estimation of long-term assumptions such as RPI/CPI and mortality and the selection of appropriate asset valuation methods. Small movements in these assumptions can lead to material impacts on the balance sheet. In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.	Key long-term assumptions were prepared by the Group's actuary, Willis Towers Watson Limited, and benchmarked against prevailing economic indicators and other large pension schemes. The assumptions were reviewed and approved by the Pensions Committee (see report on page 146). All of these assumptions are disclosed in Note 10 to the financial statements. Changes in the assumptions were summarised for the Committee and explanations provided for the returns on scheme assets, particularly as a result of the liability hedging strategy. The auditor used its own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.
Pensions: Defined Benefit Cash Balance Scheme (DBCBS) constructive obligation The principal accounting judgement in relation to the DBCBS scheme is the extent of any constructive obligation for future discretionary pension increases which should be included in the pension liabilities calculation. A constructive obligation arises from previous Management communications and actions and the reasonable employee expectations arising from these.	The Committee has examined reports from Management considering the content and nature of communications made in relation to the DBCBS scheme. We also received KPMG's comments on the nature of the constructive obligation. We concluded that recognition of the constructive obligation at CPI plus 2% was reasonable and appropriate.
Impact of changing employment legislation The Group has a large workforce and changes to laws and regulations relating to employment can have a significant effect on the Group's results.	Throughout the year, the Committee received regular updates on relevant employment law cases from the General Counsel along with impact assessments of judgements on the Group. We examined reports prepared by Management to determine whether their interpretation of the potential liabilities for the Group was appropriate. We concluded that these potential liabilities were accounted for appropriately based on the legal assessments provided by the General Counsel.

AUDIT AND RISK COMMITTEE CONTINUED

Committee Advisers

To help us with our responsibilities, the Committee receives independent assurance from the Group's Internal Audit and Risk Management (IA & RM) function. We also receive regular reports from the Compliance function as well as the external auditor, KPMG, across a wide range of issues in support of their respective oversight responsibilities. The Committee is further supported by the Risk Management Committee (RMC).

We also obtain support from external experts, such as the Group's actuary, Willis Towers Watson Limited, who provide expert opinion and long-term assumption advice with respect to pension accounting. Aon Limited provides similar expertise in relation to other long-term liabilities. The Committee has concluded that these companies have the required expertise and resources to provide the necessary advice.

The Committee also relies on the advice and information provided by the Group General Counsel with respect to specific provisions and other contingent liabilities. The Committee is satisfied that the Group General Counsel has, or has access to, the relevant necessary expertise and resources. The external auditor has full access to these experts and, using their own actuarial and statistical experts, is able to provide further assurance to the Committee on these matters.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

We have complied fully throughout the year with the Statutory Audit Services Order 2014 issued by the Competition and Markets Authority.

Effectiveness of the external audit process

Meetings between the senior audit team and Finance have been held at least monthly, giving the opportunity for any concerns to be raised and addressed on a timely basis. KPMG's 2018 Audit Quality Inspection Report has also been discussed. The Committee also received a report on the areas of audit risk identified by KPMG and approved their proposed audit approach.

The Committee also reviewed and approved the respective engagement letters for the statutory and regulatory audits.

At the end of the half year review and year end statutory audit, the Committee received reports from KPMG covering significant issues identified and discussed during the audit visits. In addition, KPMG presented updates on their data and analytics approach, and their control findings. These reports were compared with the matters that Management had identified, to ensure consistency. The Committee also held regular private meetings with the external auditor.

Overall, the Committee and KPMG both considered that the 2018-19 external audit process had gone well. The Committee concluded that KPMG carried out its audit for 2018-19 effectively and efficiently. The Committee agreed that KPMG's engagement was managed well and there had been appropriate level of challenge from the audit team. The Committee identified key lessons from this review which have been considered for 2019-2020 audit.

As in previous years, the formal evaluation of the external audit process for 2018-19 has been addressed using an online questionnaire. It was completed shortly before our full year results announcement and responses were sought from individuals who had been closely involved in the audit (predominantly IT, Finance and HR) as well as Executive and Non-Executive Directors, and audit partners and team members. The results of the 2018-19 online questionnaire will be supplemented using meetings with key stakeholders following the conclusion of the year-end audit and will focus on the execution of the audit; the preparedness of the business; sufficiency of resources; communication and interaction; and overall satisfaction. While the outcome of the meetings will not be available until after the signing of the financial statements, the feedback from the online survey and the review of reports presented by Management and KPMG to their May 2019 meeting has enabled the Committee to conclude that there has been appropriate focus on the primary areas of audit risk and KPMG have applied robust challenge and scepticism throughout.

Safeguarding the independence and objectivity of the external auditor

The Committee has a policy in respect of non-audit work which requires Management to seek pre-approval prior to the engagement of the external auditor for the provision of any non-audit services. This is to ensure that the level of fees earned from non-audit services and the type of services provided do not impair the external auditor's independence and objectivity. In general, the external auditor is not approached to perform non-audit work.

However, the auditor may be engaged to perform non-audit services if they are 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). The engagement may follow a competitive tender process.

The Committee currently permits the external auditor to provide non-audit services in respect of audit related services, tax services and other services insofar as permitted by auditor independence rules.

The Committee has delegated authority to the Chief Financial and Operating Officer to pre-approve assignments up to £25,000, with an annual limit of £500,000.

During the year, KPMG has been engaged to provide certain agreed upon procedures. Total fees earned for non-audit services during 2018-19 were £125,000 which represented around 5 per cent of the external audit fee. In addition to the fees earned from the Company, KPMG has been engaged by the respective Pension Trustee as external auditor of the Royal Mail Pension Plan and the Royal Mail Defined Contribution Plan, the fees for which were £198,000 in 2018-19. KPMG has now adopted a policy of not undertaking non-audit work for audit clients unless there is a clear requirement for the auditor to perform this work.

The Committee also has a policy that restricts the recruitment or secondment of individuals employed by the external auditor into positions that provide financial reporting oversight where they could exercise influence over the financial or regulatory statements of the Group or the level of audit and non-audit fees.

KPMG was appointed as external auditor in July 2015, following a competitive tender process during the 2014-15 financial year. Under the current regulations, the Company will be required to tender no later than the 2025-26 financial year and the current audit partner will be required to rotate after the 2019-20 audit. The Committee has recommended the reappointment of KPMG as the Group's external auditor to the Board for approval by shareholders at the AGM in July 2019.

Risk management and internal control overview

The Board collectively, including the Committee members, believes that effective risk management and a sound control environment are fundamental to the Group. The Code requires the Board to maintain sound risk management and internal control systems, to review their effectiveness at least annually and to report on this review to shareholders. A sound system of internal control depends on a thorough and regular evaluation of the nature and extent to which the Group is exposed to risk.

The Group's risk management and internal control system is designed to manage, rather than eliminate, risk. Taking on manageable risk is an inherent part of undertaking the commercial activities of the Group. The system can only provide reasonable – not absolute – assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group in accordance with the guidance detailed by the Code, including financial, operational and compliance risks, and risks to reputation. The process has been in place throughout the year and up to the date of the approval of these financial statements.

In addition, the Directors carry out a robust risk assessment of the Principal Risks facing the Group as set out on pages 64 to 72. These include those principal risks that threaten the business model, future performance, solvency and liquidity of the Group. These reviews have been informed by the financial evaluation of severe but plausible scenarios of our principal risks which has also been used to support our Viability Statement on page 73.

Internal control framework

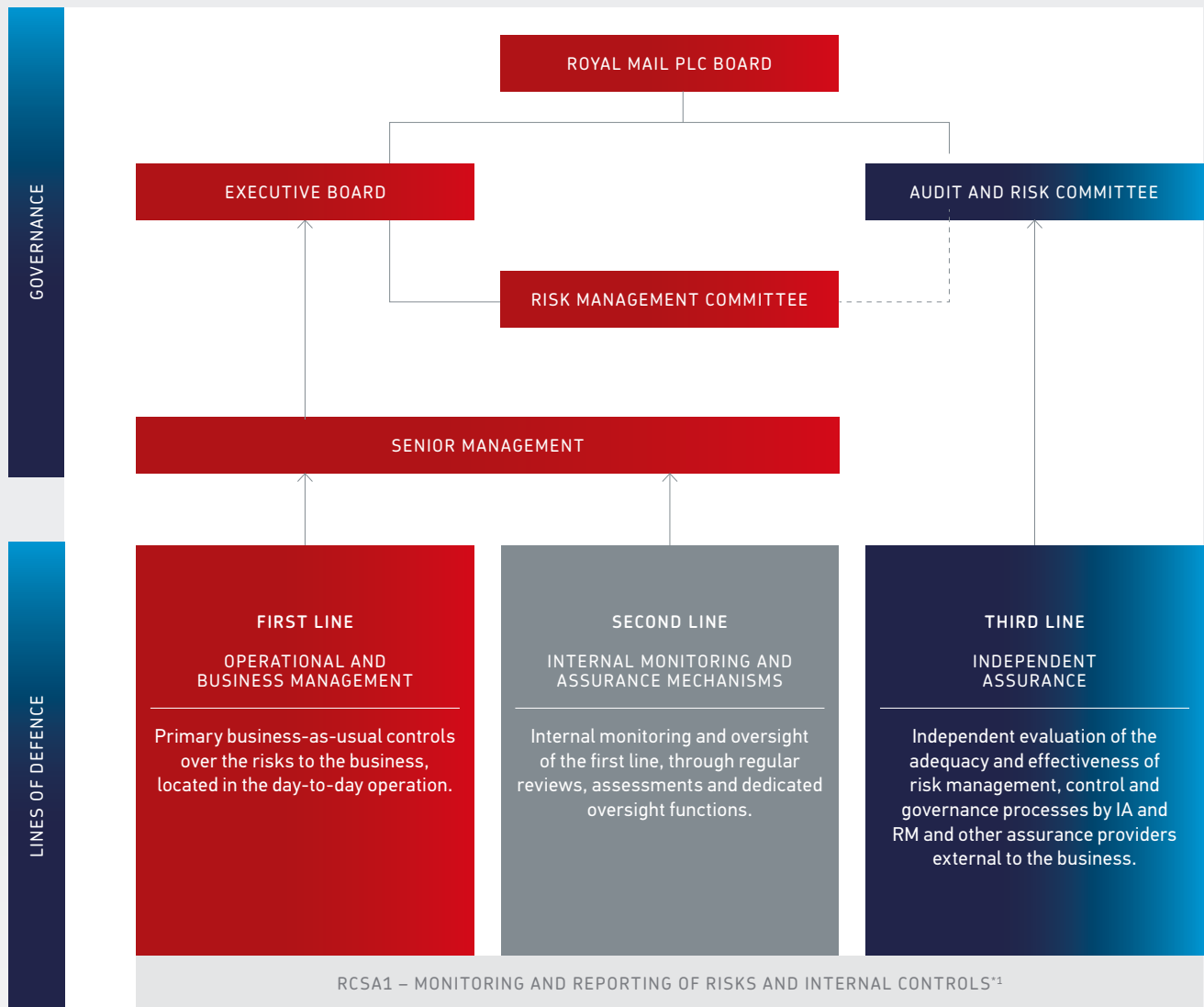
The Group has in place an internal control framework in relation to the Group's financial reporting process and our process for preparing consolidated accounts. This framework includes an established organisational structure with clear lines of responsibilities, approval levels and delegated authorities; policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately; robust quarterly business unit performance reviews by the Chief Executive Officer and Chief Finance Officer; and a rigorous preparation process for the consolidated financial results, including technical and disclosure reviews.

Risk Management framework

The Group wide risk management framework includes risk governance, risk identification, measurement and management, reporting and horizon scanning and sets out the 'top down' and 'bottom up' approach to risk identification for the Group.

AUDIT AND RISK COMMITTEE CONTINUED

ROYAL MAIL GOVERNANCE AND THREE LINES OF DEFENCE



ROLE OF THE COMMITTEE IN ASSESSING THE PRINCIPAL RISKS

REVIEW OF PRINCIPAL RISK AREAS

- The Committee routinely assessed the risks that might impact the achievement of the Business Plan, including consideration of whether these should be categorised as a principal risk to the business (see Principal Risks on pages 64-72). Committee discussions on risk also covered new and emerging risks and the interrelationships between the significant risks to the business.
- In particular, the Committee reviewed changes to the Group Risk Profile on a quarterly basis and held 'deep dive' discussions of principal risk areas with risk owners. The Committee holds the business to account for the management of risk and operation of control across the Group.

DEEP DIVE DISCUSSIONS

During the year, deep dive risk discussions included:

- revenue diversification;
- required pace and level of cost reduction;
- parcels risk management;
- GDPR;
- economic environment;
- business continuity and disruption; and
- executive talent.

*1 Risk & Control Self-Assessment.

During the year the business has:

- assessed its approach to risk management in line with the Code requirements, reviewed its Risk Management Policy and continued to strengthen the management and monitoring of risk within the Group. This includes strengthening the assessment of risk in terms of gross (inherent), net (residual) and target risk. There was a focus on risk appetite, reporting the key actions required to move from net to target risk and the development of key risk indicators; and
- continued its emerging risk identification process through regular structured workshops and dialogue with business units and subject matter as well as externally to industry, business political and the regulatory environment.

The Group's approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk as illustrated below.

Speak Up line

Arrangements are in place to enable employees to raise concerns about potential wrongdoings in confidence and to ensure independent investigation of such matters. During the year, Compliance reported to the Committee on the number of cases received and an analysis of the outcomes through the Employee Confidential Disclosure Committee. The Audit and Risk Committee in 2019-20 will continue to provide reports to the Board, as the Board now has overall responsibility for whistleblowing.

Assessing the effectiveness of the system of risk management and internal control

In addition to the specific constitution, meetings, reliance on experts, and focus areas highlighted above, the Committee uses several mechanisms to help it to arrive at its conclusions on the effectiveness of the system of risk management and internal control in the business. These include:

Risk governance – The Board has delegated responsibility for specific review of risk and control processes to the Committee and the Committee, in turn, is supported by the RMC, to help discharge its duties. The RMC meets to promote and support the establishment,

communication and embedding of risk management throughout the Group. It also seeks to ensure that risks that are significant at Group level are being effectively managed. The RMC oversees and evaluates a 'bottom up' assessment of risks on a quarterly basis. It receives presentations from Business Units on the operation of risk management and control processes on a cyclical basis.

Assurance from internal audit – Internal Audit and Risk Management (IA and RM) provide independent assurance to the Committee, Executive Management and the Board on the effectiveness of the internal control system and elements of the risk management process. This includes supporting the business in complying with the Risk Management Mandatory Standards and of the reporting of key controls and mitigation plans for Group level risks. IA and RM establish and agree with the Committee a bi-annual rolling plan of assignments and activities covering the whole Group, including GLS, based on discussions with the Board and Management. This takes into account key areas of business risk, areas of importance to the delivery of the strategy, areas subject to strong or emerging regulation or legislation or specific issues in the industry. During the year, the Committee evaluated the performance of IA and RM. It concluded that the function continued to be effective.

The IA work programme during 2018-19 included 29 risk-based audits in the UK and over 170 audits in GLS, covering depots, head office and compliance audits in addition to 7 risk based audits. The internal audit programme was risk focussed and included audits of key strategic and business priorities including:

- governance of major business transformation and programmes: Delivery of the Pensions, Pay and Pipeline agreement, major programmes in Finance, Parcels, International and Operations including digital and enterprise projects.
- major business processes and regulatory requirements including Cyber security, access controls, key financial controls, GDPR readiness and Business Continuity.
- cultural themes arising from Internal Audit activity.

External audit activity – External audits and reviews take place during the year to provide Management, the Board and Ofcom with assurance on specific matters. Activity includes:

- the external auditor performs a statutory year-end audit;
- the external auditor performs an audit of the regulatory accounts as part of Universal Service Provider accounting requirements;
- the externally measured end to end Quality of Service is audited by an independent accounting firm (appointed by Ofcom) as part of Royal Mail's Designated Universal Service Provider condition requirements; and
- the Universal Service Obligation daily collections and deliveries performance reporting and methodology is assured by an independent accounting firm (appointed by Royal Mail) as part of Royal Mail's designated Universal Service.

In the carrying out of these activities, the Board considers it has fulfilled its obligations under the Code in respect of risk management and internal controls.

Further details of the Principal Risks and how they are managed and mitigated can be found on pages 64-72.

Committee's evaluation

The Committee's performance was internally evaluated by the members of the Committee by way of self-evaluation questionnaire as referred to on page 98-99. This concluded that the Committee was performing effectively.

The key priorities for 2019-20 are:

- continued focus on the emerging risks on the risk register and scenario planning;
- continued education and training programme;
- focus on understanding newly acquired businesses as part of the expansion of GLS; and
- continued focus on risk management and more deep dives.

REMUNERATION REPORT



Orna Ni-Chionna
Remuneration Committee Chair

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for 2018-19. This year I would like to reflect on three themes: the vote against our Remuneration Report last year; the changes that we are proposing to make to our Remuneration Policy which will apply from 2019-20 if supported by shareholders; and the performance of the Group in the financial year that has just ended, which means that no short-term bonus will be payable to Executive Directors this year, nor will the 2016 Group Long Term Incentive Plan (LTIP) award vest. I would also like to outline what we are doing to ensure that we comply with both the letter and the spirit of the changes to the 2018 UK Corporate Governance Code.

Remuneration Policy

Our new Remuneration Policy is designed to support the delivery of our ambition to build a parcels-led, more balanced and diversified global business:

- Bring sharper focus on a smaller number of critical measures required to drive efficiency.
- Increase sustainable sources of cash generation to fund investment.
- Place more emphasis on the long-term transformation of the business.
- Continue to align executive and shareholder interests.

Remuneration Report 2018-19

Last year a large majority of shareholders voted against our Remuneration Report. We were very disappointed, as we had aimed to establish a responsible approach to executive pay when the Company was floated on the London Stock Exchange, and this approach had enjoyed strong shareholder support in past years. In response to the vote we embarked on an intensive programme of meetings and conversations with a cross-section of our shareholders to explore their reasons for voting against our report.

As reported on the Investment Association website in January, shareholders said they were very unhappy with the existence of a clause in our former Chief Executive Officer's contract, which had resulted in a requirement for us to pay her an amount in lieu of bonus as part of her 'liquidated damages' payment on departure. This clause dated from 2010 and although we had referred to it in past Remuneration Reports, it became clear that we had not explained it comprehensively enough. Its existence and the way in which it worked was therefore a surprise to shareholders. We have confirmed that no other Executive Director has had such a clause in their contract and nor would they have in future; and we have overhauled our communications to achieve greater transparency and clarity on remuneration issues.

Shareholders were also concerned that since the salary of the incoming Chief Executive Officer (CEO) was higher than that of the outgoing CEO, this would lead to higher potential total pay. We explained to shareholders in our meetings that our objective had been to keep the fixed pay of the incoming CEO at the same level as the fixed pay of the outgoing CEO; and that our intention had been to adjust targets for bonuses to ensure that the CEO could not get higher bonuses unless exceptional performance was achieved. The proposals in our new Policy, described in outline below and in more detail on pages 123 to 131, follow through on this intention.

Proposed Remuneration Policy

In the course of our meetings and conversations we asked a number of shareholders what changes they would like to see as we prepared to refresh our Policy in accordance with the 2018 UK Corporate Governance Code. The key requests that we heard were a wish for:

- simplification of our annual bonus measures with more weight on the financial metrics;
- a broadening of measures in our Long Term Incentive Plan;
- a reduction in the reward for median performance on the relative Total Shareholder Return (TSR) metric; and
- a rebalancing of our incentive schemes to weight them much more strongly to the long-term.

We have listened to this feedback and have included these features in our proposed Policy.

We have also followed evolving investor attitudes to a number of other remuneration elements. Therefore we are proposing to:

- reduce the cash pension allowance for new Executive Directors to be in line with the employer pension contribution for the majority of the workforce. The rate for the majority of the workforce is currently 15.6 per cent but is likely to change under our proposed Collective Defined Contribution (CDC) arrangements. As mentioned elsewhere in this report, we are working with the CWU to lobby Government to make the necessary legislative and regulatory changes to enable the introduction of CDC pension schemes in the UK;
- reduce the proportion of the short-term bonus that would be payable for achieving target performance;
- maintain the current shareholding requirement at 200 per cent of salary; and
- introduce a post-cessation shareholding requirement for the Executive Directors.

I hope you will agree that the changes to our Policy that we are proposing reflect both the specific and the more general themes heard from shareholders; and that the Policy therefore achieves an

appropriate balance between incentivising Executive Directors and ensuring that variable remuneration will only be payable for high or exceptional company performance that delivers sustainable value to shareholders. Full details are set out in the Policy section of this report.

Financial Performance of the Group and Remuneration Outcomes 2018-19

As discussed elsewhere in the Annual Report and Accounts, this has been a challenging year for Royal Mail. We had many successes: our parcels revenue in the UK grew strongly and GLS also reported good volume gains. We continued to make progress in all our safety metrics, and our employee engagement also improved. However, costs remained a challenge in the UK, and we failed to achieve the productivity targets that we had set ourselves. As a result, our profits did not achieve the gateway level of performance at which bonus would be payable and accordingly no short-term bonus will be paid to our Executive Directors for 2018-19. This outcome also means that there will be no Deferred Share Bonus Plan (DSBP) award for this year. Further details about our performance against the Annual Bonus measures is given on pages 134 to 135.

The 2016 LTIP is due to vest in July 2019, following the conclusion of the performance period at the end of March. This was the first award granted under the current Remuneration Policy, with the single metric of relative TSR compared to the FTSE 100 excluding mining and financial companies. For any portion of the award to vest, median performance was required against this comparator group. As this has not been achieved this award will not vest. Further detail about our performance against the LTIP measure is given on page 135.

As referenced in last year's Report, our Group Chief Executive Officer, Rico Back, had some outstanding LTIP awards arising from his prior role at GLS. Prior to the performance requirements for the two tranches of these awards that relate to 2018-19 being reviewed by the Committee, Rico Back proposed that he should waive these awards due to the fall in the share price over the performance period. The Committee accepted his proposal and thanked the Group Chief Executive Officer for his awareness of the current environment. The resulting outcome for Rico Back is reported in the Single Figure Table for 2018-19 on page 133 with further details on about how the plan operates on page 135.

The Committee has also decided to reduce the 2019 LTIP grant for Executive Directors by 25 per cent due to the fall in the share price during the year (see page 138).

Corporate Governance Changes

In July 2018, substantial changes to the UK Corporate Governance Code were announced, to take effect for accounting periods starting on or after 1 January 2019. In anticipation of these changes, the Remuneration Committee has reviewed its Terms of Reference, has agreed a set of Remuneration Principles that operate across the Group, and also regularly reviews a remuneration dashboard highlighting key statistics across the organisation, which allows the Committee to request further insight into particular areas. We are taking this opportunity to report our CEO pay ratio in this report, ahead of the requirement coming into force next year, in a new section on Executive Remuneration in Context, starting on page 140 where we are also highlighting our Gender Pay Gap report.

Board changes and Implications for Remuneration

A number of Board changes are mentioned elsewhere in the Annual Report and Accounts but I will summarise them here in the context of reporting on the implications for remuneration. Moya Greene stepped down from her position as CEO at the AGM in July 2018 and left the Company in September 2018. As her departure was in the financial year covered by this report, we are obliged to report the payment of the 'liquidated damages' clause that was disclosed in last year's report. You will see this on page 137, with further details on the payment that was made. For the avoidance of doubt, I would like to stress that this is the same payment that was reported in last year's Directors' Remuneration Report.

As we previously announced, Peter Long stepped down from the Board in September 2018. His fee as Chair of the Board ceased on his departure. As reported elsewhere, Les Owen was appointed to the Chair of the Board role, on the same fee level. As Les Owen's tenure was already close to nine years' service on our Board, we initiated a search for a new Chair of the Board, which we have reported elsewhere. I am delighted that Keith Williams agreed to become our Chair of the Board from 22 May 2019. His fee will be £300,000 per annum, which is the same level that Les Owen and Peter Long received.

In November 2018, we announced that Sue Whalley would be leaving the business as a result of a reorganisation

of responsibilities within the UK business. Sue Whalley left on 31 March this year; she will receive her base salary until early November 2019, in line with her contractual entitlement of receiving only her monthly salary in lieu of notice. As detailed at the time, this payment is subject to deductions if she receives any earnings from alternative employment. The Remuneration Committee exercised its discretion to determine that Sue Whalley will remain eligible to receive deferred share bonus awards that have already been granted, and where no subsequent performance conditions apply, as these awards relate to prior performance years and have already been earned. Sue Whalley will therefore retain her deferred share bonus awards that were previously granted and these will continue to vest over the normal schedule. All of Sue Whalley's outstanding LTIP awards lapsed in November 2018.

As explained above, we have worked closely with shareholders this year to explore and resolve the issues that caused such a negative vote at last year's AGM. Our discussions suggested that shareholders' concerns were predominantly over one-off issues that will not be repeated but we are aware that shareholders' trust in us was damaged; we are determined to rebuild that trust. During those discussions, we reiterated our intention to remain responsible in our approach to the pay of Executive Directors, aiming to maintain both fixed pay and potential bonus opportunity at the lower levels of those typically paid in companies of our size and complexity. We believe that the changes in our Policy are consistent with this aim. I am confident that these changes, along with the new metrics, will incentivise our Executives to deliver the transformation required to ensure sustainable shareholder returns and underpin the Universal Service in the UK.

Finally, during our discussions with shareholders, I committed to overhauling the Directors' Remuneration Report to ensure that our key messages and outcomes were far clearer. I hope you will agree that what follows is a step forward in that endeavour. Together with the rest of the Board, I look forward to hearing your views on our remuneration proposals and I will be available to answer any questions you may have at the AGM.

Orna Ni-Chionna
Remuneration Committee Chair
21 May 2019

OUR PROPOSED POLICY

KEY THEMES

Sharper focus on fewer key annual bonus metrics to drive efficiency

We have reduced the number of annual bonus metrics, with financial targets now accounting for 75% of the total.

We have reduced the target bonus to 50% of maximum.

Long-term transformation of the business

We have rebalanced the ratio of our short and long-term incentives with the long-term increasing from 100% to 150% of salary at maximum, and a corresponding decrease in the short-term.

Cash generation to fund investment

Earnings and Group parcels revenue growth have been added as LTIP metrics in line with the Group strategy, to deliver cash for investment.

Alignment of executive and shareholder interests

We have a post-cessation holding period of 200% of salary for two years.

Under the proposals the majority of the pay structure is equity based.

PROPOSED REMUNERATION STRUCTURE

Fixed

29%

Base salary



Aligned externally and reviewed in line with the workforce.

Pension



17.5% of salary, new Executive Directors will be aligned to the rate for the majority of the workforce, currently 15.6% of salary.

Benefits



Market standard benefits package.

Variable

71%

Annual bonus



Target reduced to 50% of maximum (from 67%).

Financially weighted award, maximum reduced from 200% of salary to 150% of salary.

One third of annual bonus deferred into shares for three years.

LTIP



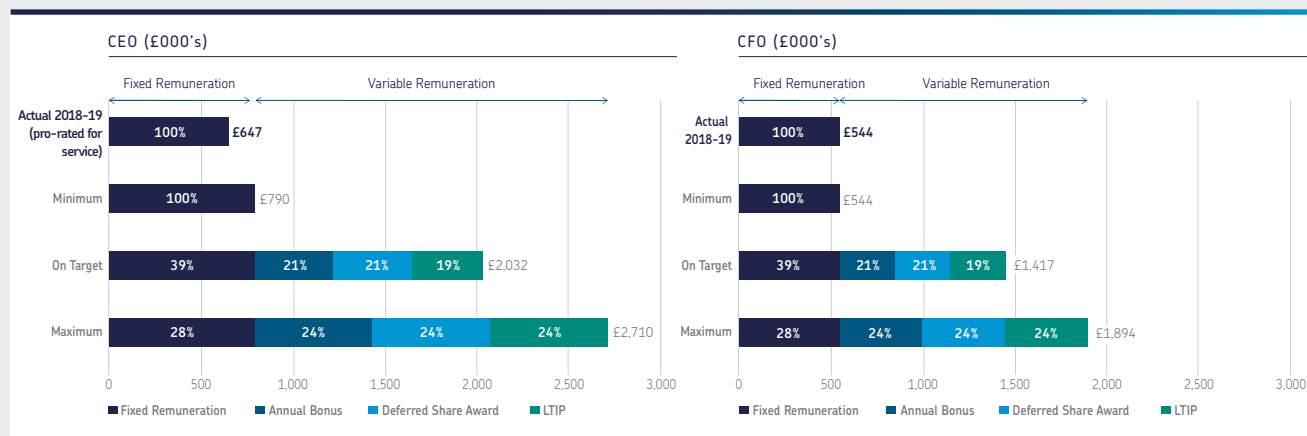
Subject to a three year performance period, maximum award increased to 150% of salary.

Vesting for threshold performance reduced from 50% to 25% for all metrics.

[Read more on our policy – see pages 123 to 131](#)

OUR REMUNERATION IN 2018-19

WHAT OUR DIRECTORS WERE PAID



OUR PERFORMANCE AGAINST KEY METRICS

As profit was below the gateway for 2018-19, despite positive progress against some metrics, no short-term bonus is payable.

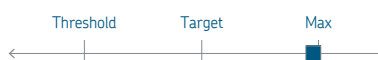
Group Operating Profit Before Transformation Costs (£m)



Composite Safety Index



Employee Engagement



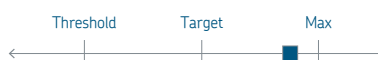
First Class Retail Quality of Service (%)



Mean Business Customer Satisfaction



Composite Premium Parcel Performance (%)



Productivity for Collections, Processing & Delivery (%)



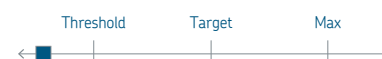
UKPIL Costs (£m)



Group Revenue (£m)



In-year Trading Cash Flow (£m)



☐ Read more on performance against the Corporate Balanced Scorecard on page 134

LTIP

The 2016 LTIP was based on performance against a relative Total Shareholder Return measure. As performance during the three year period was below median, the 2016 LTIP will not vest in July 2019.

TSR vs FTSE 100 (excluding mining and financial companies)



☐ Read more on the 2016 LTIP on page 135

DIRECTORS' REMUNERATION REPORT CONTINUED

HOW WE ENGAGED WITH OUR SHAREHOLDERS

We have worked closely with our shareholders since the disappointing vote against our Remuneration Report at the last AGM. We have taken a number of steps to ensure we understood why they voted against last year's Remuneration Report and their views on the development of our new Remuneration Policy.

In August 2018, we commissioned an independent Investor Perception survey focusing on remuneration and governance. This survey gathered detailed feedback from a number of shareholders to provide the Board with a clear understanding of their views. Between September and December 2018, the then Chair of the Board and the Chair of the Remuneration Committee held meetings with 15 of our larger shareholders. They also met with several proxy voting agencies. During these meetings valuable suggestions in relation to our Remuneration Policy development were received.

We continued to engage with shareholders between January and March 2019 to gain feedback on the evolution of our proposed Remuneration Policy. This included meetings with several shareholders individually, an Investment Association roundtable and a meeting with representatives of our retail shareholders. With this feedback we refined our Remuneration Policy proposals as set out below.

Employee considerations

In developing the proposed Remuneration Policy, the Remuneration Committee has carefully considered the remuneration arrangements across the Group. The Committee receives information on wider workforce demographics and remuneration on a regular basis, to ensure the Committee has a good understanding of the structure and application of reward policies throughout the Group. Additionally, the Committee has agreed a set of Guiding People Principles, against which it can assess the Company's reward arrangements. When making decisions about executive remuneration the Committee ensures, for example, that pay review budgets for senior managers and executives are set at levels which are typically lower or the same

as those agreed with our trade unions for employees whose pay is collectively bargained. In addition, the different incentive and commission schemes in operation across the Group support the delivery of the Company-wide annual bonus plan, through which the Executive Directors are incentivised. The broader workforce has not had direct input into the proposed Policy, but its application is heavily influenced by remuneration arrangements for all employees.

We are strengthening our approach to communicating with our employees in line with the provisions of the 2018 UK Corporate Governance Code. Under our updated approach a designated Non-Executive Director will have direct accountability for listening to employees. In addition to our existing and comprehensive employee engagement activity, we are running two Employee Voice Forum events in the UK per annum. These will be focused on encouraging employees to share their views on broader business topics directly with the Board. Our site visits across GLS will also have more formal opportunities for Board members to meet local teams. An annual report will be presented to the Board on the outcome of local engagement activity in GLS, including with trade unions and works councils.

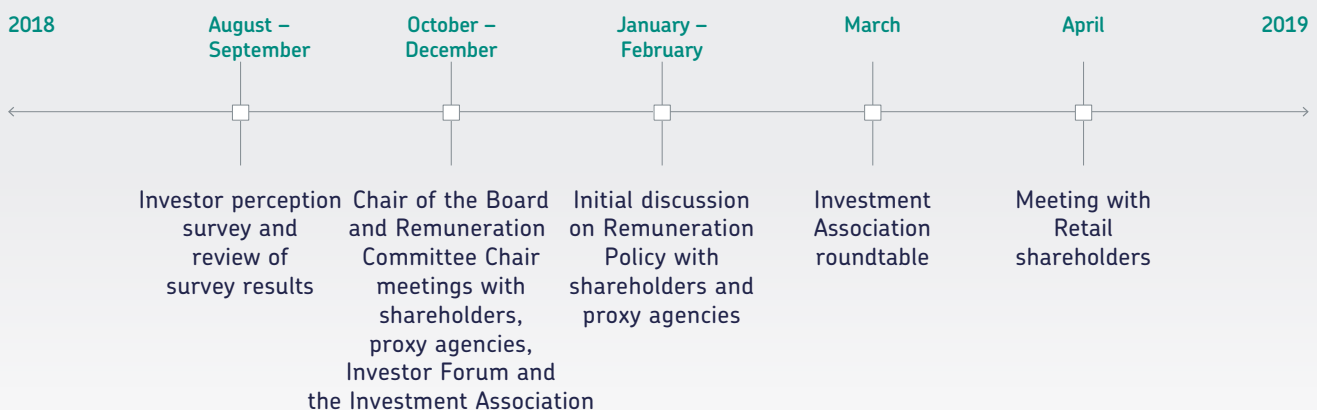
MEETING A RANGE OF SHAREHOLDERS

In March, the Investment Association hosted a roundtable discussion between the Chair of the Remuneration Committee and seven of their members. The purpose of the session was to discuss the proposals for the new Policy and initial thoughts on the metrics to be used in the incentive plans.

In April, Orna Ni-Chionna met with representatives from the UK Shareholders' Association and Sharesoc to hear their views on the proposals being put forward.

The input from all shareholders was extremely useful in understanding how the proposals addressed the concerns previously raised regarding remuneration at Royal Mail.

TIMELINE OF SHAREHOLDER ENGAGEMENT ACTIVITY



FEEDBACK FROM OUR SHAREHOLDERS

A summary of key feedback from shareholders, both in relation to last year's vote, and our proposed Remuneration Policy, is outlined below.

We received clear feedback on two specific issues in last year's Remuneration Report:

What was said	What we have done
Unhappy with the payment to the outgoing CEO comprising salary and bonus, in accordance with the 'liquidated damages' clause in her contract.	- Confirmed that no other Directors have such a clause in their contract and nor will such a clause be written into any future contract. - Reviewed all aspects of our communication approach to improve transparency.
With the higher salary for the new CEO there is a risk that he will earn significantly more than his predecessor for the same level of performance.	- Reaffirmed our commitment to retaining a responsible approach to executive remuneration. - Reflected that commitment in the changes to Policy that we are proposing. - Our CEO's on-target earnings will be lower in our new Policy than under the current Remuneration Policy.

During our discussions, shareholders also commented on elements of our current Remuneration Policy:

What we heard	What we propose
There is too much weighting towards the short-term in the remuneration package.	Rebalancing the maximum total variable pay. Reducing the short-term from 200% of salary to 150% and increasing the long-term from 100% of salary to 150% of salary.
There are too many metrics in the annual bonus, with not enough financial weighting.	We are significantly reducing the number of metrics; and increasing the financial weighting to 75%.
It would be preferable to have more than one metric in the LTIP and for some of those metrics to be within management control.	We are proposing to add further metrics, within management control.
The vesting of the LTIP at 50% for median performance is too high.	We are reducing the vesting for median performance to 25%.

We are also proposing changes to our Policy to reflect wider investor sentiment and changes under the 2018 Code:

What shareholders expect	What we propose
Base salary should only increase in line with the majority of the workforce.	There are no proposed changes to the base salaries for the Executive Directors this year, despite the pay increases for our frontline employees.
The cash pension allowance percentage should be in line with the employer contribution for the majority of the workforce.	- The allowance was reduced to 17.5% three years ago. - For future Executive Directors this will be reduced further to the level of employer pension contribution for the majority of the workforce (currently 15.6% see comment on page 116).
Target bonus should be no more than 50% of maximum.	We are reducing the target bonus from 67% of maximum to 50%.
The shareholding guideline should be a minimum of 200% of base salary.	The shareholding guideline remains at 200% of salary.
A formal policy for post-cessation employment shareholdings.	The new Policy requires 200% of salary to be held in granted shares for two years after leaving.

OUR NEW REMUNERATION POLICY

The Directors' Remuneration Policy set out below is proposed for shareholder approval at the Annual General Meeting to be held on 18 July 2019. Subject to shareholder approval, this Remuneration Policy will take effect from the date of the 2019 AGM. Further information on the decision-making process for the Policy is set out in the 'How we engaged with our shareholders' section (pages 120 to 121) and the 'Advice to the Remuneration Committee' section on page 145.

“
We have engaged extensively with investors to develop a Policy which is aligned with our group strategy and incentivises shareholder returns.
”

Orna Ni-Chionna,
Remuneration Committee Chair

CONTENTS

Overview of changes to the Remuneration Policy	123
Proposed Remuneration Policy – Executive Directors	124 to 130
Fixed Remuneration	124
Variable Remuneration	124 to 125
Shareholding Guideline	125
Alignment with strategy	126 to 127
Remuneration opportunity	128
Remuneration for a new Executive Director	128
Terms of employment	129
What happens when an Executive Director leaves	129 to 130
Policy on Executive Directors holding external positions	130
Proposed Remuneration Policy – Chair and Non-Executive Directors	131
Fee structure	131
Terms of appointment	131

OVERVIEW OF CHANGES TO THE REMUNERATION POLICY

We have worked closely with our shareholders in developing our proposed Remuneration Policy. More information can be found on pages 124 to 131.

Link to strategy**Summary of current Policy****Proposed change and rationale****Base Salary**

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.

Salary levels for the Executive Directors are normally reviewed annually taking into account: the performance of the Company; the performance of the Executive Director; any changes in role and responsibility; assessment against relevant comparator groups and internal relativities. Increases will normally be in line with the wider employee population.

No change.

Benefits

To support the attraction and retention of talented executives by providing a competitive offering.

Benefits currently include company car and health insurance (or cash equivalent), life assurance, health screening and financial advice. Executive Directors are entitled to participate in any SIP or SAYE schemes currently available to employees. Additional benefits may be offered, such as relocation allowances on recruitment.

No change. There is currently no live SAYE scheme. Executive Directors are eligible to participate in the current Partnership and Matching Shares SIP scheme.

Pension

To provide a competitive post-retirement income.

Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension). For Executive Directors hired during the current Policy, pension allowances were reduced to 17.5 per cent of salary. The Committee maintains historical rates of pension allowance for current Executive Directors in line with their contracts.

It is proposed that the pension contribution for any future Executive Directors will be aligned to the employer contribution for the majority of the workforce (currently 15.6 per cent: see comment on page 116).

Annual Bonus

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 200 per cent of salary, split equally between two plans, an annual cash bonus award and a deferred share bonus award. Two thirds earned for target performance.

A minimum of 50 per cent of the scorecard targets shall be financial, with the remainder including robust operational, customer and people KPIs. A minimum level of operating profit must be achieved before any bonus is payable to an Executive Director.

Malus provisions will apply to the deferred share award over the three year vesting period. Clawback will apply to the cash bonus for a period of three years following the bonus determination.

Maximum total annual incentive opportunity reduced to 150 per cent of salary, with target performance earning 50 per cent of maximum. The annual cash bonus award continues to have a weighting of 100 per cent of salary at maximum, with the deferred share element reduced to 50 per cent at maximum.

The number of metrics has been simplified to bring more focus to the key metrics that will drive cost reduction and cash generation, while still maintaining a safe environment and delivering a high quality service to our customers.

More clearly defined malus and clawback provisions.

Long Term Incentive Plan

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 100 per cent of salary. Awards are granted annually to Executive Directors in the form of a conditional share award. These will vest at the end of a three year period subject to:

- the Executive Director's continued employment at the date of vesting; and
- the satisfaction of the performance conditions.

A two year holding period applies after vesting. Malus provisions apply over the performance period. Clawback will apply over the holding period.

Awards made under the 2016 Remuneration Policy were based 100 per cent on relative TSR performance against the FTSE 100 (excluding mining and financial companies).

Maximum award level increased to 150 per cent of salary, alongside an increased number of metrics.

For the first year of operation, the relative TSR measure has been adjusted:

- Revised comparator group of FTSE 50-150 (excluding mining and financial companies).
- Threshold vesting level has been reduced from 50 per cent vesting to 25 per cent vesting for median performance. Upper quartile performance will continue to vest at maximum.

More clearly defined malus and clawback provisions.

Shareholding Guidelines

To ensure alignment between remuneration and long-term shareholder value creation.

Shareholding guideline of 200 per cent of salary.

Added a post-cessation shareholding: 200 per cent of salary to be held in Company granted shares for two years after leaving.

DIRECTORS' REMUNERATION REPORT CONTINUED

PROPOSED REMUNERATION POLICY – 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.

CEO (Rico Back): £640,000 (effective 1 June 2018)

CFO (Stuart Simpson): £450,000 (effective 20 July 2017)

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.

Executive Directors are entitled to participate in any SIP or SAYE schemes currently available to employees.

Pension

Purpose and link to strategy

To provide a competitive post-retirement income.

CEO (Rico Back): 17.5 per cent of salary cash allowance

CFO (Stuart Simpson): 17.5 per cent of salary cash allowance

For newly appointed Executive Directors the pension allowance will be in line with the employer contribution for the majority of the workforce.

Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension).

The Committee maintains historical rates of pension allowance for current Executive Directors in line with their contracts. The rate for the majority of the workforce is currently 15.6 per cent: see comment on page 116.

PROPOSED REMUNERATION POLICY – VARIABLE REMUNERATION

At a glance – Maximum opportunity

Operation

Performance Measures

Annual Bonus

Purpose & Link to Strategy

Designed to reward achievement of key strategic, financial and operational priorities for the year, to deliver strong performance in service of longer-term strategic goals and creation of long-term shareholder value. Part of the total annual incentive opportunity is a deferred share award encouraging a long-term view, providing alignment with shareholders' interests.

Maximum total annual incentive opportunity of 150 per cent of salary, split between two plans: an annual cash bonus award of up to 100 per cent of salary and a deferred share bonus award of up to 50 per cent of salary. 50 per cent earned for target performance.

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 2019-20, 75 per cent of the targets shall be financial, with the remainder being operational KPIs and strategic objectives.

The metrics and the strategic objectives for 2019-20 are shown on page 138.

A minimum level of Group operating profit must be achieved before any bonus is payable to an Executive Director.

The Committee may use its discretion to:

- change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe that the original measures, weightings and targets are no longer appropriate;
- make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.

Long Term Incentive Plan

Purpose and link to strategy

Supports executive recruitment and retention, with an appropriate balance between short-term performance and the creation of long-term, sustainable shareholder value.

Maximum award level of 150 per cent of salary.

Awards are granted annually to Executive Directors in the form of a conditional share award.

These will vest at the end of a three year period subject to:

- the Executive Director's continued employment at the date of vesting; and
- the satisfaction of the performance conditions.

The Committee will normally award dividend equivalents on those shares to the extent that they vest.

Following the vesting, there is a holding period of two years when Executive Directors cannot sell the vested shares other than to pay tax.

Malus provisions apply over the performance period. Clawback will apply over the holding period.

Performance measures and/or weightings reflect the business strategy at the time, and are measured over or at the end of three years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.

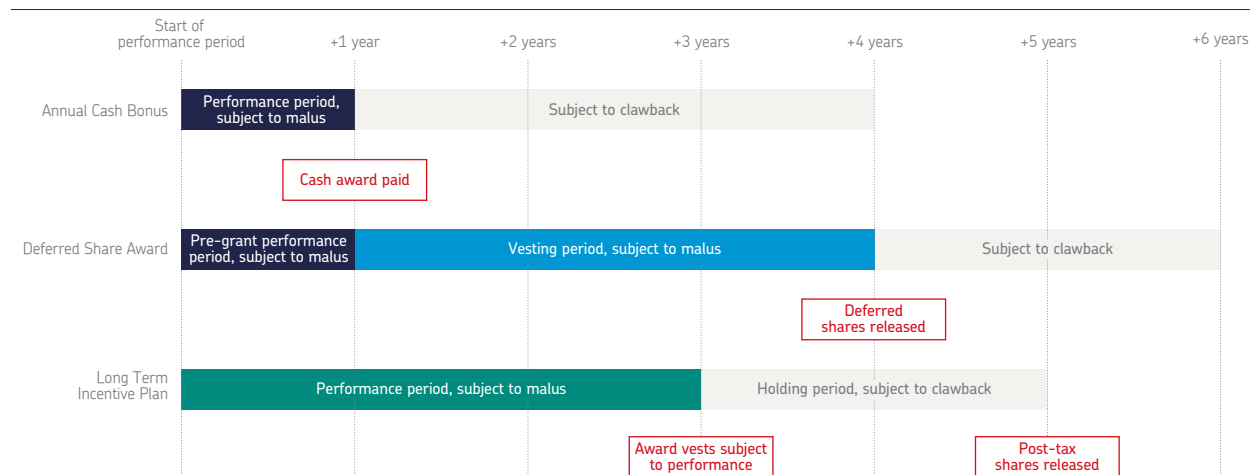
For the 2019 award, 40 per cent of the award will be based on relative TSR against the FTSE 50-150 (excluding mining and financial companies). If the Group's relative TSR performance is ranked at median, 25 per cent of the award will vest, increasing to full vesting if performance is in the top quartile of the group. Additional financial and strategic metrics will be included.

The underlying performance of the business will also be taken into account when determining the vesting.

More information on the metrics is included on page 138.

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.

The periods over which malus and clawback apply under our proposed Policy



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.

PROPOSED REMUNERATION POLICY – SHAREHOLDING GUIDELINE

At a glance

Operation

Shareholding Guidelines – during employment

Purpose and link to strategy

To ensure alignment between remuneration and long-term shareholder value creation.

Shareholding guideline of 200 per cent of salary.

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 per cent 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 Deferred Share Bonus Plan award that are yet to vest, based on a net calculation) and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200 per cent of salary guideline at the point of departure they will be required to hold any shares granted under executive share schemes for two years. The post cessation shareholding requirement will be included in Settlement Agreements for Executive Directors on leaving the business.

ALIGNMENT WITH STRATEGY

Our new Remuneration Policy is designed to support the delivery of our ambition to build a parcels-led, more balanced, more diversified global business, by:

- bringing sharper focus on a smaller number of critical measures required to drive efficiency;
- increasing sustainable sources of cash generation to fund investment;
- placing more emphasis on the long-term transformation of the business; and
- continuing to align executive and shareholder interests.

The incentive scheme metrics determined in our proposed Remuneration Policy support the delivery of our strategic priorities as shown below.

OUR STRATEGIC PRIORITIES				
	 'Turnaround and grow' the UK Invest in productivity, network and customer initiatives to ensure a sustainable Universal Service Obligation (USO) Become a parcels-led business; letters remain important	 'Scale up and grow' GLS Targeting above market revenue growth Selective acquisitions with continued focus on organic growth	 Enhancing our cross-border proposition Offer a global proposition in cross-border parcels Grow our share of UK export market	
Incentive Scheme Metrics				
Group operating profit	✓	✓	✓	ANNUAL BONUS
UKPIL costs	✓		✓	
Group revenue	✓	✓	✓	
First Class Quality of Service	✓			
Reduction in Lost Time Accident Frequency Rate	✓			
Strategic objectives	✓	✓	✓	
Relative TSR	✓	✓	✓	LTIP
Group EBITDA	✓	✓	✓	
Group Parcels revenue growth	✓	✓	✓	

PROPOSED ANNUAL BONUS METRICS FOR 2019-20

Definition	Rationale for inclusion	Weighting
Group operating profit	Key to driving longer-term cash flow, so needs to be delivered on a year-on-year basis. A gateway level of performance must be achieved against this metric for any award under the Annual Bonus.	30%
UKPIL costs	To improve efficiency and drive operating costs to a lower rate (as a function of volume).	25%
Group revenue	To incentivise revenue growth, particularly in parcels in the UK and across the GLS countries of operation.	20%
First Class Quality of Service	A regulated measure that ensures we keep focused on the customer – and that cost containment does not impact our service levels.	7.5%
Reduction in Lost Time Accident Frequency Rate	Safety is a key metric to target a continually improving safety culture for our employees, customers and communities.	7.5%
Strategic objectives	Measures annual progress towards achieving our long-term outcomes.	10%

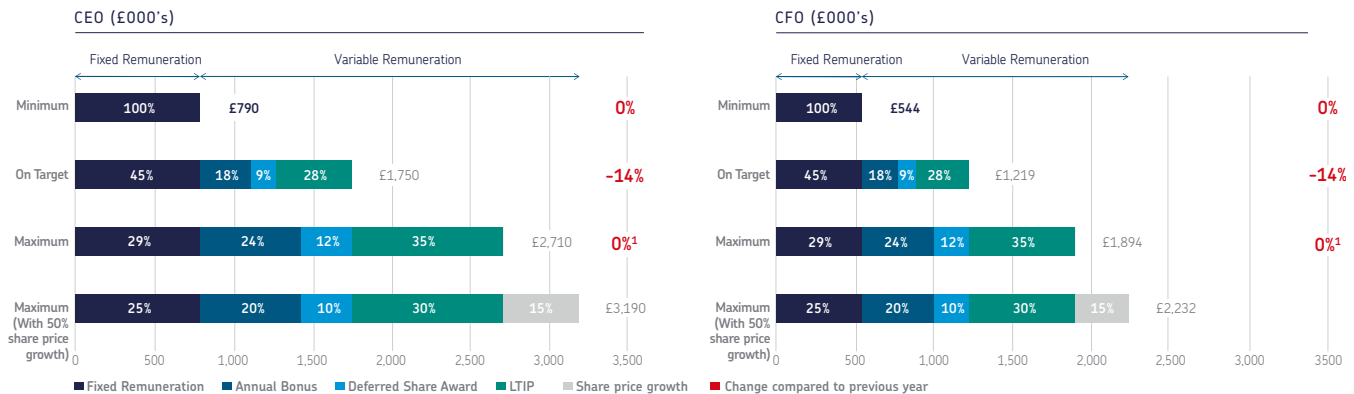
PROPOSED LTIP METRICS FOR 2019

Definition	Rationale for inclusion	Weighting
Relative TSR Compared to the FTSE 50-150 excluding mining and financials	Measures the success of the delivery of the strategy and alignment to shareholder outcomes.	40%
Group EBITDA	Critical to drive earnings to deliver investment over the next three to five years.	40%
Group Parcels revenue growth	Growing parcels revenue is the core of the Group strategy.	20%

DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION OPPORTUNITY UNDER THE PROPOSED POLICY

The following charts set out the remuneration scenarios under the Policy for the Executive Directors in 2019-20. Under the 2018 amendments to the Regulations, any new Remuneration Policy brought forward from 1 January 2019 must include an indication of the maximum remuneration receivable assuming company share price appreciation of 50 per cent during the relevant performance period for Long Term Incentive Plans. This has therefore been included below. It should be noted that there is no change to the maximum remuneration receivable for the Executive Directors, compared to the previous Policy scenarios (set out on page 119) but there has been a reduction in the remuneration at target.



Assumptions

Minimum/fixed remuneration: This includes salary (CEO: £640,000, CFO: £450,000), pension allowance at 17.5 per cent of salary (CEO: £112,000, CFO: £78,750) and maximum benefits value (CEO: £38,000, CFO: £15,000).

On target: Bonus: Target is 50 per cent of maximum for both the cash bonus and deferred share award. LTIP: The expected value is taken as 50 per cent of the maximum.

Maximum: Bonus: The maximum bonus is 150 per cent of salary, 100 per cent in cash, and 50 per cent in deferred shares. LTIP: The maximum LTIP under the proposed Policy is 150 per cent of salary. **For 2019 awards, this will be reduced on a one-off basis by 25 per cent due to the fall in share price during the year (see page 138).**

Maximum with 50 per cent share price appreciation: LTIP: A 50 per cent share price growth assumption over three years has been shown. The basis of the share price appreciation calculation is that the share price embedded in the calculation for the 'maximum' bar chart is assumed to increase by 50 per cent across the performance period.

Dividend equivalents have not been estimated for the deferred share award or LTIP under any of the above scenarios.

Remuneration for a new Executive Director

The following table sets out the remuneration arrangements for a new Executive Director:

Element	Policy
Base salary	Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. In particular, they will take account of the appointee's skills and experience as well as the scope and market rate for the role.
Benefits	Benefits consistent with those offered to other Executive Directors under the approved Remuneration Policy in force at the time of appointment will be offered, including the discretion to offer additional benefits such as relocation allowance on recruitment.
Pension allowance	The pension allowance paid to any newly appointed Executive Director will be aligned to the wider workforce pension arrangements as outlined in the proposed 2019 Remuneration Policy.
Incentives	Incentive arrangements for new Executive Directors will be in accordance with the approved Remuneration Policy in force at the time of appointment. Under the proposed 2019 Remuneration Policy: – maximum total annual incentive opportunity award in any year would be 150 per cent of salary, split between cash and shares (100 per cent and 50 per cent respectively) – maximum LTIP award would be 150 per cent of salary (with the ability to offer up to 300 per cent of salary for the year of recruitment). For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be forfeited on recruitment. Any such arrangements would reflect the type of award (for example, cash or shares); time horizons; and levels of conditionality of the remuneration foregone. In order to facilitate buy-out arrangements, existing incentive schemes will be used to the extent possible, and the Committee will retain discretion on the application of holding periods, performance conditions and performance periods. For an internally appointed Executive Director, any outstanding variable pay element, such as an LTIP awarded in respect of the prior role, will continue on its original terms.

The Committee always seeks to use its judgement to ensure that any remuneration package is set such that the Company is able to attract the right calibre of individual required, whilst maintaining a responsible attitude to executive compensation.

Executive Director terms of employment

The Executive Directors are employed under service contracts. The dates of these contracts are:

	Date of Contract	Notice Period From RMG (months)
Rico Back	20 April 2018	12
Stuart Simpson	15 May 2017	12

The contracts have an indefinite term that may be terminated by the Executive Directors with six months' written notice. The Company can terminate contracts with twelve months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

What happens when an Executive Director leaves

Element	Policy
Payment in Lieu of Notice	Under current Executive Director service contracts, and the policy for future hires, the Company may terminate the contract by making a payment in lieu of any unexpired notice period. The payment in lieu of notice is limited to a maximum of 12 months' base salary. Service contracts for Executive Directors expressly provide for the use of monthly phased payments in the event of a payment in lieu of notice with a reduction in amounts paid if the executive obtains alternative paid employment.
Other Payments	Payment in lieu of accrued holiday, incidental expenses, outplacement services and payments relating to post-termination restrictions may be paid/provided for as appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice) would be paid as the Committee considers necessary.
Post-Cessation Shareholding	Executive Directors will be required to maintain their shareholding guideline for two years. The number of shares to be held will be based on the shares granted under executive share schemes only and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200 per cent of salary guideline at the point of departure, they will be required to hold any shares, granted under executive shares schemes for two years.

The following table sets out the position under the incentive plans on cessation of employment:

	Good Leaver Reason ¹	Other Reasons ²	Committee Discretion
Annual Bonus: Cash Awards	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated.	No bonus payable for year of cessation.	– to determine that an executive is a good leaver and – to determine whether to pro-rate the bonus to time. The normal policy is that bonus will be pro-rated provided that where any discretion is exercised there is an appropriate business case which will be explained to shareholders.
Annual Bonus: Deferred Share Awards	All subsisting deferred share awards will normally vest on the normal vesting date.	Lapse of any unvested deferred share awards.	– to determine that an executive is a good leaver – to vest deferred shares at the date of cessation of employment – to determine whether to pro-rate the award to time. The normal policy for existing awards is that they will not be pro-rated; provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders – In respect of the year of cessation, discretion may be exercised to provide a pro-rated deferred share award based on achievement of performance conditions as measured at the bonus measurement date.

DIRECTORS' REMUNERATION REPORT CONTINUED

	Good Leaver Reason ¹	Other Reasons ²	Committee Discretion
LTIP	Pro-rated to time and performance in respect of each LTIP award. Awards will vest on the normal vesting date and the holding period will apply, except in the case of death when awards will vest on date of cessation of employment (and no holding period will apply).	Lapse of any unvested LTIP awards.	– to determine that an executive is a good leaver – to measure performance over the original performance period or at the date of cessation of employment – to vest the shares on date of cessation of employment – to determine whether to pro-rate the award to time. The normal policy is that awards will be pro-rated; and – to disapply the holding period provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders.

¹ A good leaver reason is defined as cessation in the following circumstances: death; injury, ill health or disability, as established to the satisfaction of the Committee; redundancy with the agreement of the Committee; retirement with the agreement of the Committee; the company employing the executive ceasing to be a member of the Group; the business or part of the business to which the executive's office or employment relates being transferred to a person who is not a member of the Group; or any other reason where the Committee in its discretion so permits.

² Cessation of employment in circumstances other than those set out above is cessation for other reasons.

What happens in case of a takeover

The Committee's Policy on the vesting of incentives on a change of control is summarised below:

	Takeover	Committee Discretion
Annual Bonus: Cash Awards	Pro-rated to time and performance to the date of the takeover.	The Committee's normal policy is that it will pro-rate the bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.
Annual Bonus: Deferred Share Awards	Subsisting deferred share awards may vest on a takeover.	The Committee has discretion regarding whether to pro-rate the award to time. The Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the takeover.
LTIP	Subsisting LTIP awards may vest on a takeover, pro-rated to time and performance.	The Committee will determine the proportion of the LTIP award which vests taking into account, among other factors, the period of time the LTIP award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time.

In the event of a demerger, the Committee has wide flexibility as to what should happen to awards, including whether all or part of an award should vest and on what terms, or whether an award should continue on amended terms.

Policy on Executive Directors holding external positions

It is the Company's policy to allow each 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 are disclosed in the Remuneration Report.

PROPOSED REMUNERATION POLICY FOR CHAIR OF THE BOARD AND NON-EXECUTIVE DIRECTORS

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 for 2019 are as follows:

Non-Executive Director Fees

Chair of the Board*	£300,000	
Base Fee	£50,000	
Senior Independent Director	£10,000	
Committee Fees	Chair	Membership
Audit and Risk Committee	£15,000	£6,000
Remuneration Committee	£15,000	£6,000
Nomination Committee	£0	£4,000

* The Chair of the Board is not eligible for additional fees for being Chair or a member of Committees. Chairs of Committees are not eligible for additional membership fees for that Committee.

The fees for Non-Executive Directors and the Chair of the Board are set at broadly the median of the comparator group. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. In general, the level of fee increase for the Non-Executive Directors and the Chair of the Board will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.

The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chair of the Board and may settle any tax incurred in relation to these. Non-Executive Directors and the Chair of the Board do not participate in any variable remuneration or benefits arrangements.

Change from current Policy and rationale

The Board has reviewed the structure and level of fees for Non-Executive Directors against the external market, and is proposing to introduce formal membership fees for Committees. This will reflect more closely the time and commitment demands imposed by membership of the Committees. As a result, the base fee has been realigned to the previous level of £50,000. There has been no change to the fees for the Chair of the Board, Senior Independent Director, or Chair of the Committees.

Chair of the Board and NEDs terms of appointment

The Non-Executive Directors (including the Chair of the Board) are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and reappointment. The fees for new Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment.

One month's notice is required by either party (four months' notice in the case of the Chair of the Board). The dates of the Chair of the Board's and Non-Executive Directors' letters of appointment are set out in the following table:

	Date of Contract	Unexpired Term at 31 March 2019 (months)
Les Owen	19 September 2018	12
Rita Griffin	1 December 2016	8
Orna Ni-Chionna	20 September 2016	6
Simon Thompson	1 November 2017	19
Keith Williams	22 March 2019	40

As of January 2019, Les Owen reached nine years as a Non-Executive Director of the Royal Mail Group. Keith Williams has now been appointed as his successor and became Chair of the Board on 22 May 2019. On that date, Les Owen stepped down from the Board.

2018-19 REMUNERATION REPORT

CONTENTS

Single Figure Table and supporting information	133 to 135
Single Figure Table – Executive Directors	133
Single Figure Table – Non-Executive Directors	134
2018-19 Base Salary Changes	134
Outcome of 2018-19 Annual Bonus	134 to 135
Outcome of 2016 Long Term Incentive Plan	135
Other Remuneration Elements	136 to 139
Outstanding Share Awards	136
Shareholding Levels	137
Payments for Loss of Office	137
Payments to Past Directors	137
Payments from External Positions	137
Policy implementation in 2019-20	138 to 139
Executive Remuneration in Context	140 to 144
Wider workforce remuneration	140
Overall spend on pay	141
CEO pay ratios	141 to 142
Change in CEO pay vs average employee pay	142
CEO pay over the last 10 years	143
TSR comparison	143
Gender pay gap	144
Remuneration Committee	145
Membership	145
Role of the Remuneration Committee	145
Advice to the Remuneration Committee	145
Remuneration Committee Evaluation	145
Voting by Shareholders	145

SINGLE FIGURE TABLE (AUDITED)

This part of the Directors' Remuneration Report sets out how the current Remuneration Policy has been applied for the financial year 2018-19. This detailed information, set out below, has been audited by the Company's independent auditors, KPMG LLP.

Executive Directors

	Salary/ Fees		Benefits ¹		Annual Bonus Plan ²		Long Term Incentive Plan ^{3,4}		Pension Allowance ⁵		Other		Total	
£'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Rico Back ⁶	533	–	21	–	0	–	0	–	93	–	0	–	647	–
Stuart Simpson	450	315	15	11	0	432	0	107	79	55	0	0	544	920
Moya Greene ⁷	164	548	11	29	0	774	0	239	60	200	0	0	235	1,790
Sue Whalley ⁸	197	–	7	–	0	–	0	–	34	–	0	–	238	–
Matthew Lester ⁹	–	158	–	6	–	0	–	0	–	63	–	0	–	227
Total	1,344	1,021	54	46	0	1,206	0	346	266	318	0	0	1,664	2,937

Notes

- There has been no change to the contractual benefits entitlement, which includes medical insurance and car allowance. Moya Greene was entitled to two return flights to Canada, and she made use of one of these during the 2018-19 year. She had not used this benefit during the 2017-18 year.
- Bonuses are determined based on the salary as at 1 January 2019 in line with the Company's policy for all staff. 50 per cent of the annual bonus plan is granted as a deferred share award at the end of the annual performance period. This award is subject to continued employment over a three year vesting period. There are no bonus payments or deferred share awards in relation to the 2018-19 year.
- The 2016 RMG LTIP did not vest, as the threshold performance level over the period to 31 March 2019 was not achieved, and has lapsed in full. The figure shown for Rico Back relates to grants under the GLS LTIP with performance periods ending in 2018-19, which he has waived. Further information is shown on page 135.
- The 2018 figures relate to the vesting of the 2015 LTIP award. This amount has been updated since the 2018 report, as the 2015 LTIP vested after the publication of the Report, which showed the estimated vesting. The share price used to estimate the value on vesting was £5.29 based on the closing share price on 23 March 2018. The actual share price on vesting was £4.57. The combination of the actual share price, and the application of dividend equivalents (as set out in the Policy) led to a decrease in the value of the LTIP vesting for Moya Greene of £7,000 and for Stuart Simpson of £3,000 from that set out in the 2017-18 Directors' Remuneration Report.
- For 2019, the full amount for Rico Back is paid as an allowance. For Stuart Simpson, £10,000 is paid into the Royal Mail Defined Contribution Plan and the remaining £68,750 is paid as an allowance. For Moya Greene, £3,000 was paid into the Royal Mail Defined Contribution Plan and the remaining £57,000 was paid as an allowance (amounts reflect her service as an Executive Director). For Sue Whalley, the full amount was paid as an allowance.
- Rico Back joined the Board on 1 June 2018, and all amounts for 2018-19 above reflect his service as an Executive Director.
- Moya Greene stepped down from the Board on 19 July 2018, and all amounts for 2018-19 above reflect her service as an Executive Director.
- Sue Whalley was a member of the Board between 1 June 2018 and 7 November 2018 and all amounts for 2018-19 above reflect her services as an Executive Director.
- Matthew Lester left Royal Mail on 31 July 2017.

DIRECTORS' REMUNERATION REPORT CONTINUED

Non-Executive Directors

£'000	Fees ⁵		Other		Total	
	2019	2018	2019	2018	2019	2018
Chair of the Board						
Peter Long ¹	141	300	0	0	141	300
Les Owen ²	195	67	0	0	195	67
Non-Executive Directors						
Rita Griffin	66	57	0	0	66	57
Cath Keers	–	51	–	0	–	51
Paul Murray ³	24	73	0	0	24	73
Orna Ni-Chionna	81	81	0	0	81	81
Simon Thompson	63	23	0	0	63	23
Keith Williams ⁴	66	14	0	0	66	14
Total	636	666	0	0	636	666

Notes

- 1 Peter Long stepped down as Chair of the Board on 19 September 2018. He received no pay in lieu of notice.
- 2 Les Owen was appointed as Chair of the Board on 19 September 2018. His 2018-19 remuneration is pro-rated for his period as a Non-Executive Director and his period as Chair of the Board.
- 3 Paul Murray stepped down from the Board on 19 July 2018.
- 4 Keith Williams was appointed as Deputy Chair of the Board on 7 November 2018. He received no additional fees for this role.
- 5 As stated in the 2018 DRR, 2018-19 base fees were adjusted to take account of the time commitment required by each NED during the year. Due to the smaller number of NEDs for 2018-19, the overall cost has reduced, while some NEDs have seen an increase in their individual fees due to taking on broader responsibilities. The introduction of Committee membership fees is proposed under the new Remuneration Policy to simplify the fee structure.

Change to base salaries

The Committee has reviewed the salaries of our Executive Directors and decided not to make any increases during the 2018-19 financial year. Rico Back's salary was set on his appointment as CEO effective 1 June 2018. Stuart Simpson's salary was set on his appointment to the role of CFO.

Over the last five years, our frontline employees have received increases of a total of 12.4 per cent of salary, including an increase of five per cent effective 1 October 2017. This was followed by a reduction in frontline employees' contractual working hours by one hour per week effective 1 October 2018 with no change in pay. A further increase of two per cent has since been implemented, effective 1 April 2019.

Annual cash bonus outcome

The performance period for the Annual Cash Bonus is the same as the financial year, with achievement being assessed against a range of financial and non-financial targets, as set out in the Corporate Balanced Scorecard, and against a set of strategic objectives. The maximum cash bonus opportunity for the CEO and CFO was 100 per cent of salary.

As the profit gateway has not been met, under the rules of the Annual Cash Bonus plan no bonus is payable to the Executive Directors for the 2018-19 financial year.

Performance against the Corporate Scorecard makes up 80 per cent of the bonus for Executive Directors. The table below contains a summary of the performance metrics and achievement against these for the 2018-19 year.

Corporate Balanced Scorecard

Measure	Weighting	Threshold	Target	Maximum	Actual	Outcome as % of Target
Composite Safety Index						
Audit Compliance	4%	70.0	74.9	78.4	76.2	4.7%
Lost Time Accident Frequency Rate reduction	3%	2.0	7.0	12.0	9.2	3.7%
Road Traffic Collision per 1000 vehicles reduction	3%	2.0	7.0	12.0	5.3	2.5%
Employee Engagement	10%	58	59	60	60	15.0%
First Class Retail Quality of Service (%)	10%	N/A	93.0	93.2	91.8	0.0%
Mean Business Customer Satisfaction	10%	77.5	78.0	78.5	77.7	7.0%
Composite Premium Parcel Performance	10%	96.5	97.0	97.5	97.3	13.0%
Productivity for Collections, Processing & Delivery (%)	10%	2.2	3.0	3.2	0.9	0.0%
UKPIL Costs (£m)	10%	(7,509)	(7,362)	(7,215)	(7,365)	9.9%
Group Revenue (£m)	10%	10,288	10,606	10,924	10,481	8.0%
Group Operating Profit Before Transformation Costs (£m)	10%	559	659	759	536	0.0%
In-year Trading Cash Flow (£m)	10%	246	296	346	117	0.0%
Scorecard Achievement (as % of target)	100%					63.8%

Financial targets and actuals are based on reported results subject to adjustments approved by the Remuneration Committee. Bonus targets and results are based on a 53-week basis, in line with audited outcomes. Group revenue and Group operating profit before transformation costs are adjusted for foreign exchange movements.

The remaining 20 per cent of the bonus for Executive Directors is based on achievement against the strategic objectives set by the Board:

2018-19 Objective	Progress
Embed the new UK Post and Parcel system, by driving value from letters, investing in network development, implementing the deal with the CWU and progressing the Collective Defined Contribution (CDC) pension arrangement.	Specific business customers were targeted to encourage them to send more mail and use letters in new and innovative ways, delivering a positive return on investment. The proportion of barcoded letters continued to increase, helping the business to reduce costs through automation and simplification of processes. Both parcels volume and revenue growth were above budget, with significant increases in the volume of Tracked 24®, Tracked 48® and Enhanced Tracked Returns®. Following the strategic review of the UK business, a major transformation plan will be defined for the next five years. This will deliver a meaningful reduction in the unit cost of handling small and larger parcels. As part of the UK strategic review, we commissioned an assessment of the productivity and efficiency opportunities of the CWU deal. It found that, while the overall direction is right, the initiatives so far designed to fund it were not in themselves enough to do so, nor were they at the appropriate state of readiness. There is a need for a major shift in focus and pace – hence our UK ‘turnaround and grow’ plan. Significant progress has been made on the development of the CDC pension arrangement. The Department for Work and Pensions has held a public consultation on the implementation of such plans, with the Government confirming its intention to legislate as soon as possible using the proposed Royal Mail scheme as its benchmark.
Accelerate the expansion of our international business while avoiding undue risk.	GLS delivered a good performance. Revenue was up and we saw strong, double-digit revenue growth in all developing/emerging European markets. Organic revenue growth, i.e. excluding acquisitions, across the GLS companies was 8 per cent. The selective franchisee acquisition strategy has continued in Europe, with the acquisition of Trento in Italy. In Canada, the acquisition of Dicom was completed, with performance in line with our expectations in the seven month period to 31 March 2019. GLS US existing businesses (GSO/PEX) are being changed to a subcontractor operating model, to provide a platform for scalable future growth, but the expected synergies and benefits will now take longer to be realised.
Focus the Head Office functions to support the delivery of our strategy and business results, by simplifying processes and implementing transformational programmes.	A review of our organisational structure and management roles was completed, without material risk to the Group, delivering cash savings. Value has been created by simplifying and standardising business processes and increasing automation. A process simplification and automation programme has been deployed across many corporate functions which will continue to drive simplicity and efficiency.

Due to the profit gateway of the Corporate Balanced Scorecard not being met, despite the positive progress against some aspects of the strategic objectives, in line with the rules of the plan no cash bonus is payable. The Remuneration Committee chose not to exercise discretion on the outcome of this incentive plan.

In line with the Remuneration Policy, the performance outturn against the Annual Cash Bonus plan determines the value of the deferred share award to be granted to the Executive Directors. There will therefore be no deferred share award made to the Executive Directors in relation to the 2018-19 financial year.

2016 LTIP outcome

The 2016 LTIP was based on performance against a relative Total Shareholder Return (TSR) measure, with a performance period from 1 April 2016 to 31 March 2019, as set out below:

Measure	Weighting	Performance	Threshold	Maximum	Achievement
TSR vs FTSE 100	100%	Performance	Median	Top Quartile	Below Median
(excluding mining and financial companies)		Vesting	50%	100%	0%

The Remuneration Committee agreed that the performance of the 2016 LTIP was in line with the wider performance of the business and therefore chose not to exercise discretion on the outcome of this plan. Due to the above performance, the 2016 LTIP will not vest in July 2019. There is therefore no element attributable to share price appreciation.

GLS LTIP

As disclosed in the 2017-18 Directors' Remuneration Report, the grants made to Rico Back under the GLS LTIP prior to his appointment as CEO will continue to vest on their normal schedule. Rico Back has received annual grants under the GLS LTIP with the final grant being made in 2017. From 2018, Rico Back has been eligible for the Royal Mail LTIP, and did not receive any further grants under the GLS plan.

Under the GLS LTIP, participants receive a maximum award of 98 per cent of salary, 40 per cent in shares and 60 per cent in cash. The performance conditions are based on GLS profit performance. A separate target is set for each of the three financial years of the vesting period: 25 per cent of the award is based on achievement in year one; with 37.5 per cent based on achievement in year two, and three respectively. Performance is assessed annually and banked, ahead of vesting at the end of the three year period.

The Single Figure Table (on page 133) shows the legacy GLS LTIP awards with performance periods ending in the 2018-19 year. Prior to the performance requirements for the two tranches of these awards being reviewed by the Committee, Rico Back proposed that he should waive these awards, for the performance year 2018-19, due to the fall in the share price during that performance period. The Committee accepted his proposal and therefore Rico Back will not receive any payment or shares for the third tranche of the 2016 LTIP and the second tranche of the 2017 LTIP.

The single figure table in next year's Annual Report will include the third and final tranche of Rico Back's 2017 GLS LTIP award.

DIRECTORS' REMUNERATION REPORT CONTINUED

OTHER REMUNERATION ELEMENTS

Outstanding LTIP awards (audited)

The grants made under the 2017 RMG LTIP and 2018 RMG LTIP remain outstanding at 31 March 2019. The performance conditions for both LTIPs are:

Measure	Weighting	Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
TSR vs FTSE 100 (excluding mining and financial companies)	100%	Median	50%	Top Quartile	100%

Additionally, Rico Back is eligible for the 2017 GLS LTIP. Participants in this plan received a maximum award of 98 per cent of salary, 40 per cent in shares and 60 per cent in cash. The number of shares shown below for Rico Back (53,154) therefore represents 40 per cent of the total award.

The amount of the LTIP awards outstanding for each of the Executive Directors is shown in the following table, as at 31 March 2019. This excludes the 2016 LTIP which lapsed in full in May 2019:

Executive Director	Year	Type	Max value of award at grant (% of salary)	Max value of award at grant (£'000)	% vesting at threshold performance (% of salary)	Final year of performance period	Number of shares at grant
Rico Back	2017	GLS LTIP (shares and cash)	98%	525	42%	2019-20	53,154
	2018	RMG (LTIP shares)	100%	640	50%	2020-21	140,052
Stuart Simpson	2017	RMG (LTIP shares)	100%	450	50%	2019-20	113,857
	2018	RMG (LTIP shares)	100%	450	50%	2020-21	98,474
Moya Greene	2017	RMG (LTIP shares)	100%	548	50%	2019-20	138,602

The 2017 LTIP award was granted on 28th July 2017 at a price of £3.95 per share. The 2018 LTIP award was granted on 9 August 2018 at a price of £4.57 per share.

Moya Greene has an outstanding award under the 2017 LTIP which is shown in full in the table above. As disclosed in last year's Remuneration Report, this award was pro-rated to reflect her service during the performance period to a maximum of 65,450 shares.

As disclosed in November 2018, under the terms of Sue Whalley's departure from the Company, all outstanding share awards under the LTIP have lapsed.

Shareholding levels (audited)

The table below sets out details of the shareholdings of the Executive and Non-Executive Directors as at 31 March 2019. There has been no change in the Directors' interests in the ordinary share capital of the Company between 31 March 2019 and 21 May 2019 except as noted in 5 below.

	Shareholding guideline	Number of shares owned on 31/03/19 ¹	Number of shares owned on 25/03/18	Value of shares owned on 31/03/19 ²	Value of shares owned on 31/03/19 (as % of salary)	Value of conditional share awards not subject to performance (DSBP) ³	Conditional share awards subject to performance (LTIP 2017, 2018)
Chair of the Board							
Peter Long	–	100,000	100,000	£474,100	–	–	–
Les Owen ⁴	–	81,058	3,030	£193,161	–	–	–
Executive Directors							
Rico Back	200%	613,528	–	£1,462,037	228%	£264,600	193,206
Stuart Simpson ⁵	200%	88,400	25,936	£210,657	47%	£430,490	212,331
Moya Greene	–	124,984	72,163	£585,675	–	£439,883	65,450
Sue Whalley	–	105,981	–	£368,814	–	£416,294	–
Non-Executive Directors							
Rita Griffin	–	0	0	£0	–	–	–
Paul Murray	–	15,943	15,943	£74,709	–	–	–
Orna Ni-Chionna	–	14,851	13,953	£35,390	–	–	–
Simon Thompson	–	0	0	£0	–	–	–
Keith Williams	–	0	0	£0	–	–	–

- 1 For Directors who have stepped down from the Board, the number of shares owned is shown as at the date they stepped down. For Peter Long, this is 19 September 2018. For Moya Greene, this is 19 July 2018. For Sue Whalley, this is 7 November 2018. For Paul Murray, this is 19 July 2018. Number of shares owned includes unvested deferred shares on a net basis, as well as vested LTIP shares (including those subject to a holding period).
- 2 Value of shares owned based on the closing share price as at 29 March 2019, or the date the Director stepped down from the Board if earlier. Value of shares owned includes unvested deferred shares on a net basis, as well as vested LTIP shares (including those subject to a holding period).
- 3 Includes the DSBP granted in respect of the 2016-17 Annual Bonus and the 2017-18 Annual Bonus, with value based on share price at the time of grant.
- 4 Les Owen's shares are owned by a connected person.
- 5 Between the end of the financial year and 21 May 2019, Stuart Simpson acquired a further 81 shares through the Partnership and Matching Share Scheme.

Payments for loss of office (audited)

Sue Whalley stepped down from the Board on 7 November 2018 and left the Company on 31 March 2019. She continued to receive full pay and benefits during this period. In line with her contractual entitlements she will also receive payments in lieu of approximately seven months' basic salary, in monthly instalments over the remainder of what would have been her 12 month notice period. There is a requirement for Sue Whalley to immediately disclose any payment received from alternative employment. Her phased payments in lieu of notice will be reduced by any earnings from alternative employment.

The Committee exercised its discretion to determine that Sue Whalley will remain eligible to receive deferred share bonus awards that have already been granted and where no subsequent performance conditions apply as these awards relate to prior performance years and have already been earned. The awards were 48,302 shares under the 2017 grant and 40,101 shares under the 2018 grant. These awards will continue to vest according to the normal schedule. The Committee determined that she would not be eligible for any awards relating to the 2018-19 or future performance years, and she was therefore not eligible for any annual bonus award for the 2018-19 financial year, and all outstanding share awards under the LTIP have lapsed.

As was disclosed in full in last year's Remuneration Report, Moya Greene received a total payment of £914,800 for loss of office on her termination in September 2018 comprising: 12 months' base

salary (£547,800) and 12 months' cash bonus based on the target bonus level (£367,000). These payments were made under the terms of Moya Greene's employment contract, which was approved by Government in 2010 when Royal Mail was in State ownership. The provisions of this contract are not replicated in the terms of the employment contracts of any other Executive Directors.

Payments to past Directors (audited)

For her period of service after stepping down from the Board on 19 July 2018, Moya Greene received salary of £86,735 and benefits and pension of £5,796 and £31,667, respectively. As disclosed in the Annual Cash Bonus section on pages 134 to 135, no bonus is payable to Executive Directors in relation to the 2018-19 financial year and there is no vesting under the 2016 LTIP.

As disclosed above in the Payments for Loss of Office section, Sue Whalley continued to receive full pay and benefits during the period from 7 November 2018 to 31 March 2019 when she left the business.

Executive Director fees from external positions (unaudited)

The Executive Directors are entitled to receive fees from external appointments. Stuart Simpson, Rico Back and Sue Whalley held no external appointments at other listed companies for the last reported financial year. Moya Greene was a Non-Executive Director at easyJet plc and received fees of £18,000 for the period from 1 April 2018 to 19 July 2018, when she stepped down as an Executive Director at Royal Mail.

DIRECTORS' REMUNERATION REPORT CONTINUED

Policy Implementation in 2019-20 (unaudited)

The following table sets out how the Committee proposes to operate the Policy for Executive Directors next year:

Element	Implementation of Policy in 2019-20																																				
Base salary	We review the salary of each Executive Director annually and will do the same in 2019-20. Any increases in salary will be no greater than the general increase provided to employees. The salaries for the Executive Directors for 2019-20 have not been increased: – Group CEO (Rico Back) £640,000 – CFO (Stuart Simpson) £450,000																																				
Benefits	No change to benefit provision for 2019-20.																																				
Pension allowance	No change to pension allowance provision for existing Executive Directors for 2019-20, as set out in the proposed Remuneration Policy: – Group CEO (Rico Back) £112,000 (17.5% of salary) – CFO (Stuart Simpson) £78,750 (17.5% of salary)																																				
Annual bonus	As set out under the proposed Remuneration Policy on pages 123 to 131. Maximum total annual incentive opportunity of 150 per cent of salary, split between a cash bonus award of up to 100 per cent of salary and a deferred share bonus award of up to 50 per cent of salary. 50 per cent earned for target performance. 75 per cent of the targets shall be financial, with the remainder including robust operational KPIs and strategic objectives. The metrics and strategic objectives are set out below. A minimum level of operating profit must be achieved before any bonus is payable to an Executive Director. Targets for these measures will be disclosed retrospectively in next year’s Annual Report. <table><tr><th>Metric</th><th>Weighting</th><th>Threshold</th><th>Target</th><th>Maximum</th></tr><tr><td>Group operating profit¹</td><td>30%</td><td rowspan="5">Targets to be disclosed retrospectively²</td><td></td><td></td></tr><tr><td>UKPIL costs</td><td>25%</td><td></td><td></td></tr><tr><td>Group revenue</td><td>20%</td><td></td><td></td></tr><tr><td>First Class Quality of Service</td><td>7.5%</td><td></td><td></td></tr><tr><td>Reduction in Lost Time Accident Frequency Rate</td><td>7.5%</td><td></td><td></td></tr><tr><td>Strategic objectives</td><td>10%</td><td></td><td>See below</td><td></td></tr><tr><td>Total</td><td>100%</td><td></td><td></td><td></td></tr></table> 1 Measured after transformation project costs but before voluntary redundancy. Adjusted for budgeted exchange rates. 2 Targets are deemed to be commercially sensitive so will only be disclosed retrospectively. The following Strategic Objectives have been agreed between the Chair of the Board and CEO and will apply to the Executive Directors for the 2019-20 financial year: 1. Progress on specific milestones in the turnaround plan Increase the focus on productivity whilst laying the foundations of the extension of our UK network. 2. Scale up and grow GLS Drive profitable revenue growth and margin improvement in GLS. 3. Enhance our cross-border proposition Leverage the combined Royal Mail and GLS networks to drive profitable cross border revenue growth.	Metric	Weighting	Threshold	Target	Maximum	Group operating profit ¹	30%	Targets to be disclosed retrospectively ²			UKPIL costs	25%			Group revenue	20%			First Class Quality of Service	7.5%			Reduction in Lost Time Accident Frequency Rate	7.5%			Strategic objectives	10%		See below		Total	100%			
Metric	Weighting	Threshold	Target	Maximum																																	
Group operating profit ¹	30%	Targets to be disclosed retrospectively ²																																			
UKPIL costs	25%																																				
Group revenue	20%																																				
First Class Quality of Service	7.5%																																				
Reduction in Lost Time Accident Frequency Rate	7.5%																																				
Strategic objectives	10%		See below																																		
Total	100%																																				
Long Term Incentive Plan	As set out under the proposed Remuneration Policy on pages 123 to 131 the maximum award would be 150 per cent of salary. However, due to the significant fall in the share price during the 2018-19 financial year, the 2019 LTIP grant will be reduced by 25 per cent. Awards are granted annually to Executive Directors in the form of a conditional share award. These will vest at the end of a three year period subject to: – the Executive Director’s continued employment at the date of vesting; and – the satisfaction of the performance conditions. <table><tr><th rowspan="2">Performance Condition</th><th rowspan="2">Weighting</th><th rowspan="2">Performance</th><th colspan="2">Threshold</th><th>Maximum</th></tr><tr><th>Vesting (% of award)</th><th>Performance</th><th>Vesting (% of award)</th></tr><tr><td>Total Shareholder Return (TSR) vs FTSE 50-150 (excluding mining and financials) comparator group</td><td>40%</td><td>Median</td><td>10%</td><td>Upper quartile</td><td>40%</td></tr><tr><td>Group EBITDA¹</td><td>40%</td><td>£925m</td><td>10%</td><td>£1,200m</td><td>40%</td></tr><tr><td>Group Parcels Revenue Growth</td><td>20%</td><td>£7.0bn</td><td>5%</td><td>£7.8bn</td><td>20%</td></tr><tr><td>Total</td><td>100%</td><td></td><td>25%</td><td></td><td>100%</td></tr></table> 1 Outturn of Group EBITDA after three years, adjusted back to budgeted exchange rates. Includes project costs but excludes voluntary redundancy costs and exceptional charges. Performance measure assumes £160 million impact from the adoption of IFRS 16 ‘leases’.	Performance Condition	Weighting	Performance	Threshold		Maximum	Vesting (% of award)	Performance	Vesting (% of award)	Total Shareholder Return (TSR) vs FTSE 50-150 (excluding mining and financials) comparator group	40%	Median	10%	Upper quartile	40%	Group EBITDA ¹	40%	£925m	10%	£1,200m	40%	Group Parcels Revenue Growth	20%	£7.0bn	5%	£7.8bn	20%	Total	100%		25%		100%			
Performance Condition	Weighting				Performance	Threshold		Maximum																													
		Vesting (% of award)	Performance	Vesting (% of award)																																	
Total Shareholder Return (TSR) vs FTSE 50-150 (excluding mining and financials) comparator group	40%	Median	10%	Upper quartile	40%																																
Group EBITDA ¹	40%	£925m	10%	£1,200m	40%																																
Group Parcels Revenue Growth	20%	£7.0bn	5%	£7.8bn	20%																																
Total	100%		25%		100%																																
Shareholding guideline	200 per cent of salary for Executive Directors.																																				
Post-cessation shareholding guideline	200 per cent of salary (or holding at the point of departure) to be held in granted shares for two years after leaving.																																				

The following table sets out how the Committee proposes to operate the Policy for the Chair of the Board and Non-Executive Directors next year:

Element	Implementation of Policy in 2019-20		
Fees	As set out under the proposed Remuneration Policy on page 131. Non-Executive Directors are paid an annual fee and additional fees for being Chair or a member of Committees, and, if appropriate, other additional time commitments. The Chair of the Board does not receive any additional fees for membership of committees.		
	Non-Executive Director Fees		
	Chair of the Board ¹	£300,000	
	Base Fee	£50,000	
	Senior Independent Director	£10,000	
	Committee Fees	Chair	Membership
	Audit and Risk Committee	£15,000	£6,000
	Remuneration Committee	£15,000	£6,000
	Nomination Committee	£0	£4,000

- 1 The Chair of the Board is not eligible for additional fees for being Chair or a member of Committees. Chairs of Committees are not eligible for additional membership fees for that Committee.

DIRECTORS' REMUNERATION REPORT CONTINUED

EXECUTIVE REMUNERATION IN CONTEXT (UNAUDITED)

Wider workforce remuneration

The Committee is directly responsible for the remuneration of the Executive Directors and the Executive Board. The Board and the Remuneration Committee are also given regular updates and, as required, take key decisions on incentive schemes that cascade through the organisation. The Committee takes changes in workforce remuneration into account when making decisions on executive remuneration.

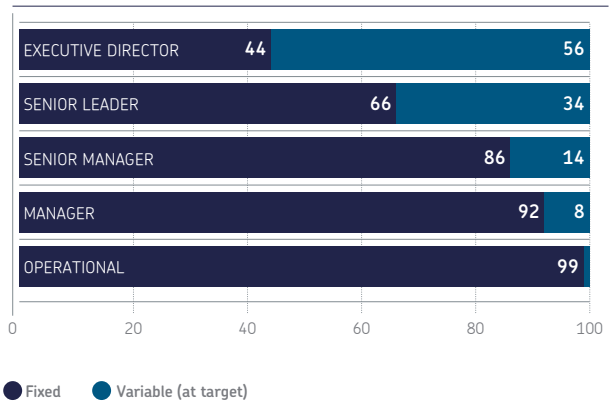
Royal Mail employs over 140,000 people in the UK, with the majority of these carrying out operational roles. For these roles, the vast majority of pay is fixed. Base salary is based on role, location and service, with new hires starting at the bottom of the relevant pay scale, and progressing to the maximum based on service or acquisitions of skills for more technical roles. Salary increases are negotiated with the Communication Workers' Union and are applied to the pay scales, with no personal or performance-related element to salary increases. Operational colleagues are also eligible for allowances (including functional, shift and legacy allowances), overtime and scheduled attendance (a form of planned overtime). In the run up to, and immediately post-Christmas, operational colleagues will typically earn significant overtime, as well as receiving a 'Christmas bonus' reflecting the huge effort and impact colleagues have during our busiest period. There is no performance-related pay for roles at this level. We believe that it is right that our operational colleagues have no portion of their pay at risk, but instead can influence their remuneration through working additional, or antisocial, hours.

Middle and junior managers typically have a similar fixed pay structure to operational colleagues, with pay scales that they progress through based on service. Some roles at this level are also eligible for shift pay, overtime and allowances. All our managers are eligible for a management bonus based on corporate and personal performance.

At senior manager level, pay is set based on the role and an individual's experience and skills, within broad bands. Senior managers are not eligible for shift pay, overtime or allowances, but have a higher proportion of their remuneration linked to the management bonus. Our most senior managers are also eligible for a grant of shares under the Deferred Share Bonus Plan (DSBP). The Executive Board is also eligible for the Long Term Incentive Plan.

The Annual Bonus Plan that applies to our Executive Directors is cascaded out to our managers, so that we are incentivising all our managers against the same or similar key measures for the business. A smaller proportion of remuneration is linked to the bonus, and therefore at risk, moving out through the levels of the organisation. For our most senior managers, eligible for the DSBP, the structure of the plan is the same as for Executive Directors, but a smaller proportion of the annual bonus is granted in shares. A summary of this structure is shown below:

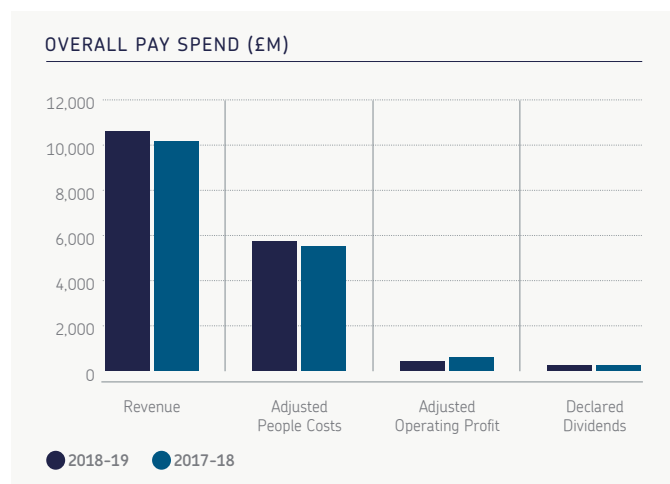
FIXED VS VARIABLE PAY BY LEVEL (%)



Notes: The above table is an indicative summary of remuneration at key levels. Fixed remuneration includes salary, benefits and employer pension contribution (but excludes allowances, overtime and shift pay). Variable pay includes bonus and executive share plans at target.

Overall pay spend

The chart shows the Company's actual spend on pay for all employees relative to dividends, revenue and operating profit. Revenue has 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.



Note: the data used for Revenue and Adjusted Operating Profit in the chart are not adjusted for foreign exchange movement, which is included in the outturn for the Scorecard.

CEO Pay Ratio

As the new Corporate Governance Regulations have been published with the required calculation methodology, the Company has decided to publish its CEO Pay Ratio for the 2018-19 financial year. This is set out below, with the required explanation, and some further contextual information.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2019	Option A	28:1	26:1	22:1

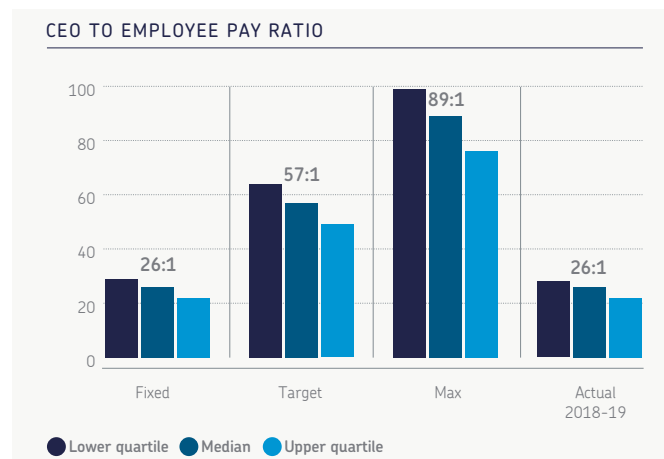
The table below sets out both the salary, and the full pay and benefits value received by the employees identified at the 25th, 50th and 75th percentile, during the 2018-19 financial year. All three of the identified employees have a base salary of £22,574 per annum. There are over 85,000 operational colleagues on this salary on a full time equivalent basis across the business. The difference in total pay and benefits is due to the different allowances, overtime, shift payments and pension arrangements received by these employees during the 2018-19 year.

2019	25th percentile	50th percentile	75th percentile
Salary	£22,574	£22,574	£22,574
Total pay and benefits	£27,425	£30,442	£35,571

As this is the first year we have calculated the CEO Pay Ratio under this methodology, it is not possible to make any year on year comparisons. However, in future years, we will be able to comment, as required under the Regulations, on the change in pay ratios from the previous year and our understanding of the reasons for this, along with the longer-term trend of the median pay ratio.

In order to set this first year's pay ratio in context, we have included a chart showing the ratio of the 25th, 50th and 75th percentile employees' pay to the CEO's actual 2018-19 pay, but also the potential ratios based on the CEO's theoretical fixed, target and maximum pay for the financial year as set out in the

proposed Remuneration Policy. It is important to note that for the CEO, a high proportion of their pay is based on performance against the short and long-term incentives plans. It is therefore possible that the CEO's total remuneration varies significantly year on year. For 2018-19, due to the performance against the incentive plans, the CEO's remuneration is at the minimum (i.e. fixed pay) level, and this impacts the CEO pay ratios accordingly. If business performance were to improve in the 2019-20 year, we would expect the CEO's remuneration to increase (due to higher payouts on incentive plans) and the CEO pay ratios would also increase.



We believe that the CEO to median pay ratio at target of 57:1 is appropriate in our business, assuming good business performance. As business performance has been challenging in the 2018-19 year, no bonus was paid and so the pay ratio was lower, at 26:1. We believe that it is appropriate for our CEO, and other senior executives, to have a far higher proportion of their remuneration at risk, compared to our operational colleagues.

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 percentile of all UK employees for the relevant financial year. These employees are identified as P25, P50 and P75 respectively, and the relevant pay and benefits figures are identified as Y25, Y50 and Y75 respectively. X is the total remuneration of the CEO as set out in the Single Figure Table for the relevant financial year.

Where a company has had more than one CEO serving during the financial year, X should be the sum of the total remuneration received for their relevant periods of service as CEO. For 2018-19, X has been calculated as the sum of the remuneration received in the period 1 April to 31 May 2018 by Moya Greene, and the remuneration received in the period 1 June 2018 to 31 March 2019 by Rico Back, reflecting their respective service as CEO during the financial year.

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 31 March 2019 have been included in the reporting, with employees ranked based on their remuneration for the 2018-19 financial year.

DIRECTORS' REMUNERATION REPORT CONTINUED

The data included in our reporting, and a summary of any adjustments or estimations required, is set out below:

Element	Description
Base Salary	The Regulations require that full time equivalent (FTE) salaries are used to identify P25, P50 and P75 in order to ensure comparability across the organisation. At Royal Mail, over 35,000 colleagues work part-time, primarily in operational roles. A significant proportion of these colleagues will also have multiple changes of hours during the year, often due to increased hours over the Christmas trading period. We have therefore used the FTE salary, as at 31 March 2019, as the salary figure to rank our employees. This also ensures that employees who have started part way through the financial year are included on an annualised, and therefore comparable, basis.
Allowances and overtime	This includes a range of functional, shift, location and role-based allowances for those grades who are eligible. Overtime and scheduled attendance (a form of planned overtime) are also included. Allowances and overtime have been included on an actual basis, and not pro-rated to an FTE rate for part-time colleagues, or annualised for new starters.
Taxable Benefits	Taxable benefits included are car allowance (or equivalent cash amount) and healthcare for senior managers.
Employer pension contributions	Actual employer pension contributions have been included. These amounts have not been pro-rated to an FTE rate for part-time colleagues, or annualised for new starters.
Incentives	The Regulations require that incentives relating to the relevant financial year are included. The incentive received by operational colleagues is paid in December, and has therefore been accurately included in these calculations. However, the management bonus and the Long Term Incentive Plan (LTIP) vesting is not complete until after the publication of this report, and cannot therefore be accurately included. An estimate of these amounts has been included as follows: – Management bonus: estimated for all managers based on confirmed business performance. This therefore excludes the personal performance element which acts as a multiplier on business performance. – LTIP: estimated based on confirmed performance, and share price as at 29 March 2019 but excluding dividend equivalents (in line with the amounts for the CEO included in the Single Figure Table). As our management population make up only a small proportion of the workforce, we do not expect these estimates to have any impact on the overall ranking and the selection of P25, P50 and P75.

Change in CEO pay vs average employee pay

The table below shows the percentage change in the CEO's salary, benefits and annual bonus between 2018-19 and 2017-18, compared with the average for all UK employees. For 2018-19, the amounts shown for the CEO reflect the service of Moya Greene and Rico Back as CEO during the financial year. The CEO received no bonus for the 2018-19 year.

Over the last five years our frontline employees have received increases totalling 12.4 per cent of salary, including an increase of five per cent effective 1 October 2017. This was followed by a reduction in frontline employees' contractual working hours by one hour per week effective 1 October 2018 with no change in pay. A further increase of two per cent has since been implemented, effective 1 April 2019.

	CEO ¹			Average of All Employees		
	2018-19	2017-18	% Change	2018-19	2017-18	% Change
Salary ²	£624,633	£547,800	14.0%	£30,269	£28,724	5.4%
Benefits ³	£27,068	£29,000	-6.7%	£44	£48	-7.5%
Bonus	£0	£386,800	-100.0%	£733	£868	-15.6%

¹ The CEO for the 2017-18 year was Moya Greene. For the 2018-19 year, Moya Greene served as CEO for the period 1 April to 31 May 2018. Rico Back was appointed as CEO on 1 June 2018. The figures above have been pro-rated for their respective service during the 2018-19 financial year.

² Full time equivalent salary including overtime and shift allowances.

³ All taxable benefits.

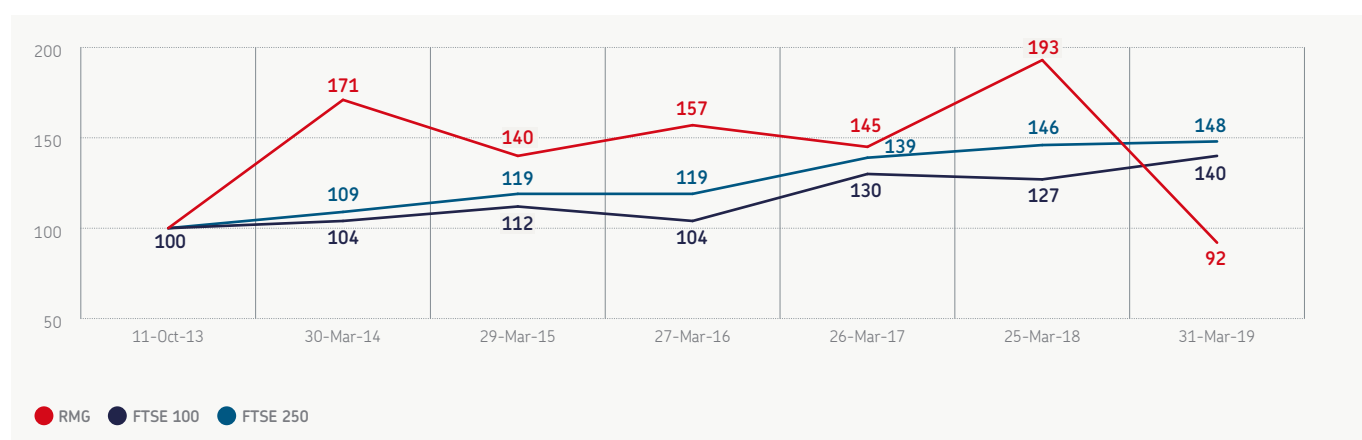
CEO pay over the last 10 years

The total remuneration figure for the CEO over the last ten years is shown in the table below. The annual bonus payout and the LTIP vesting level as a percentage of the maximum opportunity are also shown.

Chief Executive Officer	Financial Year	Total Remuneration (£'000)	Annual bonus awarded as % of maximum	LTIP vesting as % of maximum
Rico Back	2018-19	647	0%	0%
Moya Greene	2018-19	235	0%	0%
	2017-18	1,790	71%	43%
	2016-17	1,901	80%	46%
	2015-16	1,529	82%	59%
	2014-15	1,522	85%	69%
	2013-14	1,360	77%	100%
	2012-13	1,962	80%	100%
	2011-12	1,107	74%	–
	2010-11	778	41%	–
	2009-10	858	–	–
Adam Crozier	2010-11	2,428	–	100%
	2009-10	858	–	–

TSR comparison

Total Shareholder Return (TSR) is the measure of the returns that a company has generated for its shareholders, reflecting both movement in the share price and dividends, which are assumed to be reinvested over a period of time. The graph shows the TSR of the Company, since the date of the first day of trading, relative to both the FTSE 100 Index and the FTSE 250 Index. While the Company is currently part of the FTSE 250, the Company has been a constituent of the FTSE 100 Index for the majority of the period, therefore both indices are shown for comparison.



TSR over the Financial Year

	FY 2013-14*	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Royal Mail plc	71%	-18%	12%	-8%	33%	-52%
FTSE 100	4%	7%	-7%	25%	-2%	10%
FTSE 250	9%	9%	0%	17%	5%	2%

* The chart and table show performance since the first day of conditional trading following the IPO (11 October 2013); in accordance with the reporting requirements, they will show an increasing time frame in the coming years.

DIRECTORS' REMUNERATION REPORT CONTINUED

Gender Pay Gap

The Company's second Gender Pay Gap report, published during the 2018-19 financial year, continues to show that average pay for men and women is broadly the same. The Total Pay Gap on a mean basis has reduced to -0.6 per cent, in favour of women, and the median has reduced to 1.0 per cent, in favour of men. We would expect to see small changes in the Total Pay Gap year on year, due to changes in the composition of the workforce, and the payment of allowances and shift pay, and therefore believe that our current position is reasonable. Our Total Pay Quartiles show a slight increase in the proportion of women across three of our quartiles, reflecting the increased number of women being hired into the organisation.

The small difference in median pay rates is due to men taking more work that qualifies for allowances, such as shift work during the evening or at night. Women are paid more than men on a mean basis as Royal Mail has a higher proportion of women in managerial roles than in operational roles. Women make up 21 per cent of our middle and junior management population and 31 per cent of our senior management population. Our Total Pay Quartiles do not show this clearly, as our management population only makes up a relatively small proportion of our upper quartile.

TOTAL PAY GAP

	2017	2018
Mean	-2.1%	-0.6%
	(male < female)	(male < female)
Median	1.5%	1.0%
	(male > female)	(male > female)

TOTAL PAY QUARTILES

Quartile	Male	2017 Female	Male	2018 Female
Lower	82%	18%	82%	18%
Lower Middle	83%	17%	82%	18%
Upper Middle	85%	15%	83%	17%
Upper	84%	16%	83%	17%

We pay bonuses equally to men and women on a median basis. There is no change in this year on year.

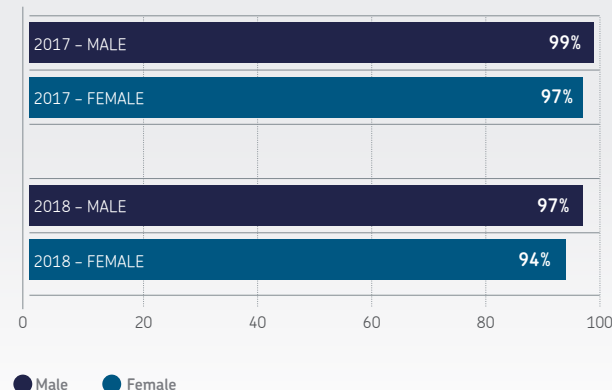
On a mean basis, our Bonus Gap is 22.7 per cent in favour of women, compared to 9.1 per cent in the previous year. Overall, our mean Bonus Gap is in favour of women due to the higher proportion of women in our management population compared to our operational population. However, the year-on-year change also reflects a shift in the sales of Free Shares, with women selling at a higher average value than men in 2017-18. All eligible full-time employees of Royal Mail were granted the same number of Free Shares in the Company (pro-rated for part-time) in four tranches from 2013 to 2016. These shares are subject to tax if sold within five years of grant, and so are required to be included in the Bonus Gap calculations.

97 per cent of men and 94 per cent of women received a bonus in 2017-18. This is a small reduction compared to the previous year. All Royal Mail employees are eligible for a bonus, with the exception of those who have not reached the minimum service requirement. The slightly lower percentage of employees receiving a bonus in 2017-18 is due to an increase in the number of new hires, who joined after the qualifying period for the bonus. There was also an increase in the proportion of women being hired into the organisation in 2017-18 who have not yet reached the minimum service requirement.

BONUS GAP

	2017	2018
Mean	-9.1%	-22.7%
	(male < female)	(male < female)
Median	0.0%	0.0%
	(male = female)	(male = female)

PROPORTION RECEIVING A BONUS



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, and we have women's representation and recruitment targets for operational roles and a range of interventions and initiatives in place. These include: mandatory recruitment and unconscious bias training for assessors and hiring managers; gender balanced shortlisting; targeted development programmes; women's networking events and campaigns, such as Vote100; and Women's and Parents and Carers' networks. These are sponsored by senior executives. We are externally recognised for our work on diversity and inclusion and the progress we have made to improve gender diversity at Royal Mail. In 2018, our Company was named a Times Top 50 Employer for Women for the sixth consecutive year.

Royal Mail will continue to work in partnership with external organisations, such as the Business in the Community Opportunity Now campaign, Everywoman, Working Families and Employers for Carers to further enhance our gender strategy and champion best practice, as part of our wider Diversity and Inclusion agenda.

REMUNERATION COMMITTEE (UNAUDITED)**Remuneration Committee members and meetings**

The members of the Remuneration Committee during the 2018-19 financial year are shown below:

	Number of meetings eligible to attend	Number of meetings attended
Chair		
Orna Ni-Chionna	9	9
Members		
Rita Griffin	9	9
Paul Murray	3	2
Les Owen	3	3
Simon Thompson	6	6

Role of the Remuneration Committee

- To determine and recommend for the Board's approval the overall design of the remuneration of the senior executives of the Group.
- To determine the individual remuneration arrangements for the Chair of the Board, the Executive Directors, the Company Secretary, and the members of the Executive Board.
- To agree the targets for any performance-related incentive schemes applicable to the Executive Board.

The full Terms of Reference for the Committee have been updated to reflect the changes to the UK Corporate Governance Code and can be found on our website: <https://www.royalmailgroup.com/en/about-us/management-and-committees/remuneration-committee>.

Advice to the Remuneration Committee

The Committee takes information and advice from inside and outside the Company. Internal support was provided by Sally Ashford, the Chief HR Officer (supported by other members of the HR department and senior leadership as appropriate), and Kulbinder Dosanjh, the Company Secretary. No individual was present when matters relating to his or her own remuneration were discussed.

The Committee seeks advice from independent external advisers as appropriate. PwC has provided advice to the Committee since October 2014. Following a review of its external advisers and a

competitive tendering process led by the Chair of the Remuneration Committee, Deloitte was appointed in October 2018.

PwC provided advice to the Committee on changes to the Executive Director population, shareholder consultation and preparation for the AGM during the period April 2018 to September 2018. The total fees paid to PwC in respect of this advice were £130,000. PwC has also provided tax, technology, finance, operations, and other HR, commercial and strategic consulting services to the Group during the financial year.

Deloitte provided information to the Committee regarding external market trends, and advice on the development of the proposed Remuneration Policy and other Committee matters during the period October 2018 to March 2019. The total fees paid to Deloitte in respect of this advice were £108,420. Deloitte also provided tax, technology, internal audit, strategy and business consulting services to the Group during the financial year.

Both PwC and Deloitte are signatories to the Remuneration Consultants Group Code of Conduct and reported directly to the Chair of the Committee during their respective periods of service. The Chair of the Committee meets regularly with its advisers without Management present. The Committee is satisfied that the advice it receives is objective and independent.

Remuneration Committee evaluation

The Remuneration Committee's performance was evaluated by the members of the Committee by way of a self-evaluation questionnaire, as referred to on pages 98 to 99. Following the vote on the Remuneration Report at the 2018 AGM, the Remuneration Committee acknowledged the need for greater involvement with stakeholders and shareholders. It believes it has now put in place an appropriate programme for engagement, as explained further in the Directors' Remuneration Report. The Committee has changed remuneration advisers during the year and this has assisted the Committee in the second half of the year. The Committee concluded it was operating more effectively now than before last year's AGM.

The priorities for 2019-20 are:

- continued shareholder engagement particularly in relation to the Directors' Remuneration Policy which is due for a binding vote at this year's AGM.
- to focus on ensuring remuneration is transparent and clearly articulated in a period in which the Company is undergoing a substantial transformation.

Voting by Shareholders

The table below shows the advisory vote on the 2017-18 Remuneration Report at the AGM on 19 July 2018, and the vote on the Remuneration Policy, which was effective from the date of the 2016 AGM for up to three years.

	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	181,812,927	29.83%	427,691,494	70.17%	609,504,421	50,347,487
Approval of Remuneration Policy	523,665,626	83.46%	103,807,987	16.54%	627,473,613	7,731,040

The Remuneration Committee was very disappointed with the outcome of the vote on the Remuneration Report for 2017-18. We have set out in detail in the Chair's statement on pages 116 to 117, and the Shareholder Engagement section on pages 120 to 121, how we have taken steps to fully understand the views of our shareholders, and to ensure that our approach to the remuneration of our Executive Directors remains responsible.

Approved by the Board on 21 May 2019 and signed by

Orna Ni-Chionna
Remuneration Committee Chair

PENSIONS COMMITTEE



Les Owen
Pensions Committee Chair

Committee members:

Les Owen

Stuart Simpson

The number of Committee meetings held during the year and Committee members' attendance is set out on page 94.

Pension Committee meetings were also attended, as required, by the Group HR Director, the Chief of Staff, the Legal Director for Pensions and Employee Benefits, the Head of Pensions Strategy and representatives from the Company's pensions' advisers, Willis Tower Wilson Limited, and was supported by the Company Secretary.

Committee activity

During 2018 the Royal Mail Pension Plan was closed to future accrual in its previous form. The Committee provided oversight as Royal Mail and the Communication Workers Union (CWU) worked jointly to have Government introduce the legal, regulatory and tax changes needed for Collective Defined Contribution (CDC) schemes to be established in the UK.

In addition, the Committee reviewed initial discussions with the Trustee regarding the outcome of the March 2018 actuarial valuation of the Royal Mail Pension Plan.

The Committee also reviewed the performance of the Royal Mail pension schemes, and the actuarial assumptions used in the pension disclosures in the Company's interim Financial Results.

Committee changes

In July 2018, Paul Murray stepped down from his role as a Royal Mail Non-Executive Director and member of the Pensions Committee. I would like to express my thanks to Paul for his contributions to the Committee, especially during a time of immense change to Royal Mail's pension arrangements.

Future Role of the Committee

The Committee was originally set up as a Committee of the Board in September 2013 in recognition of the significance of the Group's pension schemes to the overall financial management of the Company. The Committee has played an important role in reviewing the performance of the Royal Mail pension schemes, alongside strategy, policy and strategy and investment matters.

Given the developments in 2018 the Board concluded there was no longer a need for the Committee to be a formal Committee of the Board, and that the Committee should in future operate as a management Pensions Committee.

The management Pensions Committee will review and recommend to the Audit and Risk Committee the key assumptions relating the accounting of Royal Mail's pension liabilities. It will continue to provide oversight as the revised pension arrangements are introduced and report to both the Audit and Risk Committee and the Board as appropriate.

The management Pensions Committee reports into the Audit and Risk Committee regarding the pension assumptions, and to the Board for a number of pensions matters that remain reserved to the Board.

DIRECTORS' REPORT

The Directors present their report together with audited financial statements for the year ended 31 March 2019.

This Directors' Report together with the Strategic Report (on pages 1-84) form the Management Report for the basis of DTR 4.1.5R.

The following information is incorporated in the Directors' Report by reference and can be found on the pages of the Annual Report as indicated in the table below:

	Page
Business model	36
Strategy for delivering objectives	20
Results	40
Financial assets and liabilities	196
Principal risks	64
Corporate responsibility	74
Greenhouse gas emissions	82
Disabled employees	77
Our people	76
Diversity	77
Going concern	73
Viability statement	73
Dividend	14
Corporate Governance Report	85
Future developments	147
Directors' Responsibility Statement	149

Listing Rule 9.8.4R disclosures

The location of information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is as follows:

	Page
Long-term Incentive Plan	191
Statement of the amount of interest capitalised	187
Dividend waiver	147

Share capital

As at 31 March 2019, the Company's issued share capital comprised 1,000,000,000 ordinary shares of one penny each as set out in Note 24 to the accounts on page 205. Although a block listing of 5,000,000 shares was undertaken in November 2014, to date, no new shares have been issued.

Dividend waivers

The trustee of the Royal Mail Share Incentive Plan will not receive any dividends (other than any special dividend declared by the Board) on Free Shares which it has not been possible to award to, or which have been forfeited by, participants in the plan.

Authority of the Directors to allot shares

At the 2018 AGM, the Company acquired shareholder consent to allot Ordinary Shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to a nominal amount of £3,333,333 and comprising equity securities up to a nominal amount of £6,666,666. To date, no new shares were allotted. The Directors will be seeking to renew this authority at the AGM on 18 July 2019, although the Company has no plans to exercise this authority.

Purchase of own shares by the Company

At the 2018 AGM, the Company was authorised by its shareholders to purchase up to a maximum of 100,000,000 of its Ordinary Shares. The Company did not repurchase any of its Ordinary Shares during the year ended 31 March 2019 or to date. The Directors will be seeking to renew this authority at the AGM on 18 July 2019, even though at the present time, the Company has no plans to exercise this authority.

Subject to the Articles of association (the Articles), any member may transfer all or any of his or her certificated shares by an instrument of transfer. The Board may decline to register a transfer of any share which is not fully paid.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. Ordinary

shareholders have the right to receive notice of, attend, vote and speak at general meetings. A holder of ordinary shares is entitled to one vote per ordinary share held when a vote is taken on a poll.

Employees allocated Free Shares under the Employee Free Shares Offer, which 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 Free Shares by instructing the Trustee how to vote on their behalf.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial Review on pages 40-63. The Board has reviewed the Group's projections for the next 12 months. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months.

Viability Statement

The Viability Statement is set out on page 73 of the Strategic Report.

Future developments

Possible future developments are described in Summary of our Five-Year Strategic Plan on pages 20-23 and Principal Risks on pages 64 of the Strategic Report.

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 31 March 2019, a total of 70,331 shares (2017-18: 513,230 shares) were held by the EBT on behalf of the Company.

Substantial shareholdings

As at 31 March 2019, the Company had been notified, in accordance with the Disclosure Guidance and Transparency Rule 5 (DTR 5), of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company. There have been no changes to these notifications or additional notifications as the date of this report.

DIRECTORS' REPORT CONTINUED

Shareholder	Number of shares	% voting rights
Aberdeen Standard Investment	48,827,341	5.96
Schroders Investment Management	59,617,288	4.88

Company's Articles of Association (Articles)

The Articles may be amended by special resolution in accordance with the Companies Act 2006 and are available at <https://www.royalmailgroup.com/en/about-us/governance/>.

Directors

Details of the current Directors can be found on pages 88-89. The following Board changes have occurred during the year:

Rico Back	Appointed 1 June 2018
Moya Greene	Retired 19 July 2018
Paul Murray	Retired 19 July 2018
Peter Long	Retired 19 September 2018
Sue Whalley	Appointed 1 June 2018, Retired 7 November 2018
Les Owen	Retired 22 May 2019
Keith Williams	Appointed Chair 22 May 2019
Michael Findlay	Appointed 22 May 2019
Maria da Cunha	Appointed 22 May 2019

Appointment and replacement of Directors

The Articles, the UK Corporate Governance Code and the Companies Act 2006 govern the appointment, retirement and replacement of Directors. Unless otherwise determined by ordinary resolution of the Company, the Directors shall be no fewer than two and no more than 15 in number. Directors may be appointed by the Board but hold office only until the next AGM when they are eligible for election by the Company's shareholders. The Company's Articles provide that Directors shall retire from office other than employment or executive office and may offer themselves for re-appointment by shareholders if they have held office for a continuous period of nine years or have not retired at two AGMs previously. However, in practice, and in accordance with the Code, all Directors of the Company are subject to annual re-election.

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.

Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal office hours and by the shareholders at each AGM.

Directors' Powers

The business of the Company is managed by the Board who may exercise all the powers of the Company, subject to the provisions of the Articles, the Companies Act 2006 and any resolution of the Company.

Directors' interests

Details of the Directors' share interests, and where applicable their connected persons, can be found in the Directors' Remuneration Report on page 137.

Directors and officers insurance

The Company also maintains directors' and officers' liability insurance which is reviewed annually.

Post-balance sheet events

There were no post balance sheet events after the reporting period.

Political donations

No political donations were made during the year. The Company intends to continue its policy of not making such donations for the foreseeable future.

Financial instruments

The Group's financial risk management objectives and policies in relation to its financial instruments are summarised in Note 22 on page 196.

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 Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Branches

As a global Group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates and subject to the laws and regulations of the relevant jurisdictions in which they operate. More details can be found on pages 208-213.

Greenhouse gas emissions and risks associated

Information regarding the Company's greenhouse gas emissions can be found on page 82. Details on key environmental, social and governance (ESG) risks faced by the business are also set out on those pages.

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.

Statement on Competition and Markets Authority's Statutory Audit Services Order

The Directors confirm full compliance with the Competition and Markets Authority's Statutory Audit Services Order.

By Order of the Board

Mark Amsden
Company Secretary
21 May 2019

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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement 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.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement is approved by the Board of directors and is signed on its behalf by:

Rico Back
Group Chief Executive Officer

Stuart Simpson
Chief Finance and Operations Officer

OUR FINANCIAL SECTION

CONTENTS

Independent auditor's report	151
Consolidated income statement	156
Consolidated statement of comprehensive income	157
Consolidated balance sheet	158
Consolidated statement of changes in equity	160
Consolidated statement of cash flows	161
Notes to the financial statements	163
1. Basis of preparation	163
2. Segment information	164
3. Revenue	166
4. Operating costs	167
5. People information	168
6. Net finance costs	169
7. Taxation	170
8. Earnings per share	175
9. Dividends	175
10. Retirement benefit plans	176
11. Acquisition of businesses	185
12. Property, plant and equipment	186
13. Goodwill	188
14. Intangible assets	189
15. Investments in associates and joint venture	190
16. Share-based payments	190
17. Non-current assets held for sale	192
18. Current trade and other receivables	193
19. Cash and cash equivalents	194
20. Current trade and other payables	194
21. Loans and borrowings	194
22. Financial assets and liabilities and risk management	196
23. Provisions	204
24. Share capital and reserves	205
25. Commitments	206
26. Contingent liabilities	207
27. Related party information	207
28. Related undertakings of Royal Mail Plc	208
Significant accounting policies	214
Royal Mail Plc – parent Company financial statements	226

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 53 week period ended 31 March 2019 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated and parent company balance sheet, the Consolidated and parent company statement of changes in equity, the Consolidated statement of cash flows and the related notes, including the Significant accounting policies on page 214 to 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 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 23 July 2015. The period of total uninterrupted engagement is for the four financial years ended 31 March 2019. 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:	£18 million (2017-18: £20 million)
group financial statements as a whole	4.6% (2017-18: 5%) of normalised group profit before tax
Coverage	97.3% of normalised group profit before tax (2017-18: 99.2% normalised group profit before tax)
Risks of material misstatement vs 2017-18	
Recurring risks	Deferred revenue associated with advance customer payments arising from stamps sold ◀▶ Valuation of pension scheme liabilities and certain unquoted assets ◀▶ Ofcom competition investigation contingent liability ◀▶ 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 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.

Deferred revenue associated with advance customer payments arising from stamps sold

- £188 million (2017-18: £179 million)
- Refer to page 112 (Audit Committee Report), page 215 (accounting policy and estimates and judgements note)

The risk

Subjective estimate

Revenue is recognised on delivery of letters, not at the point stamps are sold to customers. There can be a considerable delay, because stamps held by customers remain valid indefinitely. Therefore the Group estimates the value of advanced customer payments and defers revenue to reflect the value of services still to be performed.

As the Group is unable to track individual stamps, the calculation and methodology of the advanced customer payments balance is inherently subjective and is based on inputs including a third party survey to poll independently a sample of the UK population to assess the value of stamps held by customers at each reporting date and Group sales data. Together with the third party, and consistent with prior years, the Group makes adjustments that seek to address the potential bias in the data.

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. The financial statements (page 215) disclose the sensitivity estimated by the Group.

Our response

Our procedures included:

- **Survey specialist's credentials:** assessing the competence, independence and integrity of the Group's third party survey specialist which provides the survey data, including a meeting with them to discuss their findings.
- **Our statistical expertise:** with the support of our own statistical specialists, assessing and evaluating the methodology used by the Group's independent third party specialist to determine the number of stamps held at the balance sheet date and its consistent application each year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC CONTINUED

- **Benchmarking assumptions:** challenging key assumptions and inputs to the calculation, including survey size and respondents, UK population demographics, constraining and caps in place to take into account any abnormal holdings.
- **Independent re-performance:** testing the survey data used in the calculation, agreeing inputs to the survey specialist's results, and re-performing the calculation of deferred revenue and comparing this to the Group's result.
- **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the deferred revenue adjustment, particularly the sensitivity to changes in key assumptions.

Our results:

We found the estimate of deferred revenue to be acceptable (2018: acceptable).

Valuation of pension scheme liabilities and certain unquoted assets

Pension scheme liabilities and hard to value unquoted pension scheme assets

Refer to page 112 (Audit Committee Report), page 215 (accounting policy) and page 176 (financial disclosures).

The risk

Subjective valuation

Significant estimates are made in valuing the Group's post retirement defined benefit plan obligations of £7,578 million (2017-18: £7,038 million), including in particular the discount rate, the inflation assumptions, mortality and pension increase assumptions.

Significant estimates are made in valuing certain of the unquoted pension schemes assets, which are hard to value and make up a portion of unquoted pension scheme assets reported on page 181. Small changes in the assumptions and estimates used to value the Group's pension obligations and 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 the unquoted pension scheme assets and liabilities includes 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 10) disclose the sensitivity of the liabilities to key assumptions estimated by the Group.

Our response

Our procedures included:

- **Benchmarking assumptions:** challenging 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 and fund managers' credentials:** assessing the competence, independence and integrity of the Group's actuarial expert and third party expert fund managers.
- **Tests of details:** obtaining third party valuation confirmations directly from fund managers. Comparing those confirmations with unaudited net asset value statements and testing the ability of fund managers to prepare accurate valuations by

performing a retrospective review by comparing a sample of the net asset value statements available during the year to audited financial statements.

- **Our property valuation expertise:** obtaining third party valuations and using our internal property specialists in assessing the valuation methodology and challenging key assumptions.
- **Assessing transparency:** considering the adequacy of the Group's disclosures in respect of the sensitivity of the liability to key assumptions and the accuracy of the asset split by category.

Our results:

We found the valuation of the pension obligation and unquoted scheme assets to be acceptable (2017-18: result acceptable).

Ofcom competition investigation contingent liability

Refer to page 112 (Audit Committee Report), page 216 (accounting policy) and page 207 (financial disclosures).

The risk

Dispute outcome

During the year Ofcom has fined Royal Mail £50.0 million, following the result of its investigation into suspected anti-competitive behaviour in 2014. Royal Mail has lodged an appeal to the Competition Appeals Tribunal, and no fine is payable until the process has been completed.

No provision is recognised and whether a fine will be paid is currently contingent upon the outcome of the legal process. There is significant judgement involved in determining whether a provision is required.

Our response

Our procedures included:

- **Enquiry with lawyers:** inspecting relevant correspondence and holding discussions with the Group's in house team and external legal advisers to understand the current position of the legal process.
- **Accounting analysis:** challenging the assessment performed by the Directors to determine whether the criteria for recognising a provision are met at period end.
- **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the contingent liability.

Our results:

We found the treatment of the matter as a contingent liability and the related disclosures to be acceptable (2017-18: disclosures acceptable)

Recoverability of parent company's investment in subsidiaries and debt due from Group entities (Parent company only)

(Investments – £2,111 million; 2017-18: £2,081 million)

(Debt due from Group entities – £427 million; 2017-18: £434 million)

Refer to page 227 (accounting policy) and page 228 (financial disclosures).

The risk

Low risk, high value

The carrying amount of the parent company's investments in subsidiaries and debt due from Group entities represents 100% (2017-18: 100%) of the company's total assets.

Their recoverability is not at a high risk of significant misstatement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.

Our response

Our procedures included:

- **Tests of detail:** Compared the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Assessing subsidiary audit:** Assessing the audit work performed on the subsidiary balance sheet and considering the results of that work on the subsidiary's profit and net assets.
- **Assessing transparency:** Assessing the adequacy of the parent company's disclosures in respect of the investment in subsidiaries and Group debtor balance.

Our results

We found the carrying value of investments and the recoverability of intercompany receivables to be acceptable (2017-18: acceptable).

Whilst the estimation uncertainty associated with the industrial disease claim provision was identified as a key audit matter in the prior year, we no longer consider it as such. Whilst the calculation of the provision is subjective, the related circumstances are unchanged and therefore presented fewer complexities for our audit.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £18.0 million (2017-18: £20.0 million).

Materiality is based on profit before tax, normalised for the IFRS 2 charge for Employee Free Shares, the profit on disposal of property plant and equipment, the settlement in respect of the RMSEPP pension scheme buy-in and the impairment charge in respect of GSO and Postal Express. The items not included in the benchmark were all subject to audit procedures by the Group team, and the quantum of these items is disclosed in note 2 of the financial statements. An additional adjustment was made in 2017-18 for the IAS 19 pension charge due to the closure of the scheme to future accrual in the year. Following changes to the Group's pension arrangements, this adjustment is no longer deemed appropriate. Materiality represents 4.7% of the adjusted profit before tax measure of £381 million (2017-18: 5%; £404 million).

Materiality for the parent company financial statements as a whole was set at £3 million (2017-18: £3 million), determined with reference to a benchmark of net assets, of which it represents 1% (2017-18: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4.5 million (2017-18: £5.0 million) in respect of misstatements which relate solely to classification within the balance sheet, and £0.9 million (2017-18: £1.0 million) in respect of all other misstatements, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 20 (2017-18: 23) reporting components, we subjected four (2017-18: four) to full scope audits for Group purposes. The components within the scope of our work accounted for 99.7% of revenue, 97.3% of adjusted profit before tax and 99.7% of total assets.

The work on two (GLS and Royal Mail Property and Facilities Solutions) of the four components (2017-18: two of the four components) was performed by component auditors and the rest, including the audit of the parent company, by the Group team.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team also set the component materialities, which ranged from £3 million to £17 million (2017-18: £6 million to £17 million), having regard to the mix of size and risk profile of the Group across the components.

The Group team visited the GLS component and held telephone meetings with the RMPFS component (2017-18: visited the GLS component and held telephone meetings with RMPFS) at the planning, execution and finalisation stages of the audit including to assess the audit risk and strategy. The Group team attended the key clearance meetings. Telephone conference meetings were also held regularly with the component auditor. At these visits and meetings the findings were reported to the Group team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC CONTINUED

over the going concern period. The risks that we considered most likely to adversely affect the Group's financial resources over this period were:

- the potential impact of industrial action;
- deteriorating economic and market conditions, resulting in a greater than projected letter decline; and
- increased competition in the UK parcels sector.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking into account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts such as the impact of Brexit which could cause economic conditions to deteriorate.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the Group 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 a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 147 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 73 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with 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 report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 151, 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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: competition law, postal regulation and health and safety legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items. Further detail in respect of competition law is set out in the key audit matter disclosures in section 2 of this report.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Richard Pinckard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
21 May 2019**

CONSOLIDATED INCOME STATEMENT

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Notes	Reported 53 weeks 2019 £m	Reported 52 weeks 2018 £m
Continuing operations			
Revenue	2/3	10,581	10,172
Operating costs ¹	4/5	(10,107)	(9,936)
People costs		(5,782)	(5,974)
Distribution and conveyance costs		(2,606)	(2,356)
Infrastructure costs		(995)	(899)
Other operating costs		(724)	(707)
Operating profit before transformation costs²		474	236
Transformation costs		(133)	(113)
Operating profit after transformation costs²		341	123
Operating specific items			
RMSEPP buy-in settlement	10(c)	(64)	–
Employee Free Shares charge		(22)	(33)
Impairment/legacy/other costs		(75)	(8)
Amortisation of intangible assets in acquisitions		(20)	(16)
Operating profit		160	66
Profit on disposal of property, plant and equipment (non-operating specific item)		15	71
Earnings before interest and tax		175	137
Finance costs	6	(18)	(19)
Finance income	6	5	3
Net pension interest (non-operating specific item)	10(c)	79	91
Profit before tax		241	212
Tax (charge)/credit	7	(66)	46
Profit for the year		175	258
Profit for the year attributable to:			
Equity holders of the parent Company		175	259
Non-controlling interests		–	(1)
Earnings per share			
Basic	8	17.5p	25.9p
Diluted	8	17.5p	25.7p

¹ Operating costs are stated before transformation costs, RMSEPP buy-in settlement, Employee Free Shares charge, impairment/legacy/other costs and amortisation of intangible assets in acquisitions.

² These measures of performance are both before operating specific items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

AT 31 MARCH 2019 AND 25 MARCH 2018

	Notes	Reported 53 weeks 2019 £m	Reported 52 weeks 2018 £m
Profit for the year		175	258
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		239	(658)
Withholding tax payable on distribution of RMPP and RMSEPP surplus	10	(138)	(1,144)
Remeasurement gains of the defined benefit surplus in RMPP and RMSEPP	10(c)	383	10
Remeasurement losses of the defined benefit deficit in DBCBS	10(d)	(8)	–
Deferred tax	7	2	476
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		(9)	(4)
Exchange differences on translation of foreign operations (GLS)		(16)	1
Net gain/(loss) on hedge of a net investment (€500 million bond)		5	(5)
Net gain on hedge of a net investment (Euro-denominated finance lease payables)		1	–
Tax on above items	7	1	–
Designated cash flow hedges		(3)	2
Gains on cash flow hedges deferred into equity		14	11
Gains on cash flow hedges released from equity to income		(17)	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	(1)
Tax on above items	7	1	(1)
Total other comprehensive income/(expense) for the year		227	(660)
Total comprehensive income/(expense) for the year		402	(402)
Total comprehensive income/(expense) for the year attributable to:			
Equity holders of the parent Company		402	(401)
Non-controlling interests		–	(1)

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2019 AND 25 MARCH 2018

	Notes	Reported at 31 March 2019 £m	Reported at 25 March 2018 £m
Non-current assets			
Property, plant and equipment	12	2,066	2,016
Goodwill	13	380	324
Intangible assets	14	631	608
Investments in associates and joint venture	15	5	5
Financial assets			
Pension escrow investments	22	207	198
Derivatives	22	4	5
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	10	2,408	2,163
Other receivables		12	13
Deferred tax assets	7	64	72
		5,777	5,404
Assets held for sale	17	36	50
Current assets			
Inventories		27	25
Trade and other receivables	18	1,310	1,160
Income tax receivable		7	3
Financial assets			
Derivatives	22	8	15
Cash and cash equivalents	19/22	236	600
		1,588	1,803
Total assets		7,401	7,257
Current liabilities			
Trade and other payables	20	(1,883)	(1,927)
Financial liabilities			
Interest-bearing loans and borrowings		–	(1)
Obligations under finance leases	22/25	(37)	(59)
Derivatives	22	(3)	(3)
Income tax payable		(8)	(33)
Provisions	23	(58)	(59)
		(1,989)	(2,082)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	21/22	(431)	(436)
Obligations under finance leases	22/25	(88)	(110)
Derivatives	22	(2)	(4)
DBCBS retirement benefit deficit	10	(72)	–
Provisions	23	(104)	(103)
Other payables		(41)	(41)
Deferred tax liabilities	7	(55)	(45)
		(793)	(739)

	Notes	Reported at 31 March 2019 £m	Reported at 25 March 2018 £m
Total liabilities		(2,782)	(2,821)
Net assets		4,619	4,436
Equity			
Share capital	24	10	10
Retained earnings		4,576	4,381
Other reserves		33	45
Total equity attributable to parent Company		4,619	4,436

The financial statements were approved and authorised for issue by the Board of Directors on 21 May 2019 and were signed on its behalf by:

Rico Back
Group Chief Executive Officer

Stuart Simpson
Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Reported at 26 March 2017	10	4,940	40	7	4,997	1	4,998
Profit for the year	–	259	–	–	259	(1)	258
Other comprehensive (expense)/income for the year	–	(658)	(4)	2	(660)	–	(660)
Total comprehensive (expense)/income for the year	–	(399)	(4)	2	(401)	(1)	(402)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	–	(231)	–	–	(231)	–	(231)
Share-based payments (see Note 16)							
Employee Free Shares issue ¹	–	35	–	–	35	–	35
Save As You Earn (SAYE) scheme	–	1	–	–	1	–	1
Long-Term Incentive Plan (LTIP) ²	–	3	–	–	3	–	3
Deferred Share Bonus Plan (DSBP)	–	2	–	–	2	–	2
Employee exercise of SAYE options	–	28	–	–	28	–	28
Deferred tax on share-based payments	–	5	–	–	5	–	5
Settlement of LTIP 2014	–	(3)	–	–	(3)	–	(3)
Reported at 25 March 2018	10	4,381	36	9	4,436	–	4,436
Profit for the year	–	175	–	–	175	–	175
Other comprehensive income/(expense) for the year	–	239	(9)	(3)	227	–	227
Total comprehensive income/(expense) for the year	–	414	(9)	(3)	402	–	402
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	–	(242)	–	–	(242)	–	(242)
Reversal of put options for non-controlling interests	–	2	–	–	2	–	2
Share-based payments (see Note 16)							
Employee Free Shares issue ¹	–	23	–	–	23	–	23
Long-Term Incentive Plan (LTIP) ²	–	4	–	–	4	–	4
Deferred Share Bonus Plan (DSBP)	–	3	–	–	3	–	3
Purchase of own shares ³	–	(10)	–	–	(10)	–	(10)
Employee exercise of SAYE options	–	5	–	–	5	–	5
Deferred tax on share-based payments	–	(1)	–	–	(1)	–	(1)
Settlement of LTIP 2015	–	(3)	–	–	(3)	–	(3)
Reported at 31 March 2019	10	4,576	27	6	4,619	–	4,619

¹ Excludes £1 million credit (2017-18: £2 million credit) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.

² Excludes £1 million credit (2017-18: £1 million charge) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.

³ Shares required for employee share schemes.

A description of the reserves in the above table is included in Note 24.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Notes	Reported 53 weeks 2019 £m	Reported 52 weeks 2018 £m
Cash flow from operating activities			
Profit before tax		241	212
Adjustment for:			
Net pension interest	10(c)	(79)	(91)
Net finance costs	6	13	16
Profit on disposal of property, plant and equipment		(15)	(71)
RMSEPP buy-in settlement	10(c)	64	–
Employee Free Shares charge		22	33
Impairment/legacy/other costs		75	8
Amortisation of intangible assets in acquisitions		20	16
Transformation costs		133	113
Operating profit before transformation costs¹		474	236
Adjustment for:			
Depreciation and amortisation	12/14	391	341
EBITDA before transformation costs¹		865	577
Working capital movements		(231)	71
Increase in inventories		(2)	(2)
Increase in receivables		(176)	(7)
(Decrease)/increase in payables		(51)	89
Net decrease/(increase) in derivative assets		2	(9)
Decrease in provisions (non-specific items)		(4)	–
Pension charge to cash difference adjustment	10	70	458
Share-based awards (SAYE, LTIP and DSBP) charge		7	6
Cash cost of transformation operating expenditure ²		(123)	(125)
Cash cost of operating specific items		(6)	(12)
Cash inflow from operations		582	975
Income tax paid		(91)	(75)
Research and development expenditure credit		2	5
Net cash inflow from operating activities		493	905
Cash flow from investing activities			
Finance income received	6	5	3
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		25	40
London Development Portfolio net proceeds (non-operating specific item)		7	10
Purchase of property, plant and equipment ²		(264)	(219)
Acquisition of business interests, net of cash acquired		(212)	(16)
Purchase of intangible assets (software) ²		(100)	(141)
Payment of deferred consideration in respect of prior years' acquisitions		(4)	(2)
Net cash outflow from investing activities		(543)	(325)
Net cash (outflow)/inflow before financing activities		(50)	580

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE 53 WEEKS ENDED 31 MARCH 2019
AND 52 WEEKS ENDED 25 MARCH 2018

	Notes	Reported 53 weeks 2019 £m	Reported 52 weeks 2018 £m
Cash flow from financing activities			
Finance costs paid		(17)	(18)
Acquisition of non-controlling interests		(4)	–
Purchase of own shares		(10)	–
Employee exercise of SAYE options		5	28
Payment of capital element of obligations under finance lease contracts		(56)	(63)
Cash received on sale and leasebacks		13	35
Repayment of loans and borrowings		(1)	(32)
Dividends paid to equity holders of the parent Company	9	(242)	(231)
Net cash outflow from financing activities		(312)	(281)
Net (decrease)/increase in cash and cash equivalents		(362)	299
Effect of foreign currency exchange rates on cash and cash equivalents		(2)	2
Cash and cash equivalents at the beginning of the year	19	600	299
Cash and cash equivalents at the end of the year	19	236	600

¹ See APMs section on page 58 for a definition of these measures.

² Items comprise total gross investment within 'In-year trading cash flow' measure (see Financial Review).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

This Note explains how these consolidated financial statements have been prepared, including details of; the basis of preparation on an IFRS basis; use of non-IFRS performance measures; and the Directors' going concern assessment.

General information

Royal Mail plc (the Company) is incorporated in the United Kingdom (UK). The consolidated financial statements are produced in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 53 weeks ended 31 March 2019 (2017-18: 52 weeks ended 25 March 2018) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings and joint venture.

The consolidated financial statements for the 53 weeks ended 31 March 2019 were authorised for issue by the Board on 21 May 2019.

Basis of preparation and accounting

The consolidated financial statements are presented in Sterling (£) as that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest whole £million except where otherwise indicated. The consolidated financial statements have been prepared on an historic cost basis, except for pension assets and derivative financial instruments which are measured at fair value.

Accounting reference date

The Group's financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are prepared for the 53 weeks ended 31 March 2019 (2017-18: 52 weeks ended 25 March 2018). GLS' reporting year end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year end date of the last Sunday in March, a full year of GLS results is consolidated into the Group.

Presentation of results and accounting policies

The Group's significant accounting policies, including details of new and amended accounting standards adopted in the reporting year, can be found after the Notes to the consolidated financial statements.

The consolidated financial statements and associated Notes have been prepared in accordance with IFRS as adopted by the EU, i.e. on a 'reported' basis. In some instances, Alternative Performance Measures (APMs) are used by the Group to provide 'adjusted' results. This is because Management is of the view that these APMs provide a more meaningful basis on which to analyse business performance and is consistent with the way that financial performance is measured by Management and reported to the Board. Details of the APMs used by the Group are provided on page 58.

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 signing date of these financial statements to ensure that there is sufficient headroom to enable the Group to pay its creditors as they fall due.

The Directors have reviewed business projections and assessed these against committed and undrawn funding facilities (£1,050 million at 31 March 2019) and other liquid resources available to the Group (cash at bank £142 million and cash equivalent investments £75 million at 31 March 2019). Cash and cash equivalents and funding facilities available to the Group are described in further detail in Notes 19 and 21.

The Directors are satisfied that these facilities, coupled with business projections, show that the Group will continue to operate for a minimum of 12 months from the signing date of these financial statements.

The Group's Viability Statement can be found on page 73.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Segment information

The Group's revenue, costs and earnings before interest and tax are segmented in this Note to align with how business performance is managed and reported to the Royal Mail plc Board.

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the Royal Mail plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

A key measure of segment performance is operating profit before transformation costs (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see APMs section on page 58). This is consistent with how financial performance is measured internally and reported to the CODM.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Transfer prices between segments are set at an arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments.

53 weeks 2019	Adjusted			Specific items and pension adjustment ¹	Reported
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Eliminations ² £m	Group £m	Group £m
Continuing operations					
Revenue	7,732	2,888	(39)	10,581	10,581
People costs	(5,045)	(667)	–	(5,712)	(5,782)
Non-people costs	(2,320)	(2,044)	39	(4,325)	(4,325)
Operating profit before transformation costs	367	177	–	544	474
Transformation costs	(133)	–	–	(133)	(133)
Operating profit after transformation costs	234	177	–	411	341
Operating specific items					
RMSEPP buy-in settlement	–	–	–	–	(64)
Employee Free Shares charge	–	–	–	–	(22)
Impairment/legacy/other costs	–	–	–	–	(75)
Amortisation of intangible assets in acquisitions	–	–	–	–	(20)
Operating profit	234	177	–	411	160
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	15
Earnings before interest and tax	234	177	–	411	175
Finance costs	(17)	(1)	–	(18)	(18)
Finance income	3	2	–	5	5
Inter-segment interest	9	(9)	–	–	–
Net pension interest (non-operating specific item)	–	–	–	–	79
Profit before tax	229	169	–	398	241

¹ A net £1 million credit for specific items and a £70 million charge for the pension charge to cash difference adjustment relate to UKPIL. An £88 million charge for specific items relates to GLS, of which £68 million relates to the impairment of the GLS US businesses.

² Eliminations relate to intra-Group revenue from trading between UKPIL and GLS. This was due to Parcelforce Worldwide being GLS' partner in the UK. As the amounts involved have no impact on Group profit before tax and are not material, the prior year has not been adjusted.

2. Segment information (continued)

52 weeks 2018	Adjusted			Specific items and pension adjustment ³	Reported
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m	£m	Group £m
Continuing operations					
Revenue	7,615	2,557	10,172	–	10,172
People costs	(4,908)	(608)	(5,516)	(458)	(5,974)
Non-people costs	(2,204)	(1,758)	(3,962)	–	(3,962)
Operating profit before transformation costs	503	191	694	(458)	236
Transformation costs	(113)	–	(113)	–	(113)
Operating profit after transformation costs	390	191	581	(458)	123
Operating specific items					
Employee Free Shares charge	–	–	–	(33)	(33)
Legacy/other costs	–	–	–	(8)	(8)
Amortisation of intangible assets in acquisitions	–	–	–	(16)	(16)
Operating profit	390	191	581	(515)	66
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	71	71
Earnings before interest and tax	390	191	581	(444)	137
Finance costs	(18)	(1)	(19)	–	(19)
Finance income	1	2	3	–	3
Inter-segment interest	5	(5)	–	–	–
Net pension interest (non-operating specific item)	–	–	–	91	91
Profit before tax	378	187	565	(353)	212

³ A net £119 million credit for specific items and a £458 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £14 million charge for specific items relates to GLS.

The depreciation and amortisation below are included within 'operating profit before transformation costs' 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.

53 weeks 2019	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(213)	(45)	(258)
Amortisation of intangible assets (mainly software) ⁴	(121)	(32)	(153)
Non-current assets	2,103	991	3,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Segment information (continued)

52 weeks 2018	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(207)	(39)	(246)
Amortisation of intangible assets (mainly software) ⁴	(83)	(28)	(111)
Non-current assets	2,160	806	2,966

⁴ Includes £20 million (2017-18: £16 million) presented as an operating specific item in the income statement.

3. Revenue

This disclosure provides a disaggregation of Group revenue by revenue type. Revenue is recognised net of Value Added Tax and principally relates to the rendering of services derived from contracts with customers.

53 weeks 2019	UKPIL £m	GLS £m	Intra- Group revenue £m	Group £m
Letters and other revenue	2,963	–	–	2,963
Marketing mail	1,012	–	–	1,012
Parcels	3,757	2,888	(39)	6,606
Total	7,732	2,888	(39)	10,581

52 weeks 2018	UKPIL £m	GLS £m	Group £m
Letters and other revenue	3,051	–	3,051
Marketing mail	1,101	–	1,101
Parcels	3,463	2,557	6,020
Total	7,615	2,557	10,172

During the year, around £280 million (2017-18: £290 million) revenue was recognised which was previously held as a deferred revenue balance at 25 March 2018 (2017-18: 26 March 2017). This balance mainly relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' (see Note 20).

4. Operating costs

This analysis of operating costs in the income statement includes amounts that require either separate disclosure under IFRS or have been disclosed because of their nature and/or materiality.

Operating profit before transformation costs is stated after charging the following operating costs:

	53 weeks 2019 £m	52 weeks 2018 £m
People costs (see Note 5)	(5,782)	(5,974)
Distribution and conveyance costs		
Charges from overseas postal administrations	(348)	(342)
Fuel costs	(156)	(147)
Operating lease costs – vehicles	(25)	(21)
Short-term vehicle hire	(33)	(28)
Infrastructure costs		
Depreciation, amortisation and impairment	(391)	(341)
Charge for property, plant and equipment (see Note 12)	(258)	(246)
Charge for intangible assets (see Note 14) ¹	(133)	(95)

¹ Excludes £20 million (2017-18: £16 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

	53 weeks 2019 £m	52 weeks 2018 £m
Other operating costs		
Post Office Limited charges	(354)	(341)
Inventory expensed	(34)	(35)
Operating lease costs – property, plant and equipment	(165)	(152)

Regulatory body costs

The following disclosure is relevant in understanding the extent of ongoing compliance costs in relation to the regulation of the Group.

	53 weeks 2019 £m	52 weeks 2018 £m
Ofcom administrative charge	(3)	(3)
Citizens Advice/Consumer Council for Northern Ireland	(2)	(2)
Total	(5)	(5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Operating costs (continued)

Statutory audit costs

Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

	53 weeks 2019 £000	52 weeks 2018 £000
Auditor's fees		
Audit of Group statutory financial statements	(2,384)	(1,946)
Other fees to Auditor:		
Review of the interim financial information	(215)	(200)
Regulatory audit	(125)	(125)
Other assurance	–	(72)
Total	(2,724)	(2,343)

The 2018-19 fees relate to the services of the Group's appointed auditor KPMG LLP which in addition to the above amounts, was paid by the respective Trustees, £165,000 for the audit of the Royal Mail Pension Plan (2017-18: £98,000) and £35,000 for the audit of the Royal Mail Defined Contribution Plan (RMDCP) (2017-18: £31,000).

5. People information

People costs account for 57 per cent (2017-18: 60 per cent) of total Group operating costs (before transformation costs and specific items). The analysis below provides details of people costs and numbers as well as specific disclosures in relation to Directors' remuneration. Further details on Directors' remuneration paid can be found in the Directors' Remuneration Report.

People costs

	53 weeks 2019 £m	52 weeks 2018 £m
Wages and salaries	(4,666)	(4,506)
UKPIL	(4,086)	(3,976)
GLS	(580)	(530)
Pensions (see Note 10)	(635)	(1,006)
Defined benefit UK	(374)	(791)
Defined contribution UK	(82)	(57)
Defined benefit and defined contribution Pension Salary Exchange (PSE) UK	(172)	(151)
GLS	(7)	(7)
Social security	(481)	(462)
UKPIL	(401)	(391)
GLS	(80)	(71)
Total people costs	(5,782)	(5,974)
Defined benefit pension plan rates:		
Income statement – RMPP 6 days to 31 March 2018	41.0%	41.1%
– DBCBS from 1 April 2018	18.9%	–
Cash flow – RMPP 6 days to 31 March 2018	17.1%	17.1%
– DBCBS from 1 April 2018	15.6%	–
Defined contribution pension plan average rate:		
Income statement and cash flow ¹	8.0%	6.3%

¹ Employer contribution rates are two per cent for employees in the entry level category and ten per cent for the majority of those in the standard level category. For the remaining standard level employees, the employer contribution is either eight or nine per cent, depending on the employees' selected contribution rate.

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 ²				Headcount			
	Year end		Average		Year end		Average	
	53 weeks 2019	52 weeks 2018	53 weeks 2019	52 weeks 2018	53 weeks 2019	52 weeks 2018	53 weeks 2019	52 weeks 2018
UKPIL	147,148	147,985	149,212	149,281	142,757	141,162	141,792	141,034
GLS	14,969	13,866	14,954	13,694	19,221	17,955	19,198	17,812
Total	162,117	161,851	164,166	162,975	161,978	159,117	160,990	158,846

² 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.

Directors' remuneration

	53 weeks 2019 £000	52 weeks 2018 £000
Directors' remuneration ³	(2,300)	(3,257)
Amounts earned under Long-Term Incentive Plans (LTIP)	–	(356)
Number of Directors accruing benefits under defined benefit plans	–	–
Number of Directors accruing benefits under defined contribution plans	2	2

³ These amounts include any cash supplements received in lieu of pension. Details of the highest paid Director are included in the Directors' Remuneration Report.

6. Net finance costs

This Note provides details of interest payable on loans and finance lease obligations and interest received from investments and loans. This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the accounting standard IAS 19 'Employee Benefits'.

	53 weeks 2019 £m	52 weeks 2018 £m
Unwinding of discount relating to industrial diseases claims provision	(2)	(2)
Interest payable on financial liabilities	(16)	(17)
Syndicated bank loan facility		
Loans and borrowings	–	–
Unused facility fees	(2)	(2)
Arrangement fees	(1)	(1)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(11)	(11)
Finance leases	(3)	(4)
Capitalisation of borrowing costs on specific qualifying assets	2	3
Other finance costs	(1)	(2)
Finance costs	(18)	(19)
Finance income – interest receivable on financial assets	5	3
Net finance costs	(13)	(16)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Taxation

This Note provides details about current tax on profit and deferred tax relating to the impact of past events on expected future tax. The Note also provides details about the tax impact of specific items.

	53 weeks 2019 £m	52 weeks 2018 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	(21)	(45)
Foreign tax	(48)	(51)
Current income tax charge	(69)	(96)
Amounts over-provided in previous years	5	–
Total current income tax charge	(64)	(96)
Deferred income tax:		
Effect of change in tax rates	–	(4)
Relating to origination and reversal of temporary differences	3	133
Amounts (under)/over-provided in previous years	(5)	13
Total deferred income tax (charge)/credit	(2)	142
Tax (charge)/credit in the consolidated income statement	(66)	46
Tax credited/(charged) to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	1	–
Deferred tax:		
Tax credit/(charge) in relation to remeasurement gains of the defined benefit pension schemes	2	(2)
Tax credit in relation to the change in manner of recovery of the defined benefit pension surplus	–	478
Tax credit/(charge) on revaluation of cash flow hedges	1	(1)
Total deferred income tax credit	3	475
Total tax credit in the consolidated statement of other comprehensive income	4	475

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:

	53 weeks 2019 £m	52 weeks 2018 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	(1)	5
Total deferred income tax (charge)/credit recognised directly in equity	(1)	5

7. Taxation (continued)

Reconciliation of the total tax (charge)/credit

A reconciliation of the tax (charge)/credit in the income statement and the UK rate of corporation tax applied to accounting profit for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018 is shown below.

	53 weeks 2019 £m	52 weeks 2018 £m
Profit before tax	241	212
At UK statutory rate of corporation tax of 19% (2017-18: 19%)	(46)	(40)
Effect of different tax rates on non-UK profits and losses	3	(7)
Tax under-provided in previous years ¹	(3)	–
Non-deductible expenses	(7)	(7)
Impairment of goodwill	(13)	–
Tax reliefs and incentives (including previous years)	6	12
Tax effect of property disposals (including previous years)	5	18
Tax effect of closure of RMPP to future accrual	(2)	78
Net pension interest credit	15	–
Buy-in insurance policy for the RMSEPP	(12)	–
Uncertain current tax positions	1	(2)
Net increase in tax charge resulting from non-recognition of certain deferred tax assets	(8)	(3)
Share-based payments - deferred tax-only adjustments	(5)	1
Effect of change in tax rates	–	(4)
Tax (charge)/credit in the income statement	(66)	46
Tax on specific items and pension adjustment		
	53 weeks 2019 £m	52 weeks 2018 £m
Continuing operations	27	157
Total tax credit on specific items and pension adjustment	27	157

A tax credit on certain specific items and the pension adjustment of £27 million (2017-18: £157 million) has been recognised at statutory rates. In 2017-18, this credit amounted to £81 million along with certain tax-only adjustments totalling £76 million credit, for which no equivalent material adjustments were recognised in 2018-19.

The 2017-18 tax-only adjustments comprise the impact of the closure of the RMPP to future accrual of £78 million credit; the impact of property transactions of £2 million credit; and the impact of changes in tax law of £4 million charge.

¹ The tax under-provided of £3 million (2017-18: £nil) is different to the total tax underprovided in the income statement of £nil (2017-18: £13 million over-provided) as certain items have been disaggregated, specifically, tax overprovided of £2 million (2017-18: £13 million over-provided) relating to tax reliefs and incentives and tax over-provided of £1 million (2017-18: £nil) relating to the tax effect of property disposals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 53 weeks 2019	At 26 March 2018 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	At 31 March 2019 £m
Liabilities						
Accelerated capital allowances	(3)	–	–	–	(3)	(6)
Pensions temporary differences	(1)	1	–	–	–	–
Employee share schemes	(1)	1	–	(1)	–	(1)
Intangible assets	(48)	6	–	–	(15)	(57)
Hedging derivatives temporary differences	(2)	–	1	–	–	(1)
	(55)	8	1	(1)	(18)	(65)
Jurisdictional right of offset	10	–	–	–	–	10
Deferred tax liabilities	(45)	8	1	(1)	(18)	(55)
Assets						
Deferred capital allowances	14	(8)	–	–	–	6
Pensions temporary differences	–	11	2	–	–	13
Provisions and other	19	(1)	–	–	–	18
Losses available for offset against future taxable income	48	(13)	–	–	–	35
R&D expenditure credit	1	1	–	–	–	2
	82	(10)	2	–	–	74
Jurisdictional right of offset	(10)	–	–	–	–	(10)
Deferred tax assets	72	(10)	2	–	–	64
Net deferred tax asset	27	(2)	3	(1)	(18)	9

7. Taxation (continued)

Deferred tax by balance sheet category 52 weeks 2018	At 27 March 2017 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other compre- hensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	R&D credit £m	Jurisdictional right of offset £m	At 25 March 2018 £m
Liabilities								
Accelerated capital allowances	(16)	13	–	–	–	–	–	(3)
Pensions temporary differences	(647)	170	476	–	–	–	–	(1)
Employee share schemes	(11)	5	–	5	–	–	–	(1)
Intangible assets	(36)	(9)	–	–	(3)	–	–	(48)
Hedging derivatives temporary differences	(1)	–	(1)	–	–	–	–	(2)
	(711)	179	475	5	(3)	–	–	(55)
Jurisdictional right of offset	108	–	–	–	–	–	(98)	10
Deferred tax liabilities	(603)	179	475	5	(3)	–	(98)	(45)
Assets								
Deferred capital allowances	37	(23)	–	–	–	–	–	14
Provisions and other	20	(1)	–	–	–	–	–	19
Losses available for offset against future taxable income	62	(14)	–	–	–	–	–	48
R&D expenditure credit	4	1	–	–	–	(4)	–	1
	123	(37)	–	–	–	(4)	–	82
Jurisdictional right of offset	(108)	–	–	–	–	–	98	(10)
Deferred tax assets	15	(37)	–	–	–	(4)	98	72
Net deferred tax liability	(588)	142	475	5	(3)	(4)	–	27

Deferred tax assets and liabilities are offset within the same jurisdiction where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for balance sheet presentation purposes.

Deferred tax – balance sheet presentation	At 31 March 2019 £m	At 25 March 2018 £m
Liabilities		
GLS group	(55)	(45)
Deferred tax liabilities	(55)	(45)
Assets		
GLS group	7	11
Net UK position	57	61
Deferred tax assets	64	72
Net deferred tax asset	9	27

The deferred tax position shows a decreased overall asset in the reporting year to 31 March 2019. This decrease in the net asset is primarily resulting from the utilisation of tax losses and capital allowances and the recognition of deferred tax liabilities related to the acquisition intangibles for Dicom Canada.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Taxation (continued)

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangible assets in GLS Germany, for which the Group has already taken tax deductions, and intangible assets in relation to acquisitions in Canada and Spain. The deferred tax liability related to intangible assets recognised on the acquisition of Golden State Overnight Delivery Services Inc and Postal Express Inc has been written down in line with the US impairment.

At 31 March 2019, the Group had unrecognised tax losses and temporary differences of £333 million (2017-18: £327 million) with a tax value of £85 million (2017-18: £79 million). Unrecognised tax losses comprises £63 million (2017-18: £55 million) relating to losses of £215 million (2017-18: £188 million) in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £9 million (2017-18: £15 million) in relation to £51 million (2017-18: £90 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprises £5 million (2017-18: £nil) relating to GLS other temporary differences of £18 million (2017-18: £ nil) and £8 million (2017-18: £8 million) relating to UK other temporary differences of £49 million (2017-18: £49 million). The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £191 million (2017-18: £202 million) of capital losses, the tax effect of which is £32 million (2017-18: £34 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £421 million (2017-18: £406 million) of gains for which rollover relief has been claimed, the tax effect of which is £72 million (2017-18: £69 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate

The UK corporation tax rate is 19 per cent and will reduce to 17 per cent on 1 April 2020. In accordance with accounting standards, the effect of this rate reduction on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

8. Earnings per share

This Note explains the calculation of the Group's earnings per share. The adjusted earnings per share (a non-IFRS measure) is a key indicator used by Management to assess earnings performance.

	53 weeks 2019			52 weeks 2018		
	Reported	Specific items and pension adjustment ¹	Adjusted	Reported	Specific items and pension adjustment ¹	Adjusted
Attributable to equity holders of the parent Company						
Profit for the year (£million)	175	(130)	305	259	(196)	455
Weighted average number of shares issued (million)	1,000	n/a	1,000	999	n/a	999
Basic earnings per share (pence)	17.5	n/a	30.5	25.9	n/a	45.5
Diluted earnings per share (pence)	17.5	n/a	30.5	25.7	n/a	45.2

¹ Further details of the specific items and pension adjustment total can be found in the Financial Review on page 40 to 63.

The diluted earnings per share for the year ended 31 March 2019 is based on a weighted average number of shares of 1,000,375,291 (2017-18: 1,005,852,049) to take account of the potential issue of 445,534 ordinary shares resulting from the Deferred Share Bonus Plans (DSBP) for certain senior management and 88 ordinary shares resulting from the Save As You Earn (SAYE) scheme (see Note 16).

The 70,331 shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes (see Note 24). The Company, however, does not hold any shares in treasury.

9. Dividends

This Note provides details on the amount of dividends paid to equity holders of the parent Company during the year. Details are also provided on the amount of dividends per share which have been paid and proposed.

Dividends on ordinary shares	53 weeks 2019	52 weeks 2018	53 weeks 2019	52 weeks 2018
	Pence per share	Pence per share	£m	£m
Final dividends paid	16.3	15.6	162	154
Interim dividends paid	8.0	7.7	80	77
Total dividends paid	24.3	23.3	242	231

In addition to the above dividends paid, the Directors are proposing a final dividend for the year ended 31 March 2019 of 17.0 pence per share, equivalent to £170 million. This dividend will be paid to shareholders on 4 September 2019 subject to approval at the AGM to be held on 18 July 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Retirement benefit plans

This Note explains the pension plans in the Group and sets out the accounting, surplus valuation, key assumptions and sensitivities in accordance with IAS 19 'Employee Benefits'. In applying IAS 19, the Group has recognised an RMPP/RMSEPP pension asset of £2,408 million at 31 March 2019, compared with £2,163 million at 25 March 2018, and a DBCBS pension liability of £72 million at 31 March 2019 (at 25 March 2018: £nil).

Summary pension information

	53 weeks 2019 £m	52 weeks 2018 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs) ¹	(374)	(791)
UK defined contribution plan	(82)	(57)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions ²	(172)	(151)
Total UK ongoing pension service costs	(628)	(999)
GLS pension costs accounted for on a defined contribution basis	(7)	(7)
Total Group ongoing pension service costs	(635)	(1,006)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions ³	(304)	(321)
Defined contribution plans' employer contributions	(89)	(64)
UK defined benefit and defined contribution plans' PSE employer contributions	(172)	(151)
Total Group cash flows relating to ongoing pension service costs	(565)	(536)
RMSEPP deficit correction payments	(2)	(10)
Pension-related accruals (timing difference)	2	(2)
Pension charge to cash difference adjustment	(70)	(458)
	At 31 March 2019 '000	At 25 March 2018 '000
UK pension plans – active members		
UK defined benefit plan	83	83
UK defined contribution plan	51	47
Total	134	130

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 41.0 per cent (2017-18: 41.1 per cent) for the RMPP until 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the RMPP of £8 million (2017-18: £7 million) and the DBCBS of £2 million (2017-18: £nil) continue to be included within the Group's ongoing UK pension service costs.

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 The employer contribution cash flow rate forms part of the payroll expense and is paid in respect of the RMPP (17.1 per cent to 31 March 2018, and the prior period) and the DBCBS (15.6 per cent from 1 April 2018). This includes payments into RMPP pension escrow investments. The contribution rate for the RMPP is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS.

10. Retirement benefit plans (continued)

In the period, the Group operated the following plans.

UK Defined Contribution plan

Royal Mail Group Limited, the Company's main operating subsidiary, operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the RMPP to new members. Improvements to the RMDCP were made during the year and further details can be found in the Financial Review.

Ongoing UK defined contribution plan costs have increased from £93 million in 2017-18 to £135 million (including £54 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 6.3 per cent in 2017-18 to 8.0 per cent in 2018-19 following an increase in Company contributions from 1 April 2018.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)

The RMPP is funded by the payment of contributions to separate trustee administered funds. The RMPP includes sections A, B and C, each with different terms and conditions.

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987, or for members of Section A who chose to receive Section B benefits; and
- Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Section A/B members built up a pension of 1/80th of pensionable salary plus a tax-free lump sum of 3/80ths of pensionable salary for each year of pensionable service, until 31 March 2018.

Section C members built up a pension of 1/60th of pensionable salary for each year of pensionable service, until 31 March 2018. If they want to take a tax-free lump sum at retirement they do so by exchanging some of their pension.

From 1 April 2018, Section A, B and C members began building up benefits on a DBCBS basis.

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals. They provide day-to-day plan management, advise the Trustee on its responsibilities and ensure that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries – including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP – to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions – the Trustee invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members; and
- keeping members informed – the Trustee sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.

One week of RMPP⁴ service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2015 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Company more flexibility over how these assets are best used for the benefit of members in future. These contributions are not considered to be Plan assets as the Trustee does not have control over the assets.

Defined Benefit Cash Balance Scheme (DBCBS)

A new Defined Benefit Cash Balance Scheme (DBCBS) has been put in place from 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Section F of the RMPP is for RMDCP members who became eligible to join the RMPP and build up DBCBS benefits from 1 April 2018. RMPP section A, B and C members accrue benefits under the DBCBS from 1 April 2018.

The Company signed a new Schedule of Contributions on 27 March 2018. This covers the period of five years from the date of certification of the schedule i.e. until March 2023. In accordance with this schedule, the Company is required to make payments totalling 15.6 per cent per annum of pensionable payroll in respect of DBCBS.

⁴ Any references to the RMPP relate to the scheme's defined benefit pension liabilities built up to 31 March 2018. Members built up DBCBS benefits from 1 April 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Retirement benefit plans (continued)**Royal Mail Senior Executives Pension Plan (RMSEPP)**

Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. In accordance with the Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million was paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 25 March 2019, £500,000 per annum is due to be paid for the period 1 April 2019 to 31 March 2025.

On 21 September 2018, the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members. This insurance policy, alongside the previous insurance policy purchased in April 2016, means that substantially all the liabilities of the scheme are now covered by insurance policies. As with the previous insurance policy purchased in April 2016, this policy is considered an asset of the RMSEPP and does not confer any rights to individual members. This insurance policy includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. After consideration of the facts outlined above, Management has concluded that the purchase of this further insurance policy should be treated as a settlement. The difference between the IAS 19 surplus before and after the transaction has resulted in £64 million being charged to the income statement as an operating specific item.

All benefit payments due from the RMSEPP remain unchanged. The insurance policy exactly matches the value and timing of the benefits payable under the RMSEPP (for the remaining pensioners and deferred members) and the fair value is deemed to be the present value of the related obligation. The total value⁵ of the buy-in annuity policies in place is £335 million (March 2018: £148 million) and is included as a pension asset and a pension liability at 31 March 2019.

A liability of £2 million (2017-18: £2 million) has been recognised for future payment of pension benefits to a past Director.

In 2019-20 the Company expects to continue to contribute around £400 million in respect of all UK pension schemes.

Accounting and actuarial funding surplus position (RMPP, RMSEPP and DBCBS)

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds and the actuarial funding valuation uses gilt yields. As the accounting discount rate is higher than the actuarial funding discount rate, this leads to a lower computed liability. The triennial valuation of the RMPP at 31 March 2018 is still in progress. The actuarial funding position at that date will not be known until the actuarial valuation has been completed, with the results being very sensitive to the assumptions adopted at that date. However, based on a set of assumptions which we believe could form the basis for the March 2018 valuation and then rolled forward, the RMPP actuarial surplus at 31 March 2019 was estimated to be around £50 million (at 31 March 2018: £100 million). The accounting liabilities have been based on the preliminary results of the 31 March 2018 valuation rolled forward, and use certain assumptions that are expected to be consistent with funding valuation once finalised. As the actuarial funding figures are based on estimates, these are subject to change once the funding valuation has been finalised. The full funding valuation is expected to be concluded by the statutory deadline of 30 June 2019. The DBCBS will be subject to triennial actuarial valuations in the future. Below is a summary of the combined plans' assets and liabilities on an accounting (IAS 19) and actuarial funding basis.

	DBCBS Accounting (IAS 19)	DBCBS Actuarial funding	RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding	
	At 31 March 2019 £m	At 31 March 2019 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 31 March 2018 £m
Fair value of plans' assets (10(b) below) ⁶	402	402	10,803	10,361	10,877	10,461
Present value of plans' liabilities	(474)	(393)	(7,097)	(7,038)	(10,818)	(10,318)
Surplus in plans (pre withholding tax payable) ⁷	(72)	9	3,706	3,323	59	143
Withholding tax payable	n/a	n/a	(1,298)	(1,160)	n/a	n/a
(Deficit)/surplus in plans ⁸	(72)	9	2,408	2,163	59	143

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

⁵ In accordance with IAS 19.

⁶ Difference between accounting and actuarial funding asset fair values on 25 and 31 March 2018 arises from the different year end dates used for the valuation of the assets, and in both years due to the valuation of the RMSEPP buy-in assets under both methods.

⁷ Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

⁸ On an actuarial funding basis, the excess of DBCBS assets over liabilities is as a result of the risk reserve.

10. Retirement benefit plans (continued)

Having taken legal advice with regard to the rights of the Company under the trust deeds and rules, the Directors do believe there is a right to recognise a pension surplus on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis will result in a surplus on an actuarial funding basis. However, the Directors are required to account for the plans based on the Company's legal right to benefit from a surplus, using long-term actuarial funding assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus in the RMPP and RMSEPP, under IAS 19 and IFRIC 14, it must recognise the economic benefit it considers to arise from either a reduction to its future contributions or a refund of the surplus. This is a technical adjustment made on an accounting basis. There is no cash benefit from the surplus.

The legal right to benefit from a surplus has not changed as a result of the Company's decision to close the RMPP from 31 March 2018. However, since this date, any surplus is no longer considered to be recoverable as a reduction to future employer contributions. Therefore, at 31 March 2019 the surplus is considered to be available as a refund. This surplus is presented net of a withholding tax adjustment of £1,294 million (at 25 March 2018: £1,134 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 31 March 2019 of £10 million (pre withholding tax payable) (at 25 March 2018: £73 million surplus).

As the RMSEPP is closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 and, as such, is shown net of a withholding tax adjustment of £4 million (at 25 March 2018: £26 million) on the balance sheet which represents the tax that would be withheld on the surplus amount.

Guaranteed Minimum Pensions (GMP)

The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMP). From Royal Mail's perspective, the transfer of RMPP's historical pension liabilities to HM Government in 2012, in accordance with the Postal Services Act 2011, included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

The RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will be less than £0.5 million. This is still subject to further legal clarification on exact equalisation requirements, and also to the actual equalisation approach adopted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Retirement benefit plans (continued)

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP, RMSEPP and DBCBS assumptions.

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 31 March 2019	At 25 March 2018
Retail Price Index (RPI)	3.2%	3.1%
Consumer Price Index (CPI)	2.2%	2.1%
Discount rate – RMPP/RMSEPP ⁹		
– nominal	2.4%	2.4%
– real (nominal less RPI)	(0.8%)	(0.7%)
Discount rate – DBCBS ¹⁰		
– nominal	2.2%	2.4%
– real (nominal less RPI)	(1.0%)	(0.7%)
Rate of increase in pensionable salaries ¹¹	RPI–0.1%	RPI–0.1%
Rate of increase for deferred pensions	CPI	CPI
Rate of pension increases – RMPP Sections A/B	CPI	CPI
Rate of pension increases – RMPP Section C ¹¹	RPI–0.1%	RPI–0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	CPI	CPI
Rate of pension increases – RMSEPP all other members ¹¹	RPI–0.1%	RPI–0.1%
Rate of pension increases – DBCBS benefits	CPI+2.0%	CPI+2.0%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	28/26 years	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	29/27 years	31/29 years

⁹ The discount rate reflects the average duration of the RMPP of around 27 years and RMSEPP of around 20 years.

¹⁰ The discount rate reflects the average duration of the DBCBS benefits of 11 ½ years. The pension service cost applicable from 1 April 2018 is based on 25 March 2018 assumptions.

¹¹ The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

Mortality

The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (118 per cent for male pensioners and 116 per cent for female pensioners). Future improvements are based on the CMI 2017 core projections (smoothing factor 8.0) with a long-term trend of 1.5 per cent per annum. These assumptions were adopted following a recent mortality study undertaken as part of the March 18 actuarial valuation.

Sensitivity analysis for RMPP and DBCBS liabilities

The RMPP and DBCBS liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP and DBCBS liabilities is as follows:

Key assumption change	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m
Additional one year of life expectancy	–	270
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	6	180
Decrease in discount rate of 0.1% p.a.	6	180
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	6	35
Increase in constructive obligation of 0.1% p.a.	6	–

10. 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. 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 31 March 2019			At 25 March 2018 ¹²		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	10	–	10	12	3	15
Overseas	319	74	393	385	121	506
Bonds						
Fixed interest – UK	268	69	337	297	72	369
– Overseas	56	394	450	99	584	683
Index linked – UK	–	–	–	175	–	175
Pooled investments						
Absolute return	–	649	649	–	396	396
Equity	–	152	152	–	61	61
Private equity	–	80	80	–	53	53
Fixed interest	–	501	501	–	467	467
Private debt	–	202	202	–	147	147
Property	–	52	52	–	52	52
Liability-driven investment	7,126	270	7,396	6,296	386	6,682
Property (UK)	–	295	295	–	271	271
Cash and cash equivalents	385	–	385	426	–	426
Other	1	(6)	(5)	2	–	2
Derivatives	(7)	(20)	(27)	(113)	21	(92)
RMSEPP buy-in annuity policies		335	335	–	148	148
Total plans' assets	8,158	3,047	11,205	7,579	2,782	10,361

¹² Restated following re-interpretation of the classifications, including the allocation between quoted and unquoted assets.

There were no open equity futures or options derivatives within this portfolio at 31 March 2019 (2017-18: £nil). £7 billion (2017-18: £6 billion) of HM Government bonds are primarily included in liability-driven investment above. The plans' assets do not include property or assets used by the Group, or shares of the Royal Mail plc at 31 March 2019 (2017-18: £84,000 approximate market value of shares).

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan and to provide, together with contributions, the financial resource from which benefits are paid. Investments are inevitably exposed to risks. The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options, from time to time) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that seeks to balance these requirements.

The RMPP's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the funding liabilities which it was estimated would be built up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps and gilt repurchase agreements) held in liability-driven investments providing economic exposure to gilts and swap rates. The nature of risks and their mitigation process are similar for the DBCBS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Retirement benefit plans (continued)

The change in value of the liability-hedging assets is predominantly reflected in the liability-driven investment values above, which have increased from £6,682 million at 25 March 2018 to £7,396 million at 31 March 2019.

The notional value covered by the inflation rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 31 March 2019 was £2.4 billion (2017-18: £2.4 billion). The notional value covered by the interest rate swaps at 31 March 2019 was £1.5 billion (2017-18: £3.2 billion).

The equity exposure of the RMPP has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to reduce downside risk whilst broadly maintaining the existing expected returns. The TRS has a market value as at 31 March 2019 of £(20) million (2017-18: £21 million) included in the derivative values above. The TRS economically offset £303 million as at 31 March 2019 (2017-18: £257 million) of the Plan's global equity market exposure.

The RMPP's liabilities are impacted by longer than expected life expectancy resulting in higher than expected payout levels. Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.

A fall in yields on AA- rated corporate bonds, used to set the IAS 19 discount rates, will lead to an increase in the IAS 19 liabilities. The RMPP's assets included corporate bonds, HM Government bonds and interest rate derivatives that are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared with the discount rate in some scenarios.

In the pension schemes, many of the Inflation linked increases that apply are restricted to a maximum increase of five per cent in any year. Therefore, the pension schemes give some protection from this risk of significantly higher levels of Inflation (i.e. above five per cent a year), as many of the increases in the schemes would be restricted to five per cent in this scenario.

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

In addition to property and cash, the RMSEPP holds two buy-in annuity policies of £335 million at 31 March 2019 (2017-18: £148 million) to match its liabilities.

Further details on sources of material uncertainty relating to pension assets can be found in the significant accounting policies section ('Sources of estimation uncertainty', 'Pensions and other post-retirement benefits').

Further details on how the assets have been valued can be found in the significant accounting policies section ('Sources of estimation uncertainty and critical accounting judgements' and 'Pensions and other post-retirement benefits').

10. Retirement benefit plans (continued)

c) Movement in RMPP and RMSEPP assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Retirement benefit surplus (pre withholding tax payable) at 26 March 2018 and 27 March 2017	10,361	9,847	(7,038)	(5,992)	3,323	3,855
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(8)	(7)	(5)	(899)	(13)	(906)
RMSEPP buy-in settlement – operating specific item	(64)	–	–	–	(64)	–
Pension interest income/(cost) ¹³	247	251	(168)	(160)	79	91
Total included in profit before tax	175	244	(173)	(1,059)	2	(815)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial (loss)/gain arising from:						
Financial assumptions	–	–	(197)	(53)	(197)	(53)
Demographic assumptions	–	–	169	–	169	–
Experience assumptions	–	–	67	1	67	1
Return on plans' assets (excluding interest income)	344	62	–	–	344	62
Total remeasurement gains/(losses) of the defined benefit surplus	344	62	39	(52)	383	10
Other						
Employer contributions ¹⁴	3	272	–	–	3	272
Employee contributions	–	5	–	(5)	–	–
Benefits paid	(78)	(70)	78	70	–	–
Curtailment costs	–	–	–	(3)	–	(3)
Movement in pension-related accruals	(2)	1	(3)	3	(5)	4
Total other movements	(77)	208	75	65	(2)	273
Retirement benefit surplus (pre withholding tax payable) at 31 March 2019 and 25 March 2018	10,803	10,361	(7,097)	(7,038)	3,706	3,323
Withholding tax payable	n/a	n/a	n/a	n/a	(1,298)	(1,160)
Retirement benefit surplus (net of withholding tax payable) at 31 March 2019 and 25 March 2018	n/a	n/a	n/a	n/a	2,408	2,163

¹³ Pension interest income results from applying the plans' discount rate at 25 March 2018 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 25 March 2018 to the plans' liabilities at that date.

¹⁴ Excludes payments into pension escrow investments of £7 million (2017-18: £178 million), but includes PSE contributions of £1 million (2017-18: £115 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Retirement benefit plans (continued)**d) Movement in DBCBS assets, liabilities and net position**

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit deficit since the start of the scheme on 1 April 2018 are analysed as follows:

	Defined benefit asset	Defined benefit liability	Net defined benefit deficit
	2019 £m	2019 £m	2019 £m
Retirement benefit at 26 March 2018	–	–	–
Amounts included in the income statement			
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	(2)	(465)	(467)
Total included in profit before tax	(2)	(465)	(467)
Amounts included in other comprehensive income – remeasurement losses			
Actuarial gain loss arising from:			
Financial assumptions	–	(16)	(16)
Return on plan assets	8	–	8
Total remeasurement losses of the defined benefit deficit	8	(16)	(8)
Other			
Employer contributions ¹⁵	403	–	403
Employee contributions	4	(4)	–
Benefits paid	(11)	11	–
Total other movements	396	7	403
Retirement benefit deficit at 31 March 2019	402	(474)	(72)

¹⁵ Includes PSE contributions of £110 million.

11. Acquisition of businesses

This Note provides details of the Group's business acquisitions, which mainly relates to the acquisition 100 per cent of the share capital of Dicom Canada by GLS.

On 3 September 2018, the Group announced it had acquired Dicom Canada for total consideration of £211 million. This acquisition was funded through a mix of cash and the temporary drawdown of the Group's revolving credit facility. This information includes the fair value of the identifiable assets and liabilities recognised as at the date of acquisition.

	Dicom Canada £m	Other £m	Total £m
Tangible assets acquired	17	–	17
Intangible assets recognised on acquisition	103	1	104
Trade and other receivables	19	–	19
Cash and cash equivalents	2	–	2
Goodwill recognised on acquisition	110	3	113
Total assets acquired	251	4	255
Trade and other payables	(22)	–	(22)
Deferred tax liabilities	(18)	–	(18)
Net assets acquired	211	4	215
Cash paid during the year	212	2	214
Consideration (to be recovered)/deferred	(1)	2	1
Total consideration	211	4	215

The fair value of trade debtors is equal to the gross contractual amounts receivable. An initial review of trade debtors has not indicated any recoverability issues.

The intangible assets recognised relate to customer lists, software and brands. The goodwill of £113 million arising on these acquisitions, of which £107 million is non-tax deductible, is indicative of the acquired business knowledge of products and markets, and future efficiencies that are expected through changes in the operations.

No material fair value adjustments have been identified in respect of the remaining assets and liabilities acquired in the year.

Revenue generated from these entities since the date of acquisition is £88 million and profit is £8 million, of which £85 million and £8 million relate to Dicom. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £158 million and the profit would have been £15 million, of which £151 million and £14 million relate to Dicom.

There are no non-controlling interests in relation to these acquisitions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Property, plant and equipment

Below are details of the Group's property, equipment and vehicle assets, which are recorded at their historic cost (i.e. what the Group paid for them) less accumulated depreciation, reflecting their usage within the business over their useful life – from two to 50 years.

	Land and buildings			Plant and machinery	Motor vehicles	Fixtures and equipment	Total
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	£m	£m	£m
Cost							
At 26 March 2018	1,767	292	827	1,152	724	400	5,162
Exchange rate movements	(6)	–	–	(3)	(1)	(1)	(11)
Reclassification	(10)	2	10	(2)	–	–	–
Additions	115	2	10	57	79	35	298
Disposals	(8)	(1)	(3)	(26)	(51)	(10)	(99)
Acquisition of business	2	1	–	2	12	–	17
Reclassification from non-current assets held for sale	8	–	–	–	–	–	8
At 31 March 2019	1,868	296	844	1,180	763	424	5,375
Depreciation and impairment							
At 26 March 2018	922	191	611	770	361	291	3,146
Exchange rate movements	(2)	1	–	(1)	(1)	(1)	(4)
Reclassification	2	–	–	(2)	–	–	–
Charge for the year (see Note 4) ¹	46	8	35	72	60	37	258
Impairment (operating specific item)	–	–	–	1	2	1	4
Disposals	(4)	(1)	(4)	(25)	(45)	(11)	(90)
Reclassification to non-current assets held for sale	(5)	–	–	–	–	–	(5)
At 31 March 2019	959	199	642	815	377	317	3,309
Net book value							
At 31 March 2019	909	97	202	365	386	107	2,066
At 25 March 2018	845	101	216	382	363	109	2,016
Net book value comprises:							
Owned assets	909	85	200	296	167	107	1,764
Finance leased assets	–	12	2	69	219	–	302
At 31 March 2019	909	97	202	365	386	107	2,066

¹ Includes £12 million accelerated depreciation relating to a reassessment of the remaining useful lives of letters sorting machinery, recognised prospectively in 'infrastructure costs' in the income statement.

12. Property, plant and equipment (continued)

	Land and buildings			Plant and machinery	Motor vehicles	Fixtures and equipment	Total
	Freehold £m	Long leasehold £m	Short leasehold £m	£m	£m	£m	£m
Cost							
At 27 March 2017	1,743	287	799	1,129	702	393	5,053
Exchange rate movements	3	–	–	2	–	3	8
Reclassification	(23)	2	19	1	1	–	–
Additions	93	4	17	45	62	18	239
Disposals	(26)	(1)	(8)	(27)	(42)	(14)	(118)
Acquisition of business	–	–	–	2	1	–	3
Reclassification to non-current assets held for sale	(23)	–	–	–	–	–	(23)
At 25 March 2018	1,767	292	827	1,152	724	400	5,162
Depreciation and impairment							
At 27 March 2017	894	186	572	736	339	264	2,991
Exchange rate movements	1	–	–	2	1	1	5
Reclassification	(1)	–	–	1	–	–	–
Charge for the year (see Note 4)	44	6	42	57	58	39	246
Disposals	(8)	(1)	(3)	(26)	(37)	(13)	(88)
Reclassification to non-current assets held for sale	(8)	–	–	–	–	–	(8)
At 25 March 2018	922	191	611	770	361	291	3,146
Net book value							
At 25 March 2018	845	101	216	382	363	109	2,016
At 26 March 2017	849	101	227	393	363	129	2,062
Net book value comprises:							
Owned assets	845	88	213	298	142	109	1,695
Finance leased assets	–	13	3	84	221	–	321
At 25 March 2018	845	101	216	382	363	109	2,016

Depreciation rates are disclosed within 'significant accounting policies'. No depreciation is provided on land, which represents £229 million (2017-18: £223 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £207 million (2017-18: £122 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £362 million (2017-18: £389 million) in respect of building fit-out.

The £298 million (2017-18: £239 million) additions include £1 million (2017-18: £1 million) borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Goodwill

This Note provides details of the Group's goodwill, which mostly relates to its overseas subsidiary, GLS including its business acquisitions in the year.

	2019 £m	2018 £m
Cost		
At 26 March 2018 and 27 March 2017	715	703
Exchange rate movements	(7)	1
Acquisition of businesses	113	11
At 31 March 2019 and 25 March 2018	821	715
Impairment		
At 26 March 2018 and 27 March 2017	391	387
Exchange rate movements	(3)	4
Impairments (Operating specific item)	53	–
At 31 March 2019 and 25 March 2018	441	391
Net book value:		
At 31 March 2019 and 25 March 2018	380	324
At 25 March 2018 and 26 March 2017	324	316

The carrying value of goodwill of £380 million (2017-18: £324 million) at the balance sheet date includes £257 million (2017-18: £261 million) in relation to GLS' European network (cash generating unit – CGU). The carrying value of the GLS European network, excluding interest-bearing and tax-related assets and liabilities, is £775 million (2017-18: £719 million).

The recoverable amount of this CGU, being its net realisable value (i.e. 'fair value less costs to sell') for the purposes of the impairment review, has been assessed with reference to EBITDA earnings multiples for quoted entities in a similar sector of 5.8 (fair value hierarchy level 2 input – see significant accounting policies on page 223). On this basis, the CGU's net realisable value has been assessed to be in excess of the carrying value. The earnings multiples referenced would need to reduce by more than 43 per cent to 3.3 to reduce the net realisable value to below the carrying value.

GLS' US businesses (CGU) comprise Golden State Overnight Delivery Services Inc. (GSO) and Postal Express Inc. These businesses are in the process of being integrated to create an interstate overnight parcel delivery service with full US west coast coverage, with the aim of realising operational synergies and commercial benefits. While progress is being made against plans, the combined impact of local cost pressures, refocusing the customer base, transitioning to the new business model and ongoing integration costs means that the expected synergies and benefits will now take longer to be realised.

The recoverable amount of GLS' US businesses are based on 'value in use', using five year forecast cash flows, including terminal growth rates of one per cent and a pre-tax discount rate of 12.5 per cent, including a risk premium for the US.

In the first half year, these combined businesses were loss-making, with operating losses of around \$8 million (approximately £6 million). Management therefore performed an impairment review of the assets comprising the GLS US CGU on a 'value in use' basis and, as a result, the goodwill in these businesses, amounting to £49 million, was fully impaired, along with all other assets with a carrying value of £19 million.

During the reporting year, GLS acquired Dicom Canada which resulted in the recognition of £110 million goodwill for this GLS Canada CGU. There are no indicators of impairment of the carrying amount of this goodwill.

The remaining goodwill of £13 million (2017-18: £17 million) arising from an aggregation of goodwill on business acquisitions, each being a separate CGU within the UKPIL business, is not material in the context of the Group's total goodwill.

14. Intangible assets

Intangible assets, mainly software, are recorded in much the same way as the Group's physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (one to eleven years).

	2019					2018				
	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 26 March 2018 and 27 March 2017	21	76	945	18	1,060	21	72	807	14	914
Exchange rate movements	–	(6)	(2)	2	(6)	–	(1)	(1)	(1)	(3)
Additions	–	–	94	–	94	–	–	143	–	143
Disposals	–	–	(22)	–	(22)	–	–	(6)	–	(6)
Acquisition of business	–	87	10	7	104	–	5	2	5	12
At 31 March 2019 and 25 March 2018	21	157	1,025	27	1,230	21	76	945	18	1,060
Amortisation and impairment										
At 26 March 2018 and 27 March 2017	21	48	373	10	452	21	43	279	4	347
Exchange rate movements	–	(3)	(1)	2	(2)	–	–	–	–	–
Charge for the year (see Note 4) ¹	–	10	138	5	153	–	5	100	6	111
Impairment (operating specific item)	–	7	7	4	18	–	–	–	–	–
Disposals	–	–	(22)	–	(22)	–	–	(6)	–	(6)
At 31 March 2019 and 25 March 2018	21	62	495	21	599	21	48	373	10	452
Net book value:										
At 31 March 2019 and 25 March 2018	–	95	530	6	631	–	28	572	8	608
At 25 March 2018 and 26 March 2017	–	28	572	8	608	–	29	528	10	567

¹ Includes £30 million impairment relating to certain operational assets, recognised in 'infrastructure costs' in the income statement.

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The net book value of the Group's intangible assets includes £81 million (2017-18: £141 million) in respect of assets in the course of construction. The £94 million (2017-18: £143 million) additions include £1 million (2017-18: £2 million) borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £212 million (2017-18: £233 million). These assets relate to various IT initiatives taking place across the business. They have an average remaining useful life of eight years (2017-18: eight years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Investments in associates and joint venture

This Note provides details of the Group's associate and joint venture companies, including the Group's share of the revenue, profit and net assets of these entities.

Details of the associates and joint venture 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 31 March 2019 (2017-18: 25 March 2018), 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 2019	% ownership 2018
Associate company					
JICMAIL Limited	Market research	United Kingdom	31 March	20.0	–
Quadrant Catering Limited	Catering services	United Kingdom	30 September	51.0	51.0
Mallzee Limited	Personal shopping application (app)	United Kingdom	30 April	21.1	21.1
Market Engine Global Pty Limited	Software development	Australia	30 June	34.5	34.5
Joint venture company					
ParcelLock GmbH	Parcel locker provision	Germany	31 December	–	33.3

The majority of board membership and voting power to direct relevant activities in Quadrant Catering Limited (Quadrant) is held by the other investor company. For this reason, it is Management's view that the Group does not have control over Quadrant. It is therefore not considered to be a subsidiary in line with IFRS 10 'Consolidated Financial Statements'.

All shares in the joint venture ParcelLock GmbH were disposed of in August 2018. The profit on disposal was £260,000.

Movements in interests in associates

	2019 £m	2018 £m
Cost		
At 26 March 2018 and 27 March 2017	5	7
Share of loss after tax for the year from continuing operations ¹	–	–
Impairment ²	–	(2)
At 31 March 2019 and 25 March 2018	5	5

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

¹ The share of loss after tax is included within 'other operating costs' in the income statement.

² The impairment is included within 'legacy/other costs' in the income statement.

16. Share-based payments

This Note provides details about the Free Shares awarded to employees, including the associated accounting charge to the Group's income statement under IFRS 2 'Share-based Payment', and the number of shares held at the end of the reporting year. Details of shares awarded under the Long-Term Incentive Plan (LTIP), Deferred Shares Bonus Plan (DSBP) and Save As You Earn (SAYE) scheme are also included.

Employee Free Shares

Employee Free Shares are held on behalf of employees in a tax-advantaged Share Incentive Plan (SIP).

The shares are held in a Trust administered by Equiniti Share Plan Trustees Limited (Equiniti) and may only be distributed to, or for the benefit of, eligible employees. The Trust is funded by the Company and has therefore been consolidated within these financial statements.

2015 SIP

On 5 October 2015, ordinary shares representing one per cent of the Company were granted free of charge to eligible full-time employees by HM Government. This was in addition to a portion of the unallocated shares arising from earlier SIP schemes. Accordingly, each eligible full-time employee received 103 shares as their 2015 SIP allocation with part-time eligible employees being allocated a pro-rata number of shares. The vesting period for the award is three years from the award date with all allocated shares to be equity-settled.

16. Share-based payments (continued)

2016 SIP

On 6 October 2016, ordinary shares representing one per cent of the Company were granted free of charge to eligible full-time employees by HM Government. Accordingly, each eligible full-time employee received 81 shares as their 2016 SIP allocation with part-time eligible employees being allocated a pro-rata number of shares. The vesting period for the award is three years from the award date with all allocated shares to be equity-settled.

Partnership and matching shares

Beginning in October 2018, a partnership and matching share scheme was introduced for eligible employees. Under the terms of the scheme employees may elect to purchase a limited number of Royal Mail plc shares through monthly payroll deductions at the current market price (partnership shares). For every five partnership shares purchased, the employee receives one unallocated SIP share (matching shares), up to a maximum of two matching shares per month, free of charge.

At the year end there had been six such monthly awards and a total of 191,468 matching shares had been awarded to eligible staff members at a weighted average market price of 295.7 pence. The vesting period for each award is three years from the award date with all allocated shares to be equity-settled.

A charge to the income statement of £22 million (including a net £1 million National Insurance credit) has been made for the year ended 31 March 2019 for all SIP allocations (see page 48 of the Financial Review).

A reconciliation of the ordinary shares held in the SIP at 31 March 2019 is shown below.

	Number of shares
Total shares remaining in SIP at 26 March 2018	81,917,180
Shares sold/transferred out of SIP during the reporting year (fully vested)	(2,368,290)
Shares transferred out of SIP during the reporting year ('good leavers') ¹	(4,365,455)
Total shares remaining in SIP at 31 March 2019	75,183,435

¹ 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme.

Of the total shares remaining in the scheme, 72,589,514 have been allocated to current employees. The remaining 2,593,921 shares are unallocated and have arisen as a result of forfeitures.

Award of shares under the Long-Term Incentive Plan (LTIP)

2016 LTIP

LTIP awards were granted to senior management on 21 July 2016 and 8 December 2016 (together the 2016 LTIP). The vesting period of three years from 1 April 2016, and the performance conditions, are identical for both awards. These awards are equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 333.0 pence and 278.0 pence, respectively. The maximum shares that have the potential to vest under the 2016 LTIP are 2,337,394.

2017 LTIP

LTIP awards were granted to senior management on 28 July 2017 and 11 December 2017 (together the 2017 LTIP). The vesting period of three years from 1 April 2017, and the performance conditions, are identical for both awards. These awards are equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 203.0 pence and 283.0 pence, respectively. The maximum shares that have the potential to vest under the 2017 LTIP are 2,170,407.

2018 LTIP

LTIP awards were granted to senior management on 9 August 2018 (2018 LTIP) with a vesting period of three years from 1 April 2018. This award is equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 160.0 pence. The maximum shares that have the potential to vest under the 2018 LTIP are 1,230,222.

A charge to the income statement of £3 million (including £1 million credit for National Insurance) has been made for the year ended 31 March 2019 in relation to all LTIP schemes (2017-18: £4 million, including £1 million charge for National Insurance).

The LTIP shares are not part of the SIP explained above. Further details of each LTIP plan, including performance conditions, can be found in the Directors' Remuneration Report on page 136.

Deferred Shares Bonus Plan (DSBP)

2016 DSBP

DSBP awards were granted to senior management on 20 June 2017 (2016 DSBP). The vesting period is three years from 1 April 2017. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 441.4 pence. The maximum shares that have the potential to vest under the scheme are 557,261.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Share-based payments (continued)**2017 DSBP**

DSBP awards were granted to senior management on 20 June 2018 (2017 DSBP). The vesting period is three years from 1 April 2018. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 506.5 pence. The maximum shares that have the potential to vest under the scheme are 453,212.

Save As You Earn (SAYE) share option scheme

On 24 July 2014, a SAYE share option scheme was introduced for eligible employees. Under the terms of the scheme, the Board permits the grant of options in respect of ordinary shares in the Company to those employees who enter into an HMRC-approved SAYE savings contract.

These contracts are for a term of three years, with contributions from employees of an amount between £5 and £59 each month. The options purchased may be exercised during the six month period following the end of the contract at an exercise price of not less than 80 per cent of the average of the mid-market quotations of an ordinary Share over the three dealing days immediately preceding the offer date.

A charge to the income statement of £nil has been made for the year ended 31 March 2019 (2017-18: £1 million) in relation to the SAYE scheme. The fair values of the options have been calculated using the Black-Scholes share option pricing model.

The table below shows the movements in share options during the reporting year.

	Number of options
Balance at the beginning of the reporting year	2,772,480
Options exercised	(1,538,600)
Options expired	(1,229,574)
Options forfeited	(3,526)
Balance at the end of the reporting year	780

For SAYE options exercised during the year (by 'good leavers'), the weighted average share price at the date of exercise was 406 pence. The weighted average exercise price for each of the above categories of share options is 360 pence.

As a result of reaching the end of the contribution period and scheme rules in relation to 'good leavers', 780 (2017-18: 2,748,990) share options were exercisable at 31 March 2019 at a weighted average exercise price of 360 pence.

17. Non-current assets held for sale

This Note provides details of the assets classified as held for sale at the beginning and end of the reporting year. Assets and liabilities are classified in this way when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. Their value in the balance sheet is the lower of their carrying amount and fair value less costs to sell. At the reporting date of 31 March 2019, only certain surplus property assets are held for sale.

The balance sheet values of the assets held for sale during the reporting year are shown below.

	At 31 March 2019 £m	At 25 March 2018 £m
Property assets held for sale	36	50
Total	36	50

Property assets held for sale

Non-current assets held for sale of £36 million (2017-18: £50 million) relate to land and buildings in UKPIL which are being actively marketed with a view to a sale within 12 months. The carrying value relates primarily to plots at the Nine Elms site. The in-year decrease in the carrying value represents the reclassification of certain plots on this site back to property, plant and equipment (see Note 12). This is because although they are being marketed, they are not expected to be sold in the next 12 months due to the current economic climate and also, the expected length of negotiations with prospective purchasers. Management, however, remain firmly committed to a sale of these plots.

An assessment of the fair value of the properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

18. Current trade and other receivables

The following information relates to amounts owed to the Group by third parties and also the loss allowance for bad and doubtful debts that the Group has provided for in the financial statements.

	At 31 March 2019 £m	At 25 March 2018 £m
Trade receivables	1,176	999
Accrued income	31	37
Prepayments	103	124
Total	1,310	1,160

Movements in the loss allowance for bad and doubtful debts are shown below.

	2019 £m	2018 £m
At 26 March 2018 and 27 March 2017	(36)	(35)
Receivables provided for during the year	(17)	(24)
Release of allowance	5	9
Utilisation of allowance	10	19
Acquisition of business	(1)	(5)
At 31 March 2019 and 25 March 2018	(39)	(36)

The amount of trade receivables that were past due but not impaired are shown below.

	At 31 March 2019 £m	At 25 March 2018 £m
Not yet overdue	1,046	883
Past due not more than one month	101	88
Past due more than one month and not more than two months	16	16
Past due more than two months	13	12
Total	1,176	999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Cash and cash equivalents

This Note details the Group's cash balance and other short-term investments that can be readily converted into cash.

Cash and cash equivalents at 31 March 2019 and at 25 March 2018 are as follows:

	At 31 March 2019 £m	At 25 March 2018 £m
Cash at bank and in hand	141	172
Client cash	20	24
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	75	404
Total cash and cash equivalents	236	600

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.

20. Current trade and other payables

The following details relate to amounts owed by the Group to third-parties and deferred revenue for services still to be provided.

	At 31 March 2019 £m	At 25 March 2018 £m
Trade payables and accruals	(1,369)	(1,449)
Advance customer payments (mainly for stamps held, not yet used by customers)	(291)	(283)
Social security	(126)	(104)
Client creditors	(28)	(32)
Capital expenditure payables	(60)	(48)
Other	(9)	(11)
Total	(1,883)	(1,927)

The fair value of trade and other payables is not materially different from the carrying value.

21. Loans and borrowings

Details of loans and borrowings, including interest rates, additional loan facilities available and any security provided against the loans, are provided below.

	At 31 March 2019						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	–	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2022
€500 million bond – 2.375% Senior Fixed Rate Notes	430	–	430	2.5	Fixed at 2.5%	2024	2024
Loans in overseas subsidiaries	1	–	1	0.9	Fixed at 0.9%	2022	2022
Total	431	1,050	1,481	2.5		2024	2022

21. Loans and borrowings (continued)

At 25 March 2018

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	–	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2022
€500 million bond – 2.375% Senior Fixed Rate Notes	435	–	435	2.5	Fixed at 2.5%	2024	2024
Loans in overseas subsidiaries	2	–	2	1.4	Fixed at 1.4%	2020	2020
Total	437	1,050	1,487	2.4		2024	2022

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.158. The effective interest rate on the bond (2.5 per cent) consists of the interest coupon of 2.375 per cent plus the unwinding of the discount and fees on issuing the bond (0.08 per cent). The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a gain of £5 million (2017-18: £5 million loss) 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.

The syndicated bank loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenant relating to interest (excluding arrangement fees), adjusted net debt and EBITDA. It is not anticipated that the Group is at risk of breaching any of these obligations.

The covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3:1 and EBITDA to interest (excluding certain arrangement fees) above 3.5:1. Adjusted net debt consists of net debt plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote) and is adjusted for exchange rate movements during the year. The Group's leverage ratio at 31 March 2019 is 0.5:1 (2017-18: 0.2:1). The Group's ratio of EBITDA to interest (excluding certain arrangement fees) at 31 March 2019 is 72.8:1 (2017-18: 38.6:1). Accordingly, the Group comfortably meets the covenants tests within its syndicated bank loan facilities agreement.

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and also if the Group's leverage ratio exceeded 1:1. Under the loan agreement, the maximum interest rate chargeable would be LIBOR plus 1.45 per cent. The €500 million bond becomes repayable immediately on the occurrence of an event of default under the bond agreement. 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 £1,050 million of which £952 million are maturing in March 2022 with the remaining £98 million maturing in March 2020 (2017-18: £1,050 million of which £952 million are maturing in March 2022 and £98 million maturing in March 2020).

There is no security in place under the syndicated bank loan facilities or the bond.

The syndicated bank loan facility contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender. The €500 million bond 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Financial assets and liabilities and risk management

In considering the financial assets and liabilities of the Group, Management use judgement to assess the materiality to users of the financial statements, at a Group level, of each of the disclosure areas highlighted in IFRS 7 'Financial instruments: Disclosures'. This assessment is based on both the magnitude and nature of the financial instruments involved and informs the level of disclosure of the risk management objectives and policies in place across the Group provided in this Note.

The following table summarises the disclosures:

Disclosure requirement

a) Classification, carrying amount and fair values of financial assets and liabilities – Carrying amounts and fair value of each category of financial assets and liabilities.

b) Movement in liabilities arising from financing activities – A reconciliation of the opening and closing balances of liabilities arising from financing activities.

c) Foreign currency risk management – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

d) Commodity price risk management – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

e) Interest rate risk management – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

f) Liquidity risk management – How Management addresses the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

g) Credit risk management – How Management addresses the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

h) Sensitivity analysis – How the income statement and balance sheet would have been affected by changes in commodity prices and exchange rates in the reporting year.

a) Classification, carrying amount and fair value of financial assets and liabilities

The following table shows the classification, carrying amount and fair value of the Group's financial assets.

	Level	Classification	At 31 March 2019 Carrying amount £m	At 31 March 2019 Fair value £m	At 25 March 2018 Carrying amount £m	At 25 March 2018 Fair value £m
Financial assets						
Cash	1		161	161	196	196
Cash equivalent investments	1		75	75	404	404
Money market funds		Amortised cost	35	35	206	206
Short-term deposits – bank		Amortised cost	40	40	198	198
Cash and cash equivalents	1		236	236	600	600
Pension escrow investments	2	Amortised cost	207	207	198	198
Derivative assets (current)	2	FVTPL	8	8	15	15
Derivative assets (non-current)	2	FVTPL	4	4	5	5
Total financial assets			455	455	818	818

22. 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 31 March 2019 Carrying Amount £m	At 31 March 2019 Fair Value £m	At 25 March 2018 Carrying Amount £m	At 25 March 2018 Fair Value £m
Financial liabilities						
Loans in overseas subsidiaries (current loans and borrowings)	2	Amortised cost	–	–	(1)	(1)
Obligations under finance leases (current)	2	Amortised cost	(37)	(37)	(59)	(59)
€500 million bond	2	Amortised cost	(430)	(454)	(435)	(474)
Loans in overseas subsidiaries (non-current loans and borrowings)	2	Amortised cost	(1)	(1)	(1)	(1)
Obligations under finance leases (non-current)	2	Amortised cost	(88)	(95)	(110)	(116)
Derivative liabilities (current)	2	FVTPL	(3)	(3)	(3)	(3)
Derivative liabilities (non-current)	2	FVTPL	(2)	(2)	(4)	(4)
Total financial liabilities			(561)	(592)	(613)	(658)
Net total financial (liabilities)/assets			(106)	(137)	205	160

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss (FVTPL) and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of 'Significant accounting policies'.

The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from operations and are not considered further in this Note.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Financial assets and liabilities and risk management (continued)

b) Movement in liabilities arising from financing activities

The following table reconciles the opening and closing balances of liabilities arising from financing activities.

	Interest-bearing loans and borrowings (current) £m	Interest-bearing loans and borrowings (non-current) £m	Obligations under finance leases (current) £m	Obligations under finance leases (non-current) £m	Total £m
At 26 March 2018	(1)	(436)	(59)	(110)	(606)
Movements through income statement					
Interest payable on financial liabilities	(2)	(11)	–	(3)	(16)
Movements through cash flow					
Finance costs paid	2	11	–	3	16
Repayment of loans and borrowings	1	–	–	–	1
Payment of capital element of finance lease contracts	–	–	56	–	56
Cash received on sale and leasebacks	–	–	–	(13)	(13)
Other movements					
Reclassification between categories	–	–	(34)	34	–
Effect of foreign currency exchange rates	–	5	–	1	6
At 31 March 2019	–	(431)	(37)	(88)	(556)

	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 27 March 2017	(33)	(430)	(64)	(130)	(657)
Movements through income statement					
Interest payable on financial liabilities	(3)	(11)	–	(4)	(18)
Movements through cash flow					
Finance costs paid	3	11	–	4	18
Repayment of loans and borrowings	32	–	–	–	32
Payment of capital element of finance lease contracts	–	–	63	–	63
Cash received on sale and leasebacks	–	–	–	(35)	(35)
Other movements					
Non-cash increase in finance lease	–	–	–	(2)	(2)
Reclassification between categories	(1)	1	(58)	58	–
Effect of business combinations	(1)	(2)	–	–	(3)
Effect of foreign currency exchange rates	2	(5)	–	(1)	(4)
At 25 March 2018	(1)	(436)	(59)	(110)	(606)

22. Financial assets and liabilities and risk management (continued)

c) Foreign currency risk management

Foreign currency transaction risk

UKPIL is exposed to foreign currency risk due to interest payments on the €500 million 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. It also has some exposure to non-Euro currencies, principally in emerging European markets, and to the US Dollar.

Where possible, exposures are netted internally. Any remaining exposure is hedged using a combination of external spot and forward purchase and sale contracts. Hedging will not normally be considered for exposures of less than £1 million. Hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

The following table shows, for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

Hedge programme	Risk	Percentage of next 12 months' exposure that has been hedged	
		At 31 March 2019	At 25 March 2018
Capital programmes	€/£ exchange rate movements	82%	91%
Overseas postal administrations	SDR/£ exchange rate movements	84%	21%

The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

Foreign currency translational risk

The Group's functional currency is Sterling (£). GLS Euro profits are converted at the average exchange rate for the year which can result in reported growth or decline that does not relate to underlying performance. GLS' balance sheet is converted at year end exchange rates and movements related to foreign currency translation are taken to equity.

The €500 million bond issued in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. Royal Mail also entered into €15 million of Euro-denominated finance leases during the year (2017-18: €31 million). This similarly acts as a hedge of the net assets of GLS. The remaining net assets of GLS in excess of the 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 Euro-denominated finance lease payables, at closing Sterling/Euro exchange rates, are recognised in the consolidated 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 £5 million (2017-18: £5 million losses) and foreign exchange gains on the lease payables of £1 million (2017-18: £1 million losses) were recognised in the consolidated statement of comprehensive income. There was no hedge ineffectiveness in the current or prior reporting years.

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 bond and €78 million of finance leases) are held within cash or derivatives.

	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Net total financial assets/(liabilities) at 31 March 2019	222	17	(394)	49	(106)
Net total financial assets/(liabilities) at 25 March 2018	521	19	(381)	46	205

d) Commodity price risk management

UKPIL is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe - which consumes over 130 million litres of fuel per year - and a jet fuel price risk arising from the purchasing of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to manage these exposures.

In addition, the Group is exposed to the commodity price risk of purchasing electricity and gas. The Group's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers and using forward commodity price swaps in Sterling.

As the GLS business relies on the use of subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS is electricity, which is fragmented across its European bases. In view of the other highly hedged positions, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Financial assets and liabilities and risk management (continued)**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 31 March 2019, there was no external hedge of interest rate risk (2017-18: 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 31 March 2019					Total £m
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than 5 years £m	
Fixed rate						
Financial liabilities						
Loans in overseas subsidiaries	0.9	–	–	(1)	–	(1)
€500 million bond	2.5	–	–	–	(430)	(430)
Obligations under finance leases	2.7	(37)	(30)	(44)	(14)	(125)
Total		(37)	(30)	(45)	(444)	(556)
Floating rate						
Cash at bank	0.1	70	–	–	–	70
Cash equivalent investments – money market funds	0.8	35	–	–	–	35
Cash equivalent investments – bank deposits	0.9	40	–	–	–	40
Financial assets						
Pension escrow investments (non-current)	0.9	–	–	–	207	207
Total		145	–	–	207	352
Non-interest bearing						
Cash at bank or in hand		91	–	–	–	91
Derivative assets		8	4	–	–	12
Derivative liabilities		(3)	(2)	–	–	(5)
Total		96	2	–	–	98
Total financial assets		244	4	–	207	455
Total financial liabilities		(40)	(32)	(45)	(444)	(561)
Net total financial assets/(liabilities)		204	(28)	(45)	(237)	(106)

22. Financial assets and liabilities and risk management (continued)

	At 25 March 2018					Total £m
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than 5 years £m	
Fixed rate						
Cash equivalent investments – bank deposits	0.6	70	–	–	–	70
Financial liabilities						
Loans in overseas subsidiaries	1.4	(1)	(1)	–	–	(2)
€500 million bond	2.5	–	–	–	(435)	(435)
Obligations under finance leases	2.7	(59)	(27)	(69)	(14)	(169)
Total		10	(28)	(69)	(449)	(536)
Floating rate						
Cash at bank	0.2	73	–	–	–	73
Cash equivalent investments – money market funds	0.4	206	–	–	–	206
Cash equivalent investments – bank deposits	0.5	128	–	–	–	128
Financial assets						
Pension escrow investments – money market funds (non-current)	0.4	–	–	–	198	198
Total		407	–	–	198	605
Non-interest bearing						
Cash at bank or in hand		123	–	–	–	123
Derivative assets		15	4	1	–	20
Derivative liabilities		(3)	(4)	–	–	(7)
Total		135	–	1	–	136
Total financial assets		615	4	1	198	818
Total financial liabilities		(63)	(32)	(69)	(449)	(613)
Net total financial assets/(liabilities)		552	(28)	(68)	(251)	205

Drawings under the syndicated bank loan facilities are at fixed rate to maturity (which must be six months or less). There are no balances outstanding at 31 March 2019 (2017-18: none). The total interest-bearing financial assets of the Group (excluding the RMPP and RMSEPP pension escrow investments) of £145 million (2017-18: £477 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of three days (2017-18: an average maturity of four days). These short-dated financial instruments are maturity-managed to obtain the best value out of the interest yield curve.

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 2.7 per cent (2017-18: 2.7 per cent). The average maturity date is more than five years (2017-18: more than five years).

The RMPP pension escrow investment of £187 million (2017-18: £178 million) represents a money market fund investment, established with the agreement of the Pension Trustee for the benefit of members.

The RMSEPP pension escrow investment of £20 million (2017-18: £20 million) was established to provide security to the RMSEPP. The next scheduled review point in the agreement is in 2025 and the investment is therefore disclosed as maturing in more than five years. The escrow investment comprises a money market investment of £14 million (2017-18: £20 million) and a loan of £6 million (2017-18: £nil) to the Plan Trustees to enable them to purchase a further buy-in insurance policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Financial assets and liabilities and risk management (continued)**f) Liquidity risk management**

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facilities for the Group of £1,050 million expire in 2020-22 (2017-18: £1,050 million expiring in 2020-22).

Below is a summary of the gross (undiscounted) contractual cash flows of the Group's financial liabilities. The cash flows for the €500 million bond and Euro-denominated finance leases represent the undiscounted total amounts payable (interest and nominal repayment) which have been converted to Sterling at 31 March 2019 market forward exchange rates. For derivatives that are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

At 31 March 2019						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	10	39	49	91	3	143
More than one year (non-current)	514	207	721	–	2	723
More than one year but not more than two years	11	35	46	–	2	48
More than two years but not more than five years	32	51	83	–	–	83
More than five years	471	121	592	–	–	592
Total	524	246	770	91	5	866
Less interest	(63)	(119)	(182)	n/a	n/a	n/a
Less exchange rate adjustment	(30)	(2)	(32)	n/a	n/a	n/a
Net total	431	125	556	n/a	n/a	n/a

At 25 March 2018						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	11	62	73	91	3	167
More than one year (non-current)	537	231	768	–	4	772
More than one year but not more than two years	11	32	43	–	4	47
More than two years but not more than five years	34	77	111	–	–	111
More than five years	492	122	614	–	–	614
Total	548	293	841	91	7	939
Less interest	(76)	(122)	(198)	n/a	n/a	n/a
Less exchange rate adjustment	(35)	(2)	(37)	n/a	n/a	n/a
Net total	437	169	606	n/a	n/a	n/a

22. Financial assets and liabilities and risk management (continued)

g) Credit risk management

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that UKPIL is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, commensurate with the Group's appetite for risk. An analysis of aged debt is included within Note 18.

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 31 March 2019, 83 per cent of financial assets (2017-18: 73 per cent) were held with AA or above rated counterparties.

GLS operates a decentralised credit management model, with each country responsible for managing the credit risk associated with its customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the respective GLS companies.

None of the financial assets is either past due or considered to be impaired.

h) Sensitivity analysis

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to 2018-19 operating profit risk from interest rate risk or commodity price risk (2017-18: £nil risk). Further details of the Group's exposure to commodity price risk can be found in the Financial Review.

The Group has an exposure to the exchange rate risk on translating the GLS profits; on trading with overseas postal administrations; on various purchase contracts, and on the interest on the €500 million bond and Euro-denominated finance leases. The impact of a ten per cent strengthening of Sterling across all currencies on forecast profits/trade during 2018-19 would be to reduce the Group operating profit by £13 million (2017-18: £3 million). However, changes in exchange rates could also cause other impacts on operating profit, including a change in import/export volumes.

The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation. This is partially offset by an exposure on translating the €500 million bond and Euro-denominated finance leases into Sterling at each balance sheet date. The impact of a ten per cent strengthening of Sterling against all currencies at 31 March 2019 would have been to reduce the Group net assets by £27 million (2017-18: £24 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Provisions

This Note provides an analysis of the Group's constructive or legal obligations, resulting from a past event, that have been provided for in the financial statements.

	Transformation costs £m	Specific items £m	Other £m	Total £m
At 26 March 2018	(1)	(106)	(55)	(162)
Arising during the year:				
Charged in transformation costs and operating specific items	(46)	(1)	–	(47)
Charged in other operating costs	–	–	(27)	(27)
Unused amounts released	–	3	4	7
Utilised in the year	36	6	27	69
Unwinding of discount – industrial diseases claims	–	(2)	–	(2)
At 31 March 2019	(11)	(100)	(51)	(162)
Disclosed as:				
Current	(11)	(9)	(38)	(58)
Non-current	–	(91)	(13)	(104)
At 31 March 2019	(11)	(100)	(51)	(162)
Disclosed as:				
Current	(1)	(13)	(45)	(59)
Non-current	–	(93)	(10)	(103)
At 25 March 2018	(1)	(106)	(55)	(162)

Transformation costs

Transformation costs provisions comprise £11 million (2017-18: £1 million) in respect of redundancy schemes.

23. Provisions (continued)

Specific items and other provisions

Below is a summary of the ageing profile of specific items and other provisions.

	At 31 March 2019					At 25 March 2018				
	Expected period of settlement					Expected period of settlement				
	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m
Specific items										
Industrial diseases claims	(3)	(3)	(9)	(68)	(83)	(3)	(3)	(3)	(74)	(83)
German property tax	–	(5)	–	–	(5)	–	(5)	–	–	(5)
Employee Free Shares – NI	(4)	–	–	–	(4)	(5)	(1)	–	–	(6)
Legacy property costs	–	–	(1)	(5)	(6)	–	–	(1)	(6)	(7)
Other	(2)	–	–	–	(2)	(5)	–	–	–	(5)
Total	(9)	(8)	(10)	(73)	(100)	(13)	(9)	(4)	(80)	(106)
Other										
Property onerous lease and decommissioning obligations	(5)	(3)	(3)	(5)	(16)	(12)	–	(5)	–	(17)
Litigation claims	(30)	(1)	–	–	(31)	(31)	–	(1)	–	(32)
LTIP – NI	–	(1)	–	–	(1)	–	(2)	–	–	(2)
Other	(3)	–	–	–	(3)	(2)	(2)	–	–	(4)
Total	(38)	(5)	(3)	(5)	(51)	(45)	(4)	(6)	–	(55)

The potential liability for industrial diseases claims relating to both current and former employees of the Group arose in 2010 as a result of a Court of Appeal judgement that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11. The Group has derived its current provision by using estimates and ranges calculated by its actuarial adviser, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted.

Provisions for litigation claims mainly comprise outstanding liabilities in relation to road traffic accident and personal injury claims.

24. Share capital and reserves

This Note details the number of shares Royal Mail plc has issued, and any special features of the issued shares. A description of certain reserves that form part of total equity is also included.

	At 31 March 2019 £m	At 25 March 2018 £m
Authorised and issued		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 70,331 (2017-18: 513,230) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Share capital and reserves (continued)

Reserves included in the consolidated statement of changes in equity

Foreign currency translation reserve

The Foreign currency translation reserve is used to record the gains and losses arising since 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging reserve

The Hedging reserve is used to record gains and losses arising since 28 March 2005 from cash flow hedges.

25. Commitments

The information below includes details of committed future rental payments for the use of assets which the Group does not legally own, and are either not recognised on the Group's balance sheet (operating leases) or are recognised on the Group's balance sheet (finance leases) on the basis that the risks and rewards incidental to ownership of the leased assets lie with the Group.

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases:

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m
Within one year	(147)	(135)	(27)	(23)	(5)	(4)	(179)	(162)
Between one and five years	(489)	(395)	(74)	(64)	(11)	(5)	(574)	(464)
Beyond five years	(564)	(457)	(10)	(15)	–	–	(574)	(472)
Total	(1,200)	(987)	(111)	(102)	(16)	(9)	(1,327)	(1,098)

Existing leases for UK land and buildings have an average term of 17 years and lease renewals are agreed with the lessor as appropriate. Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of 10 years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being six years. The existing leases have an average term remaining of four years. The majority of the IT commitments relate to three contracts, with an average term remaining of two years.

Finance lease commitments

	At 31 March 2019		At 25 March 2018	
	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	(39)	(37)	(62)	(59)
Between one and five years	(86)	(74)	(109)	(96)
Beyond five years	(121)	(14)	(122)	(14)
Total minimum lease payments	(246)	(125)	(293)	(169)
Less future finance charges	119	–	122	–
Less exchange rate impact	2	–	2	–
Total	(125)	(125)	(169)	(169)

The Group has finance lease contracts for vehicles, land and buildings and plant and equipment. The leases have no terms of renewal, purchase options, escalation clauses or restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between one and five years, depending on the class of vehicle, with the average term being two years. Property leases have a term of between 10 and 109 years with the average term being 48 years. The plant and equipment leases have a term of five years.

Capital commitments

The Group has commitments of £73 million (2017-18: £62 million) for property, plant and equipment, £8 million (2017-18: £14 million) for vehicles and £3 million (2017-18: £11 million) for intangible assets, which are contracted for but not provided for in the financial statements.

26. Contingent liabilities

Contingent liabilities are possible obligations depending on the outcome of uncertain future events, or present obligations where outflows of resources are not certain or cannot be measured reliably. This disclosure has been included on the basis that the Group may be subject to a financial penalty, dependent on a future Ofcom decision.

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

The Group robustly defended its conduct in written and oral representations made to Ofcom during the investigation and continues to maintain that it has not infringed competition law. It launched an appeal with the Competition Appeal Tribunal on 12 October 2018 to have both Ofcom's decision and fine overturned. No fine is payable and Whistl's High Court claim is on hold until after the completion of the appeal process.

27. Related party information

This Note provides details of amounts owed to and from related parties, which include the Group's defined benefit pension plans (RMPP and RMSEPP), the Group's associate companies, and payments to key management personnel. Details of the Group's principal subsidiaries and associates are also provided.

Related party transactions

During the reporting year the Group entered into transactions with related parties as follows:

	53 weeks 2019 £m	52 weeks 2018 £m
Sales/recharges to:		
RMPP (administration and investment service recharge)	5	5
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	(7)	(7)
Amounts owed to:		
Associate undertaking (Quadrant Catering Limited)	(1)	(1)
Amounts owed from:		
RMSEPP ¹	6	–

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash.

¹ In December 2018 Royal Mail Group Ltd, a subsidiary of Royal Mail plc, agreed to a loan of £7,750,000 being made from the RMSEPP escrow to the Trustees of that Plan. This facilitated completion of the purchase of a buy-in policy of insurance. This loan is unsecured and is being repaid with the proceeds from the sale of Plan investments, as they are received by the Trustees. The loan is due to be repaid by 21 September 2019, or such later date as the Company agrees. At 31 March 2019, £6,200,200 is still outstanding. The outstanding loan is included as a non-current asset as it will be repaid to the pension escrow investment - money market funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Related party information (continued)**Key management compensation**

	53 weeks 2019 £000	52 weeks 2018 £000
Short-term employee benefits	(4,999)	(14,592)
Post-employment benefits	(23)	(70)
Other long-term benefits	(135)	(551)
Share-based payments	(1,531)	(3,679)
Total	(6,688)	(18,892)

Key management are considered to be the Executive and Non-Executive Directors of Royal Mail plc, all other members of the Executive Board (formerly the Chief Executive's Committee see pages 90 to 91) and the remainder of the Persons Discharging Managerial Responsibilities.

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 31 March 2019 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2019	% equity interest 2018
General Logistics Systems B.V. ²	Parcel services holding company	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100
Royal Mail Investments Limited	Holding company	United Kingdom	100	100
RM Property and Facilities Solutions Limited	Facilities management	United Kingdom	100	100

The Company has complied with section 410 of the Companies Act 2006 by including, in these financial statements, a schedule of interests in all undertakings (see Note 28).

² GLS' reporting year end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year end date (last Sunday in March) a full year of GLS results is consolidated into the Group.

28. Related undertakings of Royal Mail plc

This Note provides a full list of the related undertakings of Royal Mail plc in line with Companies Act requirements.

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 31 March 2019 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail plc Group.

Subsidiary undertakings included in the consolidation

Company Name	Share Class	% held by Group
Austria		
Traunuferstrasse 105A, A-4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	Ordinary shares	100.000
Belgium		
Humaniteitslaan 233, 1620 Drogenbos, Belgium		
General Logistics Systems Belgium N.V.	€100.00 Ordinary shares	100.000
GLS Belgium Distribution S.A/N.V.	€4.27 Ordinary shares	100.000
China		
Suite 966, 9F, No.2 bldg, China Central Place, No.79, Jian Guo Rd, Chao Yang District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	—	100.000

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Canada		
10500, av. Ryan Dorval Quebec H9P 2T7		
Dicom Transportation Group Canada, Inc.	Common shares, no par value	100.000
Dicom Real Estate Holdings, Inc.	Common shares, no par value	100.000
Modern Forwarding Incorporated	Common shares, no par value	100.000
Dicom Dedicated Fleet, Inc.	Common shares, no par value	100.000
1055, West Hastings Street, Suite 1700, Vancouver BC V6E 2E9		
1176984 B.C. Ltd	Common shares, no par value	100.000
Croatia		
10010360 Popovec, Varazdinska ulica 116, Croatia		
General Logistics Systems Croatia d.o.o	Ordinary shares	100.000
Czech Republic		
Průmyslová 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic s.r.o	Ordinary shares	100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
Kokholm 13, 6000 Kolding, Denmark		
General Logistics Systems Express A/S	DKK1,000.00 Ordinary shares	100.000
Finland		
Rydöntie 6, 20360 Turku, Finland		
General Logistics Systems Finland Oy	€50.00 Ordinary shares	100.000
France		
14 Rue Michel Labrousse, CS 93730, 31037 Toulouse Cedex 01, France		
General Logistics Systems France S.A.S	€50.00 Ordinary shares	100.000
GLS Invest France S.A.S	€271.21 Ordinary shares	100.000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Germany		
Doerrwiese 2, 36286 Neuenstein, Germany		
Der Kurier Beteiligungsgesellschaft mbH	Ordinary shares	100.000
Der Kurier GmbH & Co. KG	€2,561,572.32 Cash contribution	100.000
GLS Germany-Str. 1-7, 36286 Neuenstein, Germany		
General Logistics Systems Germany GmbH & Co. OHG	€47,968,004.75 Cash contribution	100.000
GLS IT Services GmbH	Ordinary shares	100.000
GLS Beteiligungs GmbH	Ordinary shares	100.000
GLS Verwaltungs-und Service GmbH	Ordinary shares	100.000
GLS eCom Lab GmbH	Ordinary shares	100.000
Wendenstraße 349, 20537 Hamburg, Germany		
Overnight Services GmbH Vermittlung Ueberregionaler Kurierdienste	Ordinary shares	100.000
Guernsey		
PO BOX 160, Dixcart House, St Peter Port, GY1 4EY, Guernsey		
Postcap (Guernsey) Limited	£1.00 Ordinary shares	100.000
Hungary		
GLS Europa utca 2, 2351 Alsonemedi, Hungary		
GLS General Logistics Systems Hungary Kft.	Ordinary shares	100.000
Ireland		
Unit 1 Stadium Business Park, Ballycoolin Road, Ballycoolin, Dublin, D11 DK24, Ireland		
RM Financing Operations Limited	€1.00 Ordinary shares	100.000
	€1.00 Redeemable Preference shares	100.000
RMF Operations Designated Activity Company	US\$1.00 Ordinary shares	100.000
	US\$1.00 Redeemable Preference shares	–
Italy		
Via Basento No. 19, 20098 San Giuliano Milanese, Italy		
Agone S.r.L	€10,000.00 Ordinary shares	100.000
General Logistics Systems Enterprise S.r.L	€1,014,000.00 Ordinary shares	100.000
General Logistics Systems Italy S.p.A.	€0.52 Ordinary shares	100.000
Gruppo Executive Societa Consortile a.r.l	€0.51 Ordinary shares	83.670
Luxembourg		
Avenue de Luxembourg, 2 a 4950 Bascharage		
General Logistics Systems Belgium S.A. Succursale de Luxembourg ¹	–	–

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, Netherlands		
General Logistics Systems B.V.	€100.00 Ordinary shares	100.000
Proostwetering 40, 3543 AG Utrecht, Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Holding B.V.	€0.50 Ordinary shares	100.000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100.000
Poland		
Ul. Teczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka zo.o	PLN1,721.00 Ordinary shares	100.000
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	Ordinary shares	100.000
Romania		
106, Str. Dorobantilor, 550231 Sibiu, Romania		
GLS General Logistics Systems Romania Srl	RON4,000.00 Ordinary shares	100.000
Slovakia		
Budca 1039, 962 33 Budca, Slovakia		
GLS General Logistics Systems Slovakia s.r.o	Ordinary shares	100.000
Slovenia		
Cesta v Prod 84, 1129 Ljubljana, Slovenia		
General Logistics Systems, logisticne storitve, d.o.o.	Ordinary shares	100.000

¹ Branch of GLS Belgium. No shares are issued or held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		
General Logistics Systems Spain S.A	€60.10 Ordinary shares	100.000
United Kingdom		
100 Victoria Embankment, London, EC4Y 0HQ, United Kingdom		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
Community Couriers Ltd ²	£1.00 Ordinary shares	100.000
Consignia (Customer Management) Limited ²	£1.00 Ordinary shares	100.000
Consignia Limited ²	£1.00 Ordinary shares	100.000
DGMH Clayton Limited ²	£1.00 Ordinary shares	100.000
Envision Licensing Limited ²	£1.00 Ordinary-A shares	100.000
	£1.00 Ordinary-B shares	100.000
	£1.00 Ordinary-C shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
IREC Partnership Limited ²	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Phatware Limited ²	£1.00 Ordinary shares	100.000
POSG Limited ²	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Finance (No2) Limited ²	£1.00 Ordinary shares	100.000
Royal Mail Finance Limited ²	£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
Royal Mail Investments Limited	£1.00 Ordinary shares	100.000
Senditnow Limited ²	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Viacode Limited ²	£1.00 Ordinary shares	100.000
Century House, 19 High Street, Marlow, Buckinghamshire, SL7 1AU, United Kingdom		
NetDespatch Ltd	£0.001 Ordinary-A shares	69.044
	£0.001 Ordinary-B shares	16.231
	£0.001 Ordinary-C shares	4.691
	£0.001 Ordinary-D shares	10.034

² In liquidation

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited (formerly Romec Limited)	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
Romec Enterprises Limited	£1.00 Ordinary shares	100.000
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000
USA		
1679 S. Dupont Highway, Suite 100, Dover, Delaware 19901, USA		
General Logistics Systems North America Inc.	USD 0.001 Common stock	100.000
7901 Stoneridge Drive, Suite 400, Pleasanton, CA 94588, USA		
Golden State Overnight Delivery Services, Inc.	1,000 Shares Common stock	100.000
3400 Capital Blvd SE 101, Tumwater, WA 98501, USA		
Postal Express, Inc.	428.57 Shares Common stock	100.000
676, N. Michigan Ave, Suite 3700, Chicago IL 60611		
Dicom JD, LLC. ³	–	100.000
Dicom Transportation Group Canada Parent, Inc.	99.00 Shares Common stock	100.000
Associate undertakings		
Company Name	Share Class	% held by Group
Associates		
Australia		
Level 1, 60 Toorak Road, South Yarra, VIC 3141		
Market Engine Global Pty Limited	AUD1.00 Preference shares	34.474
United Kingdom		
Hayweight House, 5th Floor, 23 Lauriston Street, Edinburgh, Scotland, EH3 9DQ, United Kingdom		
Mallzee Ltd	£0.01 Ordinary shares	21.050
Parklands Court, 24 Parklands, Birmingham Great Park, Rubery, Birmingham, West Midlands, B45 9PZ, United Kingdom		
Quadrant Catering Limited	£1.00 Ordinary-A shares	51.000
70 Margaret Street, London, W1W 8SS, United Kingdom		
JICMAIL Limited ⁴	–	20.000

³ Member managed company.⁴ Limited by guarantee.

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings. The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Transfer prices between business segments are set at arm's length/fair value on the basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control.

Non-controlling interests represents the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company. The non-controlling interests balance is presented within equity in the consolidated balance sheet, separately from equity attributable to shareholders of the Company.

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these financial statements are consistent with those in the Annual Report and Financial Statements for the year ended 25 March 2018, and the adoption of new and amended accounting standards with effect from 26 March 2018 as detailed below:

New and amended accounting standards adopted in 2018-19

IFRS 15 'Revenue from Contracts with Customers'

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

IFRS 2 (Amended) 'Classification and Measurement of Share-based Payment Transactions'

IFRS 4 (Amended) 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'

IAS 40 (Amended) 'Transfers of Investment Property'

Annual Improvements 2014-2016

The adoption of IFRS 15 has been made in accordance with all transitional provisions and disclosure requirements of the standard. Management has elected to follow the modified transition approach, under which there is no requirement to restate prior year balances, applying the standard to all contracts from 25 March 2018.

From a review of existing revenue policies and specific significant contracts in place at the transition date, no adjustment to the opening retained earnings balance was required. The adoption of IFRS 15 has had no significant impact on the current year financial statements or earnings per share.

The principal impacts of the new standard are additional disclosure requirements, which have been included in a new Note to the accounts, and required updates to the revenue recognition policy. Further details of these changes, and of all practical expedients applied, can be found in this section.

Other accounting standards

The Directors do not expect that the adoption of any other new or amended standards issued during the reporting period that are not yet effective will have a material impact on the financial performance or position of the Group in future periods.

IFRS 9

The Group adopted IFRS 9 'Financial Instruments' for the 2017-18 reporting year, one year earlier than the effective date advised by the International Accounting Standards Board.

Sources of estimation uncertainty and critical accounting judgements

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 are included within Note 10.

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. 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 10.

Constructive obligation – Defined Benefit Cash Balance Scheme (DBCBS)

In accounting for the DBCBS pension scheme Management must apply judgement in determining whether a constructive obligation exists in relation to annual pension benefit increases in the absence of a legal obligation. Any such constructive obligation must be included in the calculation of the fair value of the DBCBS defined benefit liability. From an assessment of announcements and internal communications made to members of the scheme to date, Management is of the view that scheme members would have a reasonable expectation of returns of CPI plus two per cent. Further details are available in Note 10, including sensitivities around measures involving CPI.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 20).

The majority of this balance is made up of stamps sold to the general public. To determine the amount of sales to defer, estimates of stamp volumes held are made on the basis of monthly surveys performed by an independent third-party. Surveys of this nature are inherently subjective, and rely upon the number and demographic profile of respondents. Together with the third party and consistent with prior years, we make adjustments that seek to address potential bias by capping and constraining the data.

The impact of these adjustments are shown in the table below:

Number of public stamp holdings		Capped			Uncapped
		30	As reported 99	300	
At 31 March 2019 (£m)	Constrained (as reported)	156	188	211	213
	Unconstrained	196	232	252	254
At 25 March 2018 (£m)	Constrained (as reported)	154	179	188	188
	Unconstrained	190	220	228	228

The survey provides a 95 per cent confidence that the amount reported is unlikely to fall outside a range of +/- £22 million (2017-18: £19 million), and this approximately represents 44 days of stamp holdings in the hands of customers. Should the actual number of days of stamp holdings be 10 days more or less, then the amount deferred would change by £43 million (2017-18: £43 million). The results are reviewed by Management in order to make a judgement of the carrying amount of the accrual.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other sources of estimation uncertainty

Business acquisition – Dicom Canada

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 Dicom Canada acquisition.

In determining the fair value of the intangible assets acquired, risk-adjusted future cash flows discounted using discount rates specific to the asset are generally used. In determining cash flows, a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows have been 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.
- internally developed software acquired was measured using a lost profit approach, taking into account additional software licensing costs, the replacement cost of recreating the existing technology platforms and foregone profits during a hypothetical rebuild phase.
- 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 over the fair value of the net identifiable assets acquired is recorded as goodwill. 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 Dicom Canada acquisition during the period are disclosed in Note 11.

Goodwill impairment – GLS US businesses cash generating unit (CGU)

In assessing whether there has been any impairment of goodwill, Management determines whether the CGU carrying value is higher than the recoverable amount of the underlying CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value in use. In the case of goodwill allocated to the GLS US businesses CGU, the realisable value is estimated using five year forecast cash flows. Details of the impairment review of the CGU and the relevant estimates and assumptions are included in Note 13.

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact. The industrial diseases claims provision arose as a result of a Court of Appeal judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981.

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The result of a 0.5 per cent decrease in the discount rate estimate would be a £6 million increase in the overall industrial diseases provision. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item. The carrying value of this provision is included within Note 23.

Critical accounting judgements

Contingent liabilities – Ofcom fine

Management considered Ofcom's decision following its investigation into whether Royal Mail had breached competition law, the subsequent imposition of a fine and Royal Mail's appeal of Ofcom's decision and fine. Following this assessment, which included extensive legal review, both internal and external to the Group, Management's view is that it is not probable that Royal Mail will be required to pay the fine and, accordingly, no liability should be recognised in these financial statements. Further details are provided in Note 26.

Pension settlement – Royal Mail Senior Executives Pension Plan (RMSEPP) buy-in

During the period the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members of the RMSEPP. Alongside previous insurance policies purchased, this means that substantially all the liabilities of the scheme are now covered by insurance policies. The new policy also includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. From an assessment of the nature of the policies in place, Management has applied judgement to conclude that the purchase of this additional insurance policy should be treated as a settlement under IAS 19.

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 considered to be 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.

Payment for services is typically received shortly before the related performance obligation is satisfied, leading to no significant contract assets or liabilities arising. In some cases payment 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 to still to be received recognised as a contract asset (accrued revenue).

In some instances volume-based incentives may be offered to customers, which leads to variable transaction prices. In these cases the relevant contracts are continually assessed, and revenue for services performed to date at the period end recognised in line with the expected contract outturn price. Where incentives are issued in the form of sales-based vouchers an element of the initial sales proceeds, proportional in value to the voucher issued, is held as a contract liability and released to revenue upon use or expiry of the voucher.

Further details of the major revenue streams in each operating segment are provided below:

UK Parcels, International and Letters (UKPIL)

Revenue from direct sales of products or services is recognised when services are rendered, goods are delivered and the amount of revenue that will flow to the Group can be measured reliably. Where payments are received for a service to be provided over a specified length of time, payments received are recognised as deferred revenue and released to the income statement over the period that the service is performed.

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Contracted services that have been paid for but not yet rendered at the balance sheet date are designated as deferred revenue.

Revenue derived from Network Access agreements is recognised when the delivery of the related items is complete.

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.

General Logistics Systems (GLS)

Revenue is derived from specific parcel contracts and is recognised when the delivery of an item is complete.

Practical expedients:

Management has taken advantage of the following practical expedients available under IFRS 15:

- (a) to not adjust transaction prices for financing components where it is expected that the time between payment and the satisfaction of the performance obligation is less than one year (IFRS 15.63);
- (b) to recognise any incremental costs of obtaining a contract (such as commissions) as an expense if the amortisation period of any capitalised costs would be expected to be less than one year (IFRS 15.94); and
- (c) to exclude disclosures on any remaining performance obligations where the original contract was expected to last for less than one year or where revenue from a service contract corresponds directly with value to the customer of the performance completed to date (IFRS 15.121(a-b)).

People costs

These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs.

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers, Parcelforce Worldwide delivery operators and GLS. These costs are disclosed separately on the face of the income statement.

Infrastructure costs

These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation/amortisation, IT and property facilities management costs. These costs are disclosed separately on the face of the income statement.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transformation costs

These costs relate to the ongoing transformation of the business, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs.

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.

RMSEPP buy-in settlement

These costs relate to the settlement costs incurred in the period arising from the purchase of a further buy-in insurance policy in respect of all remaining pensioners and deferred members of the RMSEPP by the RMSEPP Trustees (see 'Critical accounting judgements' on page 216).

Employee Free Shares charge

This relates to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2013, 2014, 2015 and 2016) with no direct cash impact on the Group.

Impairment/legacy/other costs

These costs relate either to the impairment of the GLS US network, unavoidable ongoing costs arising from historical events (industrial diseases provision) or restructuring costs.

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.

Non-operating specific items

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

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

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

Net pension interest

Management separately identifies pension interest income as this is not part of the Group's trading activity and is driven primarily by actuarial calculations.

Share-based payments

The Group operates a number of equity-settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the HMRC-approved (Employee Free Shares) Share Incentive Plan (SIP) and the Save As You Earn (SAYE) scheme. Both schemes are based on non-market conditions and do not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long-Term Incentive Plans (LTIP) vest based on a combination of non-market and market conditions. Share-based payments awarded as part of the Deferred Share Bonus Plan (DSBP) is a deferred share award, granted to Executive Directors at the end of the annual performance period, the grant being of equal value to the Annual Bonus, and subject to continued employment over a three year vesting period. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of each award is measured with reference to the share price upon issue and using the Black-Scholes model where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Income tax and deferred tax

The charge for current income tax is based on the results for the reporting year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- deferred 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 (EPS)

Basic EPS from continuing operations is calculated by dividing the profit/loss from continuing operations (adjusted for the non-controlling interests' share of profit) by the weighted average number of ordinary shares in issue. The total Group EPS is calculated in the same way, except that it also includes profit/loss from discontinued operations.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares arising from share-based payment schemes. These potential shares are treated as dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing an operating unit that offers different products and serves largely different markets.

The Board monitors the operating results of its main operating units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit before and after transformation costs.

Operating segments are made up of business units based in the UK, other parts of Europe and the US with the latter two being relevant to the GLS operations. The UK operating segment comprises the various business units which make up UKPIL. 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.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 50 years or the estimated remaining useful life
Plant and machinery	3 to 15 years
Motor vehicles	2 to 12 years
Fixtures and equipment	2 to 15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is derecognised. Gains or losses from the disposal of assets are recognised in the income statement at the point that all significant risks and rewards of ownership are transferred.

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts replaced is derecognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash-generating units (CGUs), or groups of CGUs, which are expected to benefit from synergies of the combination.

A goodwill impairment loss is recognised in the income statement for the amount by which the carrying value of the related CGU, or group of CGUs, exceeds the recoverable amount, which is the higher of a CGU's net realisable value and its value in use. Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported on the balance sheet as goodwill.

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have a finite useful life, with key strategic assets generally having the longest lives. Those with a finite life are amortised over their useful life, but are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Customer listings	3 to 10 years
Software	3 to 10 years
Brands	1 to 3 years

Investment in associates

The Group's investments in its associate companies are accounted for under the equity method of accounting. Under the equity method, an investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value. The income statement reflects the Group's share of annual post-tax profits from the associates (netted off other operating costs as the values are not material enough for separate disclosure).

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared with the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Borrowing costs

Interest on borrowings related to the construction or development of qualifying assets is capitalised, until such time as the assets are substantially ready for their intended use. Borrowing costs capitalised are deducted in determining taxable profit in the reporting year in which they are incurred.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, the assets (including those in a disposal group) cease to be depreciated.

Impairment reviews

Unless otherwise disclosed in these accounting policies, assets and CGUs are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or CGU) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In addition to lease contracts, other significant arrangements or contracts are assessed (by reference to IFRIC 4) to determine whether, in substance, they are, or contain, a lease. This assessment is based on the substance of the arrangement at inception date, including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. This 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. 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. The principal stock balance relates to engineering spare parts.

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.

Capital management

The Group has established four key objectives for capital management. Details of these can be seen in the Financial Review on page 52.

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

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Non-derivative financial assets which are held for the purpose of collecting contractual cash flows, including interest, are classified as financial assets measured at amortised cost. These assets are carried at amortised cost with finance income recognised in the income statement using the effective interest rate method. Any gains or losses are recognised in the income statement when the assets are derecognised or impaired.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. These liabilities are measured at amortised cost with finance costs recognised in the income statement using the effective interest method. Any gains or losses are recognised in the income statement when the liabilities are derecognised or impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Cash equivalents are classified as financial assets at amortised cost.

Financial assets – pension escrow investments

Pension escrow investments comprise a Royal Mail Senior Executives Pension Plan (RMSEPP) money market fund investment, a Royal Mail Pension Plan (RMPP) money market fund investment and a short-term loan to the RMSEPP Trustees.

Financial assets – other investments

Other investments comprise short-term deposits (other investments) with banks with an original maturity of three months or more. Short-term deposits are classified as financial assets at amortised cost.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost. The €500 million bond is measured at amortised cost in Euro and converted to Sterling at the closing spot Sterling/Euro exchange rate.

Financial liabilities – obligations under finance leases

All obligations under finance leases are classified as financial liabilities measured at amortised cost. The Euro-denominated finance lease creditors are measured at amortised cost in Euro and converted to Sterling at the closing Sterling/Euro exchange rate.

Derivative financial instruments and hedging programmes

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

Derivatives that do not qualify for hedge accounting are classified as FVTPL and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. Derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement'.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

Fair value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

The Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting year. For the purposes of disclosing the Level 2 fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date. For the €500 million bond, the disclosed fair value is calculated as the closing market bond price converted to Sterling using the closing spot Sterling/Euro exchange rate.

For the purposes of comparing carrying amounts to fair value, fair values have been calculated using current market prices (bond price, interest rates, forward exchange rates and commodity prices) and discounted using appropriate discount rates.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are discussed further in the 'Key sources of estimation uncertainty and critical accounting judgements' part of this accounting policies section.

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless an outflow of resources is considered to be remote.

Dividends

Distributions to owners of the Company are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders but not paid at the year end. Interim dividends are recognised as a distribution when paid.

Pensions and other post-retirement benefits

The pension assets for the defined benefit plans are measured at fair value (levels 1 and 2). Unquoted securities and other pooled investment vehicles are valued using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued using the latest external Royal Institute of Chartered Surveyors (RICS) valuations (under 'Red Book' guidelines) adjusted for any capex spend and impairments since that valuation. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions. Where the economic benefit to be obtained is in the form of a refund, this is recognised less tax expense, in line with IFRIC 14. The Group considers this tax to be a tax other than income tax, and the pension surplus is presented net of this tax on the balance sheet.

Full actuarial/cash funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed.

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

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the remeasurement gains and losses is also recognised immediately in the statement of comprehensive income.

For defined contribution plans, the Group's contributions are charged to operating profit within people costs in the year to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Foreign currencies

The functional and presentational currency of Royal Mail plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€) and for the overseas subsidiaries in the US it is the Dollar (US\$).

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 finance leases (designated as hedges of the net investment in GLS) to closing Sterling/Euro exchange rates are deferred to the foreign currency translation reserve in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss if GLS was sold.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of their historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Accounting standards issued but not yet applied

The following new and amended accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

IAS 1 (Amended) and IAS 8 (Amended) 'Definition of Material'*

IAS 19 (Amended) 'Plan Amendment, Curtailment or Settlement'*

IAS 28 (Amended) 'Long-term Interests in Associates and Joint Ventures'

IFRS 3 (Amended) 'Definition of a Business'*

IFRS 9 (Amended) 'Prepayment Features with Negative Compensation'

IFRS 10 (Amended) and IAS 28 (Amended) 'Sale of Assets between an Investor and its Associate or Joint Venture'*

IFRS 16 'Leases'

IFRS 17 'Insurance Contracts'*

IFRIC 23 'Uncertainty over Income Tax Treatments'

Annual Improvements 2015-2017*

* Not yet endorsed by the EU.

With the exception of IFRS 16, 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. IFRS 16 is explained in more detail below as it is considered of particular importance to the Group.

IFRS 16 'Leases'

Effective 1 January 2019, IFRS 16 'Leases' was issued in January 2016 to replace IAS 17 'Leases'. The Group will apply the standard with effect from 1 April 2019. As lessees the Group will capitalise operating leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments will be recognised as lease liabilities.

The most significant impact on the Group from applying IFRS 16 will be the recognition of 'right of use' assets in respect of property, vehicles and equipment, leased by the Group under contracts previously classified as operating leases under IAS 17. The Group will apply IFRS 16 on a modified retrospective basis without restating prior years and apply the following exemptions and choices on transition at 1 April 2019:

- Only apply IFRS 16 to contracts previously identified as leases under IAS 17.
- Apply a single discount rate to portfolios of leases with similar characteristics.
- Not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months; instead, continue to recognise the lease costs through the income statement as they are incurred.
- Rely on the assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right of use assets created. Where this is the case the carrying amount of the assets will be adjusted by the onerous lease provision.
- Exclude initial direct costs from the measurement of the right of use asset.

The opening balance sheet at 1 April 2019 will be adjusted to create 'right of use' assets of around £800 million to £1.0 billion. A corresponding lease liability of around £1.0 billion to £1.2 billion will also be recognised. Equity will decrease by around £100 million to £200 million after tax. This adjustment to equity arises from the decision to calculate the opening 'right of use' asset values for certain properties, as if IFRS 16 had always applied, and represents depreciation that would have been charged up to 1 April 2019. Based on the expected 'right of use' assets and associated liabilities at 1 April 2019, the estimated increase in 'operating profit after transformation costs' is around £35 million to £45 million.

The Group will continue to implement and refine procedures and processes to apply the new requirements of IFRS 16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above, before the 29 September 2019 half year results are issued. However, at this time these are not expected to be material.

Application of IFRS 16 by the Group is not expected to have a significant impact on Group finance lease accounting.

ROYAL MAIL PLC PARENT COMPANY FINANCIAL STATEMENTS

The Annual Report and Financial Statements primarily relates to the consolidated results of Royal Mail plc Group's trading entities. The mandatory disclosures in this section relate to the financial statements of the ultimate parent Company, Royal Mail plc ('the Company').

Statement of changes in equity

For the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Share capital £m	Retained earnings £m	Total equity £m
At 27 March 2017	10	1,984	1,994
Profit for the year	–	230	230
Employee exercise of SAYE options	–	28	28
Share-based payments	–	41	41
Dividend paid	–	(231)	(231)
At 25 March 2018	10	2,052	2,062
Profit for the year	–	235	235
Purchase of own shares	–	(10)	(10)
Employee exercise of SAYE options	–	5	5
Share-based payments	–	30	30
Dividend paid	–	(242)	(242)
At 31 March 2019	10	2,070	2,080

Balance sheet

At 31 March 2019 and 25 March 2018

Registered number: 08680755

	Notes	At 31 March 2019 £m	At 25 March 2018 £m
Non-current assets			
Investment in subsidiary	6	2,111	2,081
Total non-current assets		2,111	2,081
Current assets			
Trade and other receivables	7	427	434
Current liabilities			
Trade and other payables		(28)	(18)
Provisions	8	–	–
Net current assets		399	416
Interest-bearing loans and borrowings	9	(430)	(435)
Net assets		2,080	2,062
Equity			
Share capital	10	10	10
Retained earnings		2,070	2,052
Total equity		2,080	2,062

The balance sheet was approved and authorised for issue by the Board of Directors on 21 May 2019 and signed on its behalf by:

Stuart Simpson
Chief Finance 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 made up for the 53 weeks ended 31 March 2019 (2017-18: 52 weeks ended 25 March 2018).

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of the Company for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 21 May 2019. The Company is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The amendments to FRS 101 (2016-17 Cycle) issued in July 2017 and effective immediately have been applied.

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in Note 4 to these financial statements.

Basis of preparation

The Company has applied FRS 101 for all periods presented. The accounting policies which follow, set out those policies which apply in preparing the financial statements for the reporting year ended 31 March 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 'Financial Instruments: Disclosures';
- (b) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)¹;
- (c) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';
- (d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding);
- (e) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- (f) the requirements of IAS 7 'Statement of Cash Flows';
- (g) the requirements of paragraphs 17 and 18(a) of IAS 24 'Related Party Disclosures' (details of key management compensation and related party transaction amounts);
- (h) the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- (i) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Changes in accounting policy

The accounting policies are consistent with those of the previous year.

Key sources of estimation uncertainty and critical accounting 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 subsidiary

The investment in subsidiary is stated at cost plus deemed capital contributions arising from share-based payment transactions, less any accumulated impairment losses.

Trade receivables

Trade receivables are recognised at the original invoice amount less an allowance for any non-collectable amounts, including where collection is no longer probable.

¹ Exemption taken as equivalent disclosures are included within the consolidated financial statements of Royal Mail plc.

ROYAL MAIL PLC

PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Directors' remuneration

The Directors of the Company are not paid any fees by the Company for their services as Directors of the Company. The Directors are paid fees by other companies of the Group. This remuneration is disclosed in the Group consolidated financial statements (see Note 4).

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by other companies of the Group. This remuneration is disclosed in the Group consolidated financial statements (see Note 4).

4. Income statement

The Company is a non-trading company. The profit for the year of £235 million (2017-18: £230 million) is primarily the net sum of: the £243 million dividends received from Royal Mail Group Limited; management charges to and from Royal Mail Group Limited; and net interest on the €500 million bond and intercompany balances. A loss of £5 million and a profit of £5 million (2017-18: both £5 million), on the translation of Euro-denominated assets and liabilities has also been recognised in the year.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiary

	At 31 March 2019 £m	At 25 March 2018 £m
At 26 March 2018 and 27 March 2017	2,081	2,040
Investment in subsidiary – charge for Employee Free Shares/LTIP/DSBP/SAYE ¹	30	41
At 31 March 2019 and 25 March 2018	2,111	2,081

¹ Excludes £2 million credit (2017-18: £1 million credit) associated National Insurance costs.

7. Trade and other receivables

This balance mainly consists of an intercompany loan to Royal Mail Group Limited amounting to the proceeds from the issue of the €500 million bond (see Note 9).

8. Provisions

In relation to the transfer of Royal Mail Group Limited to the Company in 2013-14, a provision of less than £1 million remains.

9. Interest-bearing loans and borrowings

In July 2014 the Company issued €500 million 2.375 per cent Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375 per cent. The proceeds raised were loaned to Royal Mail Group Limited.

10. Share capital

	At 31 March 2019 £m	At 25 March 2018 £m
Authorised and issued		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 70,331 (2017-18: 513,230) are held by an Employee Benefit Trustee (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury.

The EBT is funded by the Company and has been treated as an extension of the Company for accounting purposes within these financial statements.

GROUP FIVE YEAR SUMMARY (UNAUDITED)

This five year summary includes the financial performance and position of the DPD SL subsidiary, up to and including the 2014 reporting year, after which time it was sold (on 31 March 2015).

	Financial reporting year ended March				
	53 weeks	52 weeks			
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Income statement – Reported					
Revenue	10,581	10,172	9,776	9,251	9,328
Operating profit before transformation costs	474	236	490	485	611
Transformation costs	(133)	(113)	(137)	(191)	(145)
Operating profit after transformation costs	341	123	353	294	466
Operating specific items	(181)	(57)	(134)	(156)	(248)
Non-operating specific items	15	71	12	29	133
Earnings before interest and tax	175	137	231	167	351
Finance income – net pension interest (non-operating specific item)	79	91	120	113	75
Finance costs	(13)	(16)	(16)	(13)	(26)
Profit before tax	241	212	335	267	400
Tax credit/(charge) (specific items and other)	(66)	46	(62)	(45)	(72)
Profit after tax	175	258	273	222	328

	At March financial reporting year end date				
	53 weeks	52 weeks			
	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Income statement – Adjusted					
Revenue	10,581	10,172	9,776	9,251	9,328
Operating profit before transformation costs	544	694	712	742	740
Transformation costs	(133)	(113)	(137)	(191)	(145)
Operating profit after transformation costs	411	581	575	551	595
Finance costs	(13)	(16)	(16)	(13)	(26)
Profit before tax	398	565	559	538	569
Tax	(93)	(111)	(121)	(118)	(138)
Profit after tax	305	454	438	420	431

GROUP FIVE YEAR SUMMARY (UNAUDITED) (CONTINUED)

At March financial reporting year end date

Balance sheet	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Property, plant and equipment	2,066	2,016	2,062	2,002	1,935
Intangible assets	631	608	567	451	300
Pension escrow investments	187	178	–	–	–
Inventories	27	25	23	21	20
Trade and other receivables	1,322	1,176	1,137	1,038	960
Trade and other payables	(1,924)	(1,968)	(1,857)	(1,741)	(1,708)
Other net assets/(liabilities)	42	30	26	(18)	(33)
Provisions	(162)	(162)	(196)	(247)	(253)
Goodwill	380	324	316	206	182
Investments in associates	5	5	7	9	5
Net operating assets and investments in associates	2,574	2,232	2,085	1,721	1,408
Cash and cash equivalents	236	600	299	368	287
Pension escrow investments	20	20	20	20	20
Loans and borrowings	(431)	(437)	(463)	(392)	(366)
Other net financial liabilities	(125)	(169)	(194)	(220)	(216)
Net cash/(debt)	(300)	14	(338)	(224)	(275)
Deferred tax assets/(liabilities)	9	27	(588)	(460)	(504)
Net assets before pension surplus	2,283	2,273	1,159	1,037	629
Pension surplus	2,336	2,163	3,839	3,430	3,367
Net assets	4,619	4,436	4,998	4,467	3,996

Financial reporting year ended March

	53 weeks	52 weeks			
People numbers – year end headcount	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
UKPIL	142,757	141,162	141,819	142,544	146,109
GLS	19,221	17,955	17,136	13,991	14,409
Group total	161,978	159,117	158,955	156,535	160,518

SHAREHOLDER INFORMATION

Managing your shares online

Shareholders can register through Shareview, a platform provided by the Company's registrars, to access shareholder information online. www.shareview.co.uk. This service allows you to:

- Manage your shares online.
- Receive notifications of new shareholder information by e-mail.
- Arrange dividend payments.
- Update personal records.

When registering, you will need to have your shareholder reference number which can be found on your share certificate, dividend voucher or AGM voting documents.

Shareholder fraud

Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares. While they promise high returns, investors usually end up losing their money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000 each. As much as £200 million is lost in the UK each year.

It is strongly advised that you only deal with financial services firms that are authorised by the FCA. You can report a firm or scam by contacting the FCA Consumer Helpline on 0800 111 6768 or using the reporting form at <https://www.fca.org.uk/consumers/report-scam-unauthorised-firm>. If you have already bought or sold shares through a 'boiler room', be especially careful as fraudsters are likely to target you again or sell your details to other criminals.

Information for investors

Our website provides information for investors, such as trading updates, share price information, AGM and dividend information, shareholder FAQs and results and reports. The website can be accessed via <http://www.royalmailgroup.com/investor-centre>. If you have any queries relating to your shareholding you can also email shareholderquestions@royalmail.com.

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Company number 08680755

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Tel: 0371 384 2656 (from outside the UK: +44 (0)121 415 7086). Lines are open 8:30am to 5:30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

Independent auditor

KPMG LLP

Corporate brokers

Bank of America Merrill Lynch
Barclays Bank plc

Financial Calendar

Strategy presentation	22 May 2019
Trading update	16 July 2019
Annual General Meeting	18 July 2019
Ex-dividend date	25 July 2019
Final Dividend Record date	26 July 2019
Final Dividend Payment date	4 September 2019

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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