Royal Mail Group

Full Year Results 2019-20

Released : 25 Jun 2020

RNS Number : 0511R
Royal Mail PLC
25 June 2020

Royal Mail plc
(Incorporated in England and Wales)
Company Number: 8680755
LSE Share Code: RMG
ISIN: GB00BDVZYZ77
LEI: 213800TCZZU84G8Z2M70

This announcement contains inside information for the purpose of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

FINANCIAL RESULTS

25 June 2020

ROYAL MAIL PLC
RESULTS FOR THE FULL YEAR ENDED 29 MARCH 2020

Royal Mail plc (RMG.L) is today announcing its Results for the full year ended 29 March 2020 and providing an update on trading since the year end.

Keith Williams, interim Executive Chair, Royal Mail Group, commented: "In recent years, our UK business has not adapted quickly enough to the changes in our marketplace of more parcels and fewer letters. COVID-19 has accelerated those trends, presenting additional challenges.

"We are implementing a three-step plan. Firstly, we're taking immediate action on costs, which will result in a £130 million saving in people costs next year and flat non-people costs, along with a reduction of around £300 million in capex across the Group over the next two years, to address the immediate impact of COVID-19. Regrettably, we are also proposing a management restructure impacting around 2,000 roles. We are committed to conducting the upcoming consultation process carefully and sensitively. We will work closely with our managers and their representatives during this difficult period, including supporting them as they transition into the next stage in their careers.

"Secondly, we're accelerating the pace of operational change in the UK to address long-standing challenges and be sustainable for the long term. Thirdly, we're working with all stakeholders to underpin the USO to ensure it reflects user needs and is modern, contemporary and sustainable. We want to ensure Royal Mail remains a key part of the UK economy, a good employer, and the nation's delivery partner of choice.

"At GLS, we are capitalising on growth opportunities in parcels, protecting margin in the short term with opportunities for margin expansion in the future. At the same time, we are seeking to improve performance in key markets. We will focus investment on growing markets, and improve cashflow.

"Royal Mail and GLS are different businesses, with different strategies. At Royal Mail, our focus is on a step change in transformation; at GLS we aim to continue to grow. Our new structure brings more focus and accountability and whilst there are few synergies today between Royal Mail and GLS, in the medium term an international presence is clearly important, and the opportunity remains to create more value for shareholders. Given the challenges of the current year, the Board does not intend to pay any dividend in relation to 2020-21, but our ambition is to re-commence dividend payments in 2021-22, supported by GLS.

"Finally, I'd like to offer my profound thanks to all my colleagues across the Group. Our UK postmen and women are playing a crucial role in mitigating the impact of the COVID-19 pandemic. They are key workers on the frontline. Our GLS colleagues have also gone the extra mile in the many countries in which they operate to support their customers and communities."

Financial and operational highlights

Reported Group Financial summary[1,2]

Reported results (£m)	52 weeks March 2020	53 weeks March 2019
Revenue	**10,840**	10,581

Operating profit before specific items	**217**	341
Profit before tax	**180**	241
Ha Basic earnings per share (pence)	**16.1**	17.5
Dividend per share (pence)	**7.5**	25.0

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

Adjusted Group Financial summary[1,2]

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

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

Group

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

Business units[1,2]

£m	Revenue			Adjusted operating profit		
	52 weeks March 2020	**52 weeks March 2019**	**Change[3]**	**52 weeks March 2020**	**52 weeks March 2019**	**Change[3]**
Royal Mail (UKPIL)	**7,720**	7,595	1.6%	117	199	(41.2%)
GLS	**3,161**	2,888	a9.5%	208	177	17.5%
Intragroup	**(41)**	(39)	5.1%	-	-	-
Group	**10,840**	10,444	3.8%	325	376	(13.6%)

Royal Mail (UKPIL)

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

GLS

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

range.

Current trading (first two months of 2020-21)

Royal Mail (UKPIL)

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

UK initiatives

- Taking action on two initiatives (management restructure and non-people costs) to deliver annual operating profit benefit in 2021-22 of £330 million.
- Management restructure, subject to consultation, targeting a reduction of c.2,000 roles out of a total population of c.9.700. Largest reductions in senior executive roles and non-operational functions. Expected to cost around £150 million, targeting annual benefit of £130 million in 2021-22.
- Targeting flat non-people costs, excluding depreciation, in 2021-22 versus 2019-20, with £200 million annual savings in 2021-22 offset by increases in parcel volume related costs.
- We are seeking to open talks with CWU on the need for change, future pay, and to address the issues raised in the ongoing industrial dispute. We expect that any pay inflation will be funded from productivity improvement cumulatively to March 2022.
- Capital expenditure review and reprioritisation: £250 million reduction across 2020-21 and 2021-22. Investment continues at higher than historical levels, including in parcel automation and hubs.
- Following the impairment of Parcelforce Worldwide assets, we expect depreciation charges in the UK to be broadly flat in 2020-21 versus 2019-20.
- No annual bonus for Executive Directors and Royal Mail executives in 2019-20.

GLS

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

GLS initiatives

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

Outlook 2020-21 and beyond

Financial outlook and scenarios

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

Dividend and balance sheet

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

Results presentation

A results webcast presentation for analysts and institutional investors will be held at 9:00am on Thursday 25 June 2020 at www.royalmailgroup.com/results.

For further information, please contact:
Investor Relations
John Crosse
Phone: 020 7449 8183
Email: investorrelations@royalmail.com

Company Secretariat
Mark Amsden
Phone: 020 7449 8289
Email: cosec@royalmail.com

Media
Shane O'Riordain
Phone: 07770 544585
Email: shane.oriordain@royalmail.com
Beth Longcroft
Phone: 07435 768 549
Email: beth.longcroft@royalmail.com

Royal Mail press office out of hours: 020 7449 8246

Footnotes - Financial and Operational Highlights

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

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

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

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

UK management initiatives

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

Our plan consists of three main strands:

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

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

Continuing to address the key challenges posed by COVID-19
We have already announced steps to underpin our financial position. We have not recommended a final dividend for 2019-20. No dividend is expected to be paid in respect of 2020-21. We are not paying annual bonuses to Executive Directors and Royal Mail executives for 2019-20.

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

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

This necessary change is about making us a leaner, more focused company. But, that does not detract from the fact that many hard working, highly valued colleagues are expected to leave our business. We are committed to conducting the consultation process carefully and sensitively, working closely with our people and their representatives. We will provide those leaving the business with a package of support to help them transition to the next stage in their career, including life beyond Royal Mail. This will include outplacement services such as CV writing, interview preparation, career choices and clarity on personal ambitions. This proposal is expected to cost £150 million. Subject to consultation, we expect to deliver annual benefits of £130 million in 2021-22.

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

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

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

Scenarios assessing the potential impacts of COVID-19 on trading for the year ending 28 March 2021

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

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

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

1. Impacts of COVID-19 from 29 March 2020 to end of May 2020

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

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

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

Below summarises the key income statement impacts of COVID-19	April 2020 (£m)	May 2020 (£m)	2 months to end May 2020 (£m)
Year on year UKPIL revenue change	(22)	(7)*	(29)*
Incremental overtime / agency costs, including social distancing costs	(25)	(15)	(40)
Incremental protective equipment costs	(8)	(5)	(13)
UKPIL year on year operating profit deterioration	(60)	(48)*	(108)*

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

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

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

Below summarises GLS trading performance in April and May 2020.

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

2. 2020-21 Scenarios
We have evaluated the impacts that COVID-19 may have on 2020-21 trading under two scenarios.

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

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

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

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

Royal Mail (UKPIL)

	HY1	HY2	2020-21
Scenario 1			
Letter revenue decline	**(22%)**	**(11%)**	**(16%)**
Parcel revenue growth	**20%**	**5%**	**12%**
Domestic parcels revenue	*24%*	*8%*	*15%*
International parcels revenue	*2%*	*(7%)*	*(3%)*
UKPIL revenue decline*			**(£200-250m)**
Net costs of mix change from letters to parcels	(£70m)	(£40m)	(£110m)
Incremental costs of absence, social distancing, protective equipment and other COVID-19 costs	(£80m)	(£60m)	(£140m)

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

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

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

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

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

	HY1	HY2	2020-21
Scenario 2			
Letter revenue decline	**(22%)**	**(22%)**	**(22%)**
Parcel revenue growth	**17%**	**4%**	**10%**
Domestic parcels revenue	*22%*	*9%*	*15%*
International parcels revenue	*1%*	*(11%)*	*(6%)*
UKPIL revenue decline*			**(£500-600m)**
Net cost of mix change from letters to parcels	(£65m)	(£35m)	(£100m)
Incremental costs of absence, social distancing, additional protective equipment and other COVID-19 costs	(£85m)	(£70m)	(£155m)

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

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

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

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

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

GLS

	HY1	HY2	2020-21
Scenario 1			
Revenue growth rate	8% to 12%	Flat to 2%	5% to 7%
Margin			**c. 6%**
The business is able to successfully respond to the swing in mix towards B2C and preserve margins of around 6%.			

	HY1	HY2	2020-21
Scenario 2			
Revenue change	7% to 9%	Flat to (5%)	Flat to 2%
Margin			**c.5%**
A more significant impact driven by stronger volume decline, leading to higher cost and price pressure.			

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

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

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

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

Interim Executive Chair's statement

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

Introduction
These are extraordinary times.

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

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

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

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

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

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

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

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

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

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

Royal Mail (UKPIL)

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

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

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

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

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

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

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

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

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

GLS

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

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

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

Dividend and balance sheet strength

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

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

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

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

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

Financing Facility if required.

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

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

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

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

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

Finally, I want to pass on my thanks to Les Owen, who stepped down as Chairman on 22 May 2019. Les stepped into the role at a difficult time, showing integrity and leadership, and generously sharing his knowledge and experience. He leaves with my thanks for his considerable contribution; not just to the Board but to Royal Mail as a whole, over many years.
Returning to my comments earlier, in relation to COVID-19, on behalf of the Board, I would like to reiterate my profound thanks to everyone at Royal Mail.

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

Keith Williams
Interim Executive Chair
24 June 2020

Business review 2019-20

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

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

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

Review of 2019-20[1]
Looking back at the key elements of our financial performance over a challenging year, we have achieved adjusted Group operating profit of £325 million. Excluding the impact of IFRS 16, the performance of £312 million was within our target range of £300-340 million.

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

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

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

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

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

Our plan is comprehensive. It seeks to address our challenges through three strategic priorities:
- "Turnaround and grow" the UK;
- "Scale up and grow" GLS; and
- Enhancing our cross-border proposition.

1. Turnaround and grow the UK

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

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

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

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

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

1a) Renewed focus on productivity and operational excellence
In this foundation year of our change programme, we sought to improve efficiency and productivity. Despite increasing UKPIL costs, in part driven by our three-year pay deal with CWU, we achieved costs avoided of £188 million, within our forecast range. Productivity improved by 1.0 per cent, lower than our original target of over two per cent. This reflects necessary additional investment to support quality and delays to local change initiatives due to the industrial relations environment.

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

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

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

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

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

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

1b) Network extension
A major part of our plan is the extension of the UK network, specifically to handle larger and Next Day parcels. The structural shift - not only in the UK delivery market, but across the globe - towards Next Day or Same Day delivery means it is expected to be the fastest growing delivery time category.

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

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

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

Turnaround and Grow: our progress

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

Transform our network:
- Linehaul arrangements being updated and data shared with Mail Centres for improvement opportunities.

- 11 Mail Centre layouts - optimising flow and processing - approved.

1c) Letters and parcels

i. Parcels performance

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

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

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

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

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

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

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

ii. Letters performance

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

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

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

COVID-19 update: parcels and letters

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

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

Our people

i. Our managers

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

ii. Frontline colleagues

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

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

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

Industrial relations

i. Ballots for industrial action

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

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

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

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

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

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

COVID-19 update: Our people's dedication, fortitude, and commitment has reminded the public of the crucial role we play in a digital world. Our UK postmen and women play a crucial role in mitigating the impact of the pandemic. Our GLS colleagues have also gone the extra mile in the many countries in which they operate to support their customers and communities.

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

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

2. Scale up and grow GLS

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

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

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

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

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

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

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

To deal with growing parcel volumes across the network, GLS has invested in a number of new hubs and depots across Europe. In Amsterdam, GLS has constructed a new depot, which doubles its capacity for parcel processing. The new depot is also environmentally efficient, with solar panels on the roof, supplying the depot with electricity and heat pump heating to reduce consumption and CO2 emissions. There are also charging stations for electric vehicles. We are, similarly, enhancing depots and hubs across Europe to enhance the GLS network and optimise the parcel handling process.

Scale up and grow GLS: our progress

Customer-focused service improvements:

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

New depots to increase capacity:

- Styria, Austria: increasing handling capacity by 70% - handling 29,000 parcels a day.
- Amsterdam: facility allows twice the number of parcels to be handled compared to previous facility.
- Essen, Germany: due to open Autumn 2020, depot will act as regional distribution hub for other sites in the area, as well as a European hub.
- Horsens, Denmark: taking total number of facilities in the country to 9. The 3,200 sq. m facility can handle 25,000 parcels a day, with room for further expansion.

COVID-19 update - GLS

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

3. Enhancing our cross-border proposition

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

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

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

Key external issues

i. Regulatory environment

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

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

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

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

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

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

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

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

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

ii. COVID-19 update

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

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

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

iii. USO sustainability

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

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

Providing the Universal Service means being able to deliver to nearly 31 million addresses, six days a week. This requires high volumes - and revenues - to fund doing so. But, given the decline in letters, in the last ten years or so, the average number of items per address has almost halved from two to nearly one. At the same time, the ability of the regulated business to make profits to sustain itself - the USO is entirely market funded, with no Government funding - is coming under significant strain. In the last five years, the profits made by the Reported Business have fallen by about 95 per cent[2].It is expected to be loss making in 2020-21.

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

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

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

Footnotes - Business review 2019-20

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

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

Financial Review

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

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

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

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

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

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

The tables below and on the following pages reconcile the 52 weeks 2018-19 adjusted results presented in this Financial Review to the 52 weeks 2018-19 adjusted results published previously. The reconciliation of the 53 weeks 2018-19 adjusted results are shown in the *'Presentation of Results and Alternative Performance Measures (APMs)'* section.

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

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

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

Adjusted operating profit before transformation costs	509	-	-
Transformation costs	(133)	133	-
Adjusted operating profit	**376**	**-**	**376**

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

Impact of IFRS 16

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

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

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

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

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

Footnotes for Financial Review - Introduction section

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

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

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

Royal Mail (UKPIL)

Reported results

Re-presented[1]

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

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

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

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

Adjusted results

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

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

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

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

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

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

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

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

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

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

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

Adjusted operating costs

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

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

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

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

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

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

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

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

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

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

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

Adjusted operating profit

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

Footnotes for Financial Review - Royal Mail (UKPIL) section

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

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

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

General Logistics Systems (GLS)

Reported results

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

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

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

Adjusted results

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

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

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

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

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

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

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

Germany

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

Italy

GLS Italy revenue grew by 2.7 per cent. Weak Italian GDP growth, Amazon expanding its own delivery network, and the competitive environment have impacted growth. The Italian government imposed restrictions due to COVID-19 also impacted GLS Italy operations in

February and March, with parcel flows in and out of the Lombardy and Venice regions particularly affected.

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

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

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

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

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

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

Other developed European markets (including Austria, Belgium, Denmark, Ireland, Netherlands and Portugal)
Revenue growth was achieved in the majority of GLS' other developed European markets. In particular, there was good volume and revenue growth in Denmark and Belgium. In Denmark, higher B2C volumes supported by investment in Parcel Shops is facilitating the growth.

Other developing/emerging European markets (including Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia)
We saw strong, double digit revenue growth in all developing/emerging European markets. We continue to invest in our network in these countries to take advantage of their growing parcel markets.

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

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

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

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

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

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

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

Footnotes for Financial Review - GLS section

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

Group results

Reported results

Re-presented[1]

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

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

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

Adjusted results

Group revenue

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

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

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

Group operating costs

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

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

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

Group operating profit

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

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

Specific items and pension charge to cash difference adjustment

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

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

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

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

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

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

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

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

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

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

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

Net finance costs

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

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

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

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

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

Taxation

(£m)	UKPIL	GLS	Group 52 weeks March 2020	UKPIL	GLS	Group 53 weeks March 2019

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

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

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

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

Adjusted earnings per share (EPS)

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

In-year trading cash flow

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

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

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

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

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

Gross capital expenditure

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

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

Net debt

A reconciliation of net debt is set out below.

(£m)	**52 weeks March 2020**	53 weeks March 2019
Net (debt)/cash brought forward at 1 April 2019 and 26 March 2018	**(300)**	14
Capitalisation of leases under IFRS 16	**(1,062)**	-
Free cash flow	**653**	(71)

In-year trading cash flow	**556**	117
Other working capital movements	**7**	6
Cash cost of operating specific items	**(2)**	(6)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**12**	25
Acquisition of business interests	**(17)**	(220)
Cash flows relating to London Development Portfolio	**97**	7
Purchase of own shares	**(3)**	(10)
Employee exercise of SAYE options	**-**	5
New lease obligation under IFRS 16 (non-cash)	**(156)**	-
Foreign currency exchange impact	**(20)**	4
Dividends paid to equity holders of the parent Company	**(244)**	(242)
Net (debt) carried forward	**(1,132)**	(300)

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

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

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

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

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

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

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

2019-20 Approach to capital management

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

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

Future approach to capital management

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

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

Pensions

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

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

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

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

Defined Benefit Cash Balance Scheme (DBCBS)

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

The DBCBS guarantees members a minimum lump sum at age 65. It is therefore being accounted for as a defined benefit scheme in a similar way to the RMPP. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance. An IAS19 deficit of £177 million (2018-19: £72 million) is shown on the balance sheet. The scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The DBCBS will be subject to triennial valuations from 2021.

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

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

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

Royal Mail Defined Contribution Plan (RMDCP)

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

Royal Mail Pension Plan (RMPP)

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

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

Royal Mail Senior Executives Pension Plan (RMSEPP)

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

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

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

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

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

Pension schemes are now under an obligation to address the issue of unequal Guaranteed Minimum Pensions (GMP). From the Group's perspective, the transfer of 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mount Pleasant

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

Nine Elms

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

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

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

Dividends

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

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

Dividend in respect of 2019-20

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

Footnotes for Financial Review - Group section

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

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

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

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

Presentation of Results and Alternative Performance Measures (APMs)

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

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 Group. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended 29 March 2020 was £1,089 million compared with cumulative adjusted profit after tax of £1,813 million. Annual reported profit after tax showed a range of £161 million to £273 million. The principal cause of the difference and volatility is due to pension-related accounting.

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

Presentation of results

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

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

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

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

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

Tax credit/(charge)	**31**	**(50)**	**-**	**(19)**	(23)	(43)	-	(66)
Profit for the period	**31**	**130**	**-**	**161**	137	38	-	175

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

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

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

Alternative Performance Measures (APMs)

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

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

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

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

Earnings before interest, tax, depreciation and amortisation (EBITDA) before specific items
EBITDA is reported operating profit before specific items with depreciation and amortisation and share of associate company profits added back.

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

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

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

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

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

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

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

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

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

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

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

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

Operating specific items

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

Regulatory fine

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

Employee Free Shares charge

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

Accounting impact of RMSEPP settlement

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

Amortisation of intangible assets in acquisitions

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

Legacy/other costs/credits

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

Non-operating specific items

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

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

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

Free cash flow

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

In-year trading cash flow

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

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

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

Gross capital expenditure

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

Net debt

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

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

(£m)	At 29 March 2020	At 31 March 2019
Loans/bonds	**(1,635)**	(431)
Leases	**(1,188)**	(125)
Cash and cash equivalents	**1,640**	236
Investments	**30**	-
Client cash	**21**	20
Pension escrow (RMSEPP)	**21**	20
Net debt	**(1,132)**	(300)

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

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

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

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

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

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

Adjusted effective tax rate

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

Principal Risks and Uncertainties

Principal risk	**Status**	**How we are mitigating the risk**
Transformation and the risk of industrial action There is extensive trade union recognition in respect of our workforce in the UK, with strong and active trade unions. As Royal Mail Group continues to transform in order to remain competitive in the letters and parcels markets, including delivering its 'turnaround and grow' plan in the UK, there remains a risk of industrial action.		
Industrial action	➢ **High severity** ➢ **Increasing risk** ➢ **Fast speed**	
There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action. The absence of major industrial action is a key assumption underpinning the 'turnaround and grow' plan in the UK. The plan requires a high level of operational change in an increasingly competitive market. This has already put additional strain on the stability of our industrial relations. Widespread localised or national industrial action would cause material disruption to our business in the UK. It would likely 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.	During the year, the threat of industrial action has impacted our UK business: - our UK 'turnaround and grow' plan is behind schedule, in part due to the industrial relations environment. - additional investment was required to protect service quality to manage the impact of the threat of industrial action on Christmas and the December 2019 UK General Election, which has impacted productivity for 2019-20. - a small number of customers moved volumes to other carriers due to the threat of industrial action in December 2019. Following the High Court ruling that the CWU's October 2019 ballot for industrial action was unlawful and void, we approached CWU in January 2020 to offer mutual interest talks. CWU withdrew from those talks. On 4 February 2020, CWU announced a timeline for a further ballot for industrial action. On 17 March 2020, it confirmed 94.5 per cent of Royal Mail members who	We are working with CWU during the COVID-19 pandemic to ensure we achieve our objectives to: i) safeguard the health and wellbeing of our people and the communities we serve; and ii) continue to deliver the best possible service to our customers during this unprecedented crisis. This has led to the temporary introduction of enhanced sick absence terms, and changes to ways of working. We welcomed and appreciated CWU's statement that the COVID-19 crisis was not the time to take industrial action. We continue to engage, on a regular basis and at a senior level, with CWU and Unite/CMA on our plans for change. Our engagement with CWU follows our recent Joint Statement with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute. We have honoured all our Agreements with CWU. This includes two pay awards and an hour's reduction in the working week, amounting to an effective pay increase of around 10 per cent over two years. All the appropriate dispute resolution procedures

	voted were in favour of industrial action. CWU has stated its intention to defer industrial action as we prioritise dealing with the COVID-19 pandemic and protecting our people and customers. When we offered talks at the beginning of the year, we were clear we needed to proceed with key national trials and local operational improvements. All have been delayed by the industrial relations environment, in some cases, by well over a year. Since then, we have made progress with trials of automated clocking in and out and separate van delivery of larger and Next Day parcels. We have also commenced a small number of local change initiatives.	have been followed and completed. Our Agenda for Growth agreement with CWU provides a joint commitment to improved industrial relations and to resolving disputes at pace in a way that is beneficial to both employees and Royal Mail. There is a prescribed resolution process for disputes. The Agreement has legally binding protections for the workforce in respect of future job security and our employment model. These can be rescinded in certain circumstances, including in the event of national industrial action.
Pension arrangements We recognise pension benefits are important. We will continue to provide sustainable and affordable pensions arrangements for our people. There is a risk that we may be unable to obtain the necessary legislative changes to enable us to implement the UK's first Collective Defined Contribution (CDC) pension scheme, as agreed with the CWU.	➢ **Low severity** ➢ **Stable** ➢ **Fast speed** The Royal Mail Pension Plan closed to future accrual in its Defined Benefit form on 31 March 2018. A new Defined Benefit Cash Balance Scheme was put in place from 1 April 2018. The overall ongoing cash cost of the transitional arrangements and the proposed CDC scheme is expected to continue to be around £400 million a year. The Pension Schemes Bill, of which CDC is a part, was tabled on 7 January 2020 and has started its progress through Parliament. The passage of the Bill depends on factors including the amount of parliamentary time made available.	We are continuing to work with CWU and Government to introduce the necessary legislative and regulatory changes so that we can introduce our proposed CDC pension scheme as soon as possible.

Efficiency Royal Mail must become more efficient and flexible to compete effectively in the parcel and letter markets. The success of our strategy relies on the effective control of costs across all areas of the business and the delivery of efficiency benefits. We continue to operate a tight balance between achieving efficiency improvements and delivering high service levels. This requires careful management of efficiency and Quality of Service. In May 2019, Royal Mail launched its 'turnaround and grow' plan in the UK, with a range of financial and operating ambitions. There is a risk we will not be able to deliver our transformation programme and meet our required cost avoidance and productivity improvement targets during the life of the plan. COVID-19 has meant we, rightly, have had to introduce a range of	➢ **High severity** ➢ **Increasing risk** ➢ **Fast speed** UK profits have declined more than 70 per cent since 2014-15, while costs have increased. Prior to COVID-19, the industrial relations environment was slowing the rate of change in the UK operation. Our productivity improvement for the year was 1.0 per cent, lower than our initial forecast of over 2 per cent. The 'turnaround and grow' plan focuses on efficiency and productivity in our UK network through a range of new, digitally enabled work tools, operational excellence and targeted investments. It maximises the benefits, particularly in delivery and processing, of joint letter and parcel delivery, and facilitates our transition to a parcels-led business where UK letters are important. Our 'turnaround and grow' plan in the UK is behind schedule. Combined with the impact of the COVID-19 pandemic, we believe it will now take longer to achieve the targets we have set, at a time when we need to be accelerating the pace of change in the UK.	Following the onset of the COVID-19 pandemic, we are prioritising the protection of our people and customers, whilst keeping mail and parcels moving. We have already committed around £40 million on buying equipment such as hand sanitiser, disposable gloves and other additional protective measures to keep our people safe. The outlook for our UK business is challenging. Before the COVID-19 pandemic took hold, our UK transformation was behind schedule. But, we had made progress in key areas relating to improving productivity. This included: Seeking to embed a range of digitally-enabled work tools to improve efficiency and productivity. We completed the deployment of our route optimisation tool in March 2020, improving visibility of changes to delivery routes and this has been used to deliver our first phase of delivery revisions. We are scaling up trials for Resource Scheduler, which draws together data from across the operation to enable better alignment of duty sets and rosters to demand.

social distancing measures in our processing and delivery operations (e.g. changing standard ways of working including one person per van). These arrangements may continue for some time. In turn, they may have an adverse impact on productivity.	Our UK costs are increasing as we make necessary investment in quality measures and protective equipment for our people. This makes it even more important that we increase our efficiency.	In January 2020, following the conclusion of our dispute resolution procedures with CWU, we confirmed we were moving ahead with key national and much-needed local change initiatives that had been delayed, in some cases, by up to a year. That includes extending our successful trial of automated clocking in and out for frontline colleagues at a small number of UK sites. We installed a further 10 parcel machines, meaning we now have 20 machines at 16 Mail Centres. This has driven the percentage of parcels sorted by machine to 33 per cent, close to three times the average number sorted automatically during 2018-19. Work has started on the next phase of this automation programme, which will add further machines into parcel sorting operations. We want to increase the overall proportion to over 80 per cent by installing automated machines in all Mail Centres by 2023-24 and building dedicated parcel hubs. Work continues on the parcel hubs. We have chosen the supplier for automation and have completed the fit out for the North West hub. We have signed a conditional agreement for a lease for our second parcel hub in the Midlands. We are implementing a range of immediate cost control activities and reducing capital expenditure in a measured way: • Management restructure, subject to consultation, targeting a reduction of c.2,000 roles out of a total population of c.9.700. • £250 million capital expenditure reduction across 2020-21 and 2021-22. Investment continues at higher than historical levels, including in parcel automation and hubs. • Targeting flat non-people costs, excluding depreciation, in 2021-22 versus 2019-20, with £200 million annual savings in 2021-22 offset by increases in parcel volume related costs.

Customer expectations and Royal Mail's responsiveness to market changes The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.		
Customer expectations and Royal Mail's responsiveness to market changes	➢ **High severity** ➢ **Increasing risk** ➢ **Medium speed**	
Changes in customer expectations, and in the markets in which the Group operates, could impact the demand for products and services. Given the major cultural shift underway in UK society - more e-commerce and therefore fewer letters and more parcels - it is very important Royal Mail changes too. While we expect to handle many more parcels in the years to come, we think UK letter volumes will continue to decline. This structural decline is driven by e-substitution, lower GDP, the impact of GDPR and business uncertainty. We	Addressed letter volumes (excluding elections) did not show the expected level of recovery in the second half. Advertising mail in particular has been significantly impacted by COVID-19, as marketing campaigns are delayed or cancelled and moved to digital platforms. While B2C mail volumes have been more resilient, restrictions on individuals and businesses have adversely impacted unsorted and stamped mail. Due to the highly uncertain external environment we are unable to provide specific letter volume market guidance. However, we do expect letter volumes to decline substantially this year. See our stress test Scenarios for	We are transforming from a UK-focused letters business that delivers parcels, to a parcels-led, international business. Letters will remain an important part of our business. We will continue to deliver customer focused enhancements enabled by our 'turnaround and grow' plan. This includes leveraging parcel technology investments to bring to market new features to improve convenience and customer control in the UK and internationally, such as in-flight redirections, predicted day of delivery / shorter delivery windows, parcel post-boxes and doorstep collections. We will continue with our UK network transformation and increasing automation

expect it to accelerate this year, due to the impact of COVID-19. There is a high degree of uncertainty about letter volumes due to the effect of COVID-19 and any subsequent economic slowdown. In addition, we may see a paradigm-shift as online retailing activity accelerates, driving more parcel growth. At GLS, B2C volumes have increased significantly in recent years as part of our strategy. The pandemic is accelerating a shift from B2B to B2C, although the relative proportions vary from market to market. Our focus on productivity, through operational excellence and key work tools, is vital to remaining competitive in the UK parcels market - one of the most developed e-commerce markets in the world. So too is our network redesign, which, in combination with productivity gains, should protect UK business, to some extent, from changes in customer demand.	more information. The UK domestic and international parcels markets are highly competitive, with innovative delivery solutions including convenient, reliable delivery and return options, and improved tracking services. During the COVID-19 pandemic, UK e-commerce growth has significantly outpaced the wider UK retail market, resulting in very strong B2C volumes; initially we saw the strongest growth in sectors providing goods associated with the lock down, and while these continue to be strong all other major sectors have now recovered. International import and export parcel traffic had been adversely affected by the COVID-19 pandemic. Our network provides strong economics, particularly in the combined delivery of letters and small parcels. It is not currently optimised for the anticipated increase in Next Day and larger parcels. At GLS, we are focused on delivering a range of consumer-led solutions as we deliver more B2C parcels. At the same time, yield management is a key focus for us, to ensure profitable growth.	to a) maximise the benefits of delivering letters and small parcels together and b) handle more Next Day and larger parcels more efficiently. This will facilitate e-commerce growth and increase demand for our services. This year we will focus on winning and retaining as much of the current exceptional parcel growth as possible, with an emphasis on those customers and sectors that represent long term growth opportunities. We will continue to support this with regular service feature developments and continuous enhancements to our digital access and service channels such as the Royal Mail App. Our range of letter products, incentives and offers are designed to demonstrate how mail can help businesses. We will deploy a range of appropriate incentives to encourage customers to reconnect with using mail. New initiatives will also follow, designed to contemporise key product segments like consumer mail. We will also continue to promote the value of mail, including as and when the lockdown is lifted over time. As announced in June 2020, we are integrating Parcelforce Worldwide and Royal Mail International more closely into Royal Mail. These changes will ensure that we have one integrated domestic and international parcels strategy that best serves the changing needs of the market and customers.

Economic and political environment	➢ **High severity** ➢ **Increasing risk** ➢ **Fast speed**	
Historically, there has been a correlation between economic conditions and the level of letter and B2B parcel volumes. Low rates of economic growth could impact our ability to maintain and grow revenue, either by reducing volumes or encouraging customers to adopt cheaper products or formats for sending letters and parcels. We are entering a period of significant uncertainty. The COVID-19 pandemic is taking us into uncharted territory and the extent to which UK and global economic activity will decline over the next few months is expected to be steeper than the financial crisis of 2008-09. How the economy will fare in three to six months is equally unclear and there is a risk that there may be additional spikes in COVID-19 infection rates. Economic forecasters are divided over how long the crisis will last and what a recovery will look like. These are matters we are unable to predict with any certainty. In addition, while the UK has left the EU and entered a transition period which runs to 31 December 2020, it is not clear whether this deadline will continue to hold, or	The Board continues to monitor the economic and wider external environment in the UK and our other markets. Specific areas of focus include: - Business uncertainty, alongside the recent slowdown in economic activity due to the COVID-19 pandemic, which is impacting letter volumes, including business and advertising mail. - In the UK, B2C parcel volumes have remained strong, supported by an increase in e-commerce as people shop more online. In the UK and some EU markets, international import and export parcel traffic has been adversely affected but is now in recovery. - In the overseas market in which GLS operates, B2B volumes have fallen whilst B2C volumes have increased. The extent to which these trends will be sustained depends in part on the evolution of the response to the pandemic in each country. - For 2020-21, there will almost certainly be a sharp and sustained economic downturn in our core markets. As in the UK, economic growth in the Eurozone is expected to slow down sharply in the short-term. The medium-term outlook is highly uncertain. Royal Mail's letters business	Macroeconomic risk assessments are embedded within our letters forecasting processes. In addition, a set of economic scenarios have been constructed to inform a range of scenarios that could be associated with COVID-19. These are being revised regularly as more information is obtained. The Group has the following strategies in place: - Maintaining a strong liquidity position, with good levels of cash, limited financial debt and retaining access to a £925 million syndicated bank loan facility. - Existing covenants have been waived until March 2022 and replaced with a basic liquidity covenant. - A cost avoidance programme to effectively manage cash and spending. - Business initiatives to respond to fluid competitive pressures. - A measured reduction in investment in the short term to underpin our financial position. - The Group has the ability to access the Covid Corporate Financing Facility (CCFF), if required. Internal procedures are also in place to monitor and manage ongoing risks associated with the UK leaving the EU. Material risks are reported to and handled through a Brexit steering group which is comprised of senior executives. We believe the immediate risk to our domestic operations is low. The impact on cross-border parcel volumes will depend on the nature of the UK's future trading

what the outcome will mean for future UK and EU trading arrangements.	performance remains closely aligned to UK economic growth. We therefore expect significant incremental rates of decline in the short term. Thereafter, the outlook for letters will be highly dependent on how the crisis evolves and Government's public policy response. As previously announced, due to these factors, we expect Royal Mail (UKPIL) to be materially loss-making in 2020-21; while GLS profitability may potentially be reduced. In addition, over the medium to long term, both our letters and parcels business outlook will be shaped by events relating to the future trading relationship between the UK and the EU, which remain 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.	relationships, and what the future EU/UK customs and VAT arrangements will be. At the end of the transition period, we expect the rules which apply to non-EU imports to be extended to EU items. Similarly, we would expect the EU to treat UK imports as it does non-EU imports today. Strategies to address these risks include: - Accelerating the pace of change in the UK to deliver the requisite efficiency benefits. - Arrangements are in place to manage the expected impact of changes to customs processing. - Working closely with Government to put in place systems to ensure the movement of cross-border parcels continues to operate effectively. Royal Mail regularly engages with politicians and policy makers, and closely monitors the potential impact of political and policy changes on the Company. The Company runs an extensive public affairs programme with politicians and policy makers.

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

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

Our UK regulatory framework	➢ **Medium severity** ➢ **Increasing risk** ➢ **Medium speed**	
USO finances are fragile. There are significant, and growing, risks to the	Ofcom will continue to be focused on monitoring Royal Mail's efficiency. It will	A key aim of our 'turnaround and grow' plan for our UK business is to underpin

USO's financial sustainability. Given the continuing structural decline in addressed letter volumes, and broader changes in the parcels market, Ofcom is continuing its monitoring of Royal Mail. It has brought forward some of the work it plans to undertake as part of its next review of the regulation of Royal Mail, which, overall, will be completed in 2022. Ofcom's review of the regulatory framework could lead to further intervention which could undermine the financial sustainability of the Universal Service.	complete its bottom-up cost model of our operations and a review of our efficiency. It is also conducting research on user needs to assess whether the postal services market is meeting the reasonable needs of postal users. The Universal Service, as we have stressed to Ofcom and Government, needs to meet the 21st century requirements of consumers and SMEs. In short, a contemporary USO is required. We have also noted the importance of considering the revenue pools needed to sustain the Universal Service, alongside the legitimate needs of consumers and SMEs. Given that the USO has high, fixed costs, irrespective of volume, it is also crucial to focus on underpinning USO and non-USO revenue pools to fund it. As a result of the COVID-19 pandemic, we initially indicated that there could be some service disruption across the country. We subsequently announced a six-week temporary relaxation of delivery frequency arrangements in relation to letters. For that period, letters were delivered five days a week; we continued to deliver most parcels on a six days a week basis. Normal services resumed on 13 June 2020. We welcomed Ofcom's statement that it would take a pragmatic approach to any changes to our regulated services during this unprecedented crisis.	the sustainability of the Universal Service. The plan will be challenging to execute. We will continue to ask Ofcom for its support, wherever possible, to facilitate its delivery. In doing so, we will note that our transformation is designed to help us become even more efficient and better placed to respond to changing customer demands. We will stress the power and economic value of the Universal Service as it makes commerce happen across the UK and connects customers, companies and countries. Ofcom is conducting a User Needs Review about the Universal Service. We believe that many of key USO features are valued by consumers and SMEs. They include uniformity, universality, affordability and measurability. But, they all have to be paid for at a time when COVID-19 has exacerbated the underlying problems facing the USO. For example, since the beginning of this financial year (2020-21) letter volumes have declined about 33%, around four times the decline rate we saw in 2019-20. For its part, Royal Mail has a stretching self-help programme in place. This involves significant investment in the Universal Service when our finances are under challenge; we expect to be materially loss-making in the UK this year. In addition, we plan to address the very specific challenges presented by COVID-19. We do not believe, however, that successful delivery of our transformation and COVID-19 mitigation plans will be enough in themselves to underpin the long-term stability of the USO. That is why, alongside engaging with our unions on our own plans to put Royal Mail in a better position, we are working with the Regulator and Government on the Universal Service. This is all about ensuring it is financially underpinned, in a sustainable way, and future-proofed to reflect changing consumer and SME needs and preferences. Ofcom will embark on a public consultation on the USO, and Royal Mail will engage, at the same time, with many stakeholders on a USO for the 21st century. From its own, detailed research, the Company anticipates that many of the current features of the USO should remain in place, subject to regulatory and Government approval. We look forward to the debate and engagement to come, including ensuring the Universal Service has the requisite financial resources to sustain itself.
Competition Act investigation	➢ **High severity** ➢ **Increasing risk** ➢ **Slow speed**	
On 14 August 2018, Ofcom	The Group robustly defended its	Royal Mail's appeal of the CAT's

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.	conduct in written and oral representations made to Ofcom during the investigation and lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. The main hearing for the appeal to the CAT took place in June and July 2019. On 12 November 2019 the CAT handed down its judgment on RMG's appeal, which upheld Ofcom's decision and the £50 million fine. As a result, Royal Mail has made a provision for the fine, which is now payable to Ofcom. In January 2020, Royal Mail requested permission to appeal the CAT's judgment to the Court of Appeal (CoA). On 30 March 2020, the CoA granted Royal Mail permission and indicated that a hearing would be held over 1-2 days in mid-2021.	judgment will be heard by the CoA in mid-2021. Whistl's High Court claim is on hold until after the completion of the appeal process.

Capability - Talent and strategic workforce planning	➢ **Medium severity** ➢ **Stable** ➢ **Medium speed**	
This risk brings together our risks of "Strategic workforce planning" and "Talent and capability" that were previously presented separately. Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise. The capability, experience and cohesion of senior management is integral to our transformation. Workforce planning could be adversely impacted by an ageing workforce, and a reduction in available workforce due to the impacts of demographic change, Brexit and increasing automation.	Voluntary turnover in senior management is at similar levels to prior years but remains a business risk. As our workforce ages, it may be incapable of fulfilling physically demanding roles. We are developing a strategy to attract and retain younger workers, which means we need to review our employment proposition. Our transformation, including implementation of our Enterprise strategy and increased automation, will change the nature of some roles, requiring new and different skills. We need to be able to upskill our existing workforce to develop these skills and ensure we can attract and retain people with the right skills for our organisation. The impact of Brexit on the employment market is largely still unknown. It may influence the availability of workers, particularly if freedom of movement is at risk. The medium and long-term impact of COVID-19 on Royal Mail is unknown. However, the mail mix/profile, and the economy generally, is likely to be quite different coming out of the crisis, for which scenarios are currently being modelled.	Executive search activity has continued to bring in external hires with key capabilities. We operate an internal Executive talent review and succession planning process and have in place leadership development programmes. Leadership initiatives to aid the transformation agenda are in design; along with our approach for increasing diversity across this population, including 2024 targets agreed with the Inclusive Action Steering Group. Resources, delivery methods and timescales for these and other activities in development are being impacted as a result of COVID-19. We are monitoring the demographic profile of our workforce and tracking key external metrics such as the employment rate and demographics. We undertake market research and analysis and we perform industry benchmarking. A Strategic Workforce Plan has been developed during 2019-20 and will be reviewed once the impact of COVID-19 is more clearly understood.

Health, safety and wellbeing	➢ **Low severity** ➢ **Stable** ➢ **Fast speed**	
The health, safety and wellbeing of our employees, contractors, agency workers and members of the public is of the utmost importance. There is a risk that a health and safety incident or global health crisis could result in serious injury, ill health or death of employees, contractors, agency workers or members of the public. An incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial	The business has a large number of employees including seasonal staff and agency workers. It also operates a very large fleet, employs a large number of contractors and interacts extensively with members of the public. A large proportion of our employees spend most of their time working outdoors, on foot or driving, where the environment is more difficult to control. Due to this wide reach and the number of people affected by the business' undertakings, the risk of serious harm to people cannot be totally mitigated. We	We will continue to review SHEMS to identify any further opportunities for streamlining and simplification. We are investing in improved technology so risk assessment processes can be completed more easily by managers and better meet business needs. Operational implementation of SHEMS is monitored via an annual audit programme. A professional and independent SHE function provides advice, support and guidance on the implementation of standards.

losses and reputational damage for the Group. Similarly, failure to manage the health and wellbeing of our employees could also lead to financial losses and reputational damage through increased sickness absence, lower productivity, failure to deliver our USO obligations, civil action or criminal prosecution.	acknowledge that every health and safety incident has a human impact. An integrated Safety, Health and Environment Management System (SHEMS) is in place to manage our risks and achieve legal compliance; ongoing maintenance addresses any emerging compliance gaps or risk controls. We continue to identify opportunities for simplification to make the SHEMS more accessible for managers. The COVID-19 pandemic poses a new and increased risk to public health. Our employees are classified as key workers as we form part of the country's essential infrastructure. We have an important role to play in keeping letters and parcels moving during the pandemic. This means that the effectiveness of our controls and processes to protect our employees are even more important.	There is an annual SHE initiative and communications plan in place. This is informed by a review of compliance data, risk data, KPI performance and legislative requirements. Employees have access to health and wellbeing assistance through our Feeling First Class website, First Class Support helpline and Occupational Health provision. SHE performance is discussed and reviewed by the Board. Senior leaders are committed to driving full compliance to SHEMS. We have taken action to mitigate the risks to our employees and customers posed by the COVID-19 pandemic, including enhancing our sick pay policy and updating our operating procedures to limit contact between colleagues and customers. We have implemented PHE and WHO instructions and guidance through the development of internal policies, procedures, risk assessments, instructions and guidance. These arrangements have been communicated to employees through a dedicated, comprehensive multi-media communications campaign.
Major breach of information security, data protection regulation and/or cyber attack	➢ **High severity** ➢ **Stable** ➢ **Fast speed**	
We collect, process and store confidential business and sensitive personal information due to the nature of our operations. As a result, we are subject to a range of laws, regulations and contractual obligations around the governance and protection of various classes of data to protect our customers, suppliers and employees. In common with all major organisations, we are the potential target of cyber-attacks that could threaten the confidentiality, integrity and availability of data and trigger material service and / or operational interruption. A major breach of information security, data protection laws, regulations and / or cyber-attack could adversely impact our reputation, result in financial loss, regulatory action, business disruption and loss of stakeholder confidence.	Given the evolving nature, sophistication and prevalence of these threats, including those presented by the current COVID-19 pandemic and our - still growing - reliance on technology and data for operational and strategic purposes, this continues to be a principal risk.	As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to invest in security enhancement and data protection in response to the changing threats we face. We continue to support the education of our employees and stress the importance of maintaining vigilance across the business, whilst recognising that we cannot provide absolute mitigation against the risks. This is especially imperative during altered ways of working due to COVID-19. As a result of the pandemic, changes have been required to our operational processes and to working practices, including those of third-party suppliers who process our data.

Environment and sustainability	➢ **Medium severity** ➢ **Increasing risk** ➢ **Slow speed**	
Climate change and regulatory actions designed to mitigate its impact may have adverse operational, financial and reputational consequences. The cost of operations could increase as a result of actions to mitigate and adapt to climate change. These include the introduction of Clean Air Zones, the future ban of petrol and diesel vehicles, and net zero emission targets for towns and cities.	With the UK's largest 'Feet on the Street' network of around 90,000 postmen and women, Royal Mail plays a key role in keeping carbon emissions low. We have a requirement to maintain a large fleet of vehicles. Growth in parcels is also driving up our energy demand. We recognise our responsibility to reduce our environmental impacts. Our environmental programmes have already reduced our UK emissions by	We are launching our new environmental strategy in 2020-21. It has three key pillars: emissions reduction, cleaner air, and resource efficiency. Our target is for our operations to be net zero by 2050. We are increasing the number of electric and alternative fuel vehicles in our fleet to reduce emissions and improve air quality. We are investing in innovative technologies, such as telemetry, and driver training

An increase in the frequency of extreme weather events may result in disruption to our operations. It may also impact our ability to meet USO or other contractual requirements. We may also see price rises as a result of resource scarcity, such as water shortages, and increased costs associated with insurance premiums, investment in equipment to protect the business from extreme weather events, and any associated repairs. In common with all major organisations, there could also be a risk of reputational damage - impacting our 'licence to operate' - if the business is perceived to not be responding appropriately to stakeholder expectations for action on climate change.	31.9 per cent since 2004-05. The GLS 'ThinkGreen' initiative delivers targeted measures on key environmental issues. These include a reduction in emissions and the responsible handling of resources across areas of transport, buildings and business travel. We continue to invest and implement changes to improve the efficiency of our operations. This includes investment in zero- and low-emission vehicles and the installation of efficient equipment across our property estate. We engage our people in our efforts to become more efficient and reduce our use of natural resources.	programmes, to reduce the amount of fuel we use. We also continually work to optimise our transport network, to ensure it is as efficient as possible. GLS continues to expand urban logistics projects, such as emission-free delivery cities, and grow its alternative-fuel vehicle fleet. We are also taking proactive steps to reduce our energy and water consumption, and reduce the amount of waste we send to landfill. For example, we have invested in new boilers and energy efficient lighting.

Business Continuity and crisis management We have a responsibility to provide sustained and continued postal services under the Universal Service. There is a risk that we may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Group. Previously this risk was monitored at business unit and functional level but was not considered a principal risk due to the modular and geographically diverse nature of our operations providing natural mitigation. The widespread and enduring nature of the current global pandemic has increased the likelihood of the inherent risk materialising, and as such this is now being recognised as a principal risk to the Group.	➢ **Medium severity** ➢ **New risk** ➢ **Fast speed** The outbreak of the virus COVID-19 has been declared a pandemic by the World Health Organisation and now presents an unprecedented global crisis. Governments worldwide have imposed restrictions on the movement of people and imposed necessary measures which have had, and continue to have, a significant effect on our UK and International businesses. Royal Mail staff are recognised by Government as key workers, essential to keeping the country connected during this time. We are adapting and responding to the rapidly evolving risks accordingly, in line with our already existing Business Continuity Management Framework.	Following the onset of the COVID-19 pandemic, we are prioritising the protection of our people, the country and our customers, whilst keeping mail and parcels moving. We are actively monitoring the rapidly evolving COVID-19 threat and have invoked a comprehensive business continuity and crisis management response across the Group in line with our framework. We are engaging closely with the Government, public health authorities, Ofcom, and customers to implement necessary changes in response to government, PHE and WHO advice. For example, limiting contact between colleagues in our operations, with customers on delivery and at Customer Service Points. Steps have been taken to minimise the impact on services as much as possible. The pandemic has brought together all functions across the Business in a cohesive response. We have established Gold, Silver and Bronze response teams which have Executive, Director and Senior Management leadership, providing regular reports to the Plc Board. Daily communications are cascaded to all employees to keep them informed of current developments. We are in regular dialogue with Government officials, key stakeholders and suppliers.

Viability Statement

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

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

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

Further details on these factors can be found in the Business Review and the Principal Risks sections.

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

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

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

We believe that trading conditions will partially recover as we move through into 2021-22.
The key assumptions within the Group's financial forecasts are as follows:

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

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

This year, the Directors considered:

(i) A second wave of COVID-19 in the UK resulting in a further three-month lock-down between October and December 2020; (Principal risk: Business Continuity and crisis management)

(ii) deteriorating economic and market conditions which could result in letters volume decline greater than our projected range (Principal risk: Economic and Political Environment);

(iii) the Brexit transition period ending without a trade deal having been reached, which could cause economic conditions to deteriorate further (Principal risk: Economic and Political Environment);

(iv) increased competition in the UK parcels sector. (Principal risk: Customer expectations and Royal Mail's responsiveness to market changes);

(v) the potential impact of industrial action (Principal risk: Industrial Action); and

(vi) delays to our UKPIL transformation plan (Principal risk: Efficiency).

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

(i) suspending the dividend;

(ii) reducing variable hours and cost of sales;

(iii) removing discretionary pay;

(iv) reducing our internal investment; and

(v) reducing our one off projects.

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

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

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

Financial Statements

Consolidated income statement
For the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

	Notes	**Reported 52 weeks 2020 £m**	Re-presented[1] reported 53 weeks 2019 £m
Continuing operations			
Revenue	3	**10,840**	10,581
Operating costs[2]	4/5	**(10,623)**	(10,240)
People costs		**(6,064)**	(5,869)
Distribution and conveyance costs		**(2,786)**	(2,606)
Infrastructure costs		**(991)**	(995)
Other operating costs		**(782)**	(770)
Operating profit before specific items[3]		**217**	341
Operating specific items			
Regulatory fine	6/16	**(51)**	-
RMSEPP settlement	10(c)	**-**	(64)
Employee Free Shares charge	6	**(4)**	(22)
Impairment of assets	6	**(91)**	(68)
Legacy/other credits/(costs)	6	**3**	(7)
Amortisation of intangible assets in acquisitions	6	**(19)**	(20)
Operating profit		**55**	160
Profit on disposal of property, plant and equipment (non-operating specific item[3])	6	**89**	15
Profit before interest and tax		**144**	175
Finance costs		**(56)**	(18)
Finance income		**6**	5
Net pension interest (non-operating specific item)	10(c)	**86**	79
Profit before tax		**180**	241
Tax charge	7	**(19)**	(66)
Profit for the year		**161**	175
Earnings per share			
Basic	8	**16.1p**	17.5p
Diluted	8	**16.1p**	17.5p

1 Operating costs include £130 million which would previously have been reported as 'Transformation costs'. These costs are now incorporated within their relevant operating cost categories, which better reflects the ongoing costs of the business. The comparative period costs of £133 million have therefore been re-presented.

2 Operating costs are stated before operating specific Items which Include; the Regulatory fine, RMSEPP settlement, Employee Free Shares charge, Impairment of assets, Legacy/other costs and Amortisation of intangible assets in acquisitions.

3 For further details on Alternative Performance Measures (APMs) used, see the section of the Financial Review entitled 'Presentation of Results and Alternative Performance Measures'.

Consolidated statement of comprehensive income
For the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

	Notes	**Reported 52 weeks 2020 £m**	Reported 53 weeks 2019 £m
Profit for the year		**161**	175
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**1,122**	239
Withholding tax payable on distribution of RMPP and RMSEPP surplus	10	**(648)**	(138)
Remeasurement gains of the defined benefit surplus in RMPP and RMSEPP	10(c)	**1,773**	383
Remeasurement losses of the defined benefit deficit in DBCBS	10(d)	**(3)**	(8)
Deferred tax associated with DBCBS	7	**-**	2
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**3**	(9)
Exchange differences on translation of foreign operations (GLS)		**20**	(16)
Net (loss)/gain on hedge of a net investment (€500 million bond)		**(15)**	5
Net (loss)/gain on hedge of a net investment (Euro-denominated lease payables)		**(2)**	1
Tax on above items	7	**-**	1
Designated cash flow hedges		**(49)**	(3)

(Losses)/gains on cash flow hedges deferred into equity		**(46)**	14
Gains on cash flow hedges released from equity to income		**(1)**	(17)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		**-**	(1)
Loss on cross currency swap cash flow hedge deferred into equity		**(21)**	-
Loss on cross currency swap cash flow hedge released from equity to income - interest payable		**3**	-
Gain on cost of hedging deferred into equity		**6**	-
Gain on cost of hedging released from equity to income - interest payable		**(1)**	-
Tax on above items	7	**11**	1
Total other comprehensive income for the year		**1,076**	227
Total comprehensive income for the year		**1,237**	402

Consolidated balance sheet
At 29 March 2020 and 31 March 2019

	Notes	**Reported at 29 March 2020 £m**	Reported at 31 March 2019 £m
Non-current assets			
Property, plant and equipment		**3,120**	2,066
Goodwill	13	**390**	380
Intangible assets		**558**	631
Investments in associates		**5**	5
Financial assets			
Pension escrow investments		**201**	207
Derivatives		**-**	4
RMPP/RMSEPP retirement benefit surplus - net of withholding tax payable	10	**3,614**	2,408
Other receivables		**12**	12
Deferred tax assets	7	**110**	64
		8,010	5,777
Assets held for sale		**25**	36
Current assets			
Inventories		**19**	27
Trade and other receivables		**1,282**	1,310
Income tax receivable		**6**	7
Financial assets			
Investments		**30**	-
Derivatives		**5**	8
Cash and cash equivalents	14	**1,640**	236
		2,982	1,588
Total assets		**11,017**	7,401
Current liabilities			
Trade and other payables		**(2,041)**	(1,883)
Financial liabilities			
Interest-bearing loans and borrowings	15	**(700)**	-
Lease liabilities	12	**(201)**	(37)
Derivatives		**(35)**	(3)
Income tax payable		**(5)**	(8)
Provisions	16	**(113)**	(58)
		(3,095)	(1,989)

	Notes	**Reported at 29 March 2020 £m**	Reported at 31 March 2019 £m
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	15	**(935)**	(431)
Lease liabilities	12	**(987)**	(88)
Derivatives		**(32)**	(2)
DBCBS retirement benefit deficit	10	**(177)**	(72)
Provisions	16	**(112)**	(104)
Other payables		**(4)**	(41)
Deferred tax liabilities	7	**(54)**	(55)
		(2,301)	(793)
Total liabilities		**(5,396)**	(2,782)
Net assets		**5,621**	4,619
Equity			
Share capital		**10**	10
Retained earnings		**5,625**	4,576
Other reserves		**(14)**	33
Total equity attributable to Parent Company		**5,621**	4,619

The financial statements were approved and authorised for issue by the Board of Directors on 24 June 2020 and were signed on its behalf by:

Keith Williams Interim Executive Chair

Stuart Simpson Interim Chief Executive Officer Royal Mail

Consolidated statement of changes in equity

For the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 25 March 2018	10	4,381	36	9	4,436
Profit for the year	-	175	-	-	175
Other comprehensive income/(expense) for the year	-	239	(9)	(3)	227
Total comprehensive income/(expense) for the year	-	414	(9)	(3)	402
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the Parent Company	-	(242)	-	-	(242)
Reversal of put options for non-controlling interests	-	2	-	-	2
Share-based payments					
Employee Free Shares issue	-	23	-	-	23
Long-Term Incentive Plan (LTIP)	-	4	-	-	4
Deferred Share Bonus Plan (DSBP)	-	3	-	-	3
Purchase of own shares[1]	-	(10)	-	-	(10)
Employee exercise of SAYE options	-	5	-	-	5
Deferred tax on share-based payments	-	(1)	-	-	(1)
Settlement of LTIP 2015	-	(3)	-	-	(3)
Reported at 31 March 2019	10	4,576	27	6	4,619
IFRS 16 transition adjustment	-	1	-	-	1
Reported at 1 April 2019 on transition to IFRS 16	10	4,577	27	6	4,620
Profit for the year	**-**	**161**	**-**	**-**	**161**
Other comprehensive income/(expense) for the year	**-**	**1,122**	**3**	**(49)**	**1,076**
Total comprehensive income/(expense) for the year	**-**	**1,283**	**3**	**(49)**	**1,237**
Transactions with owners of the Company, recognised directly in equity					
Gains on cash flow hedges released from equity to the					

carrying amount of non-financial assets	**-**	**-**	**-**	**(1)**	**(1)**
Dividend paid to equity holders of the Parent Company	**-**	**(244)**	**-**	**-**	**(244)**
Share-based payments					
Employee Free Shares issue	**-**	**7**	**-**	**-**	**7**
Long-Term Incentive Plan (LTIP)	**-**	**2**	**-**	**-**	**2**
Deferred Share Bonus Plan (DSBP)	**-**	**2**	**-**	**-**	**2**
Purchase of own shares[1]	**-**	**(3)**	**-**	**-**	**(3)**
Deferred tax on share-based payments	**-**	**1**	**-**	**-**	**1**
Reported at 29 March 2020	**10**	**5,625**	**30**	**(44)**	**5,621**

1 Shares required for employee share schemes.

Consolidated statement of cash flows

For the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

	Notes	**Reported 52 weeks 2020 £m**	Re-presented[1] reported 53 weeks 2019 £m
Cash flow from operating activities			
Profit before tax		**180**	241
Adjustment for:			
Net pension interest	10(c)	**(86)**	(79)
Net finance costs		**50**	13
Profit on disposal of property, plant and equipment		**(89)**	(15)
Regulatory fine		**51**	-
RMSEPP settlement	10(c)	**-**	64
Employee Free Shares charge		**4**	22
Impairment of assets		**91**	68
Legacy/other (credits)/costs		**(3)**	7
Amortisation of intangible assets in acquisitions		**19**	20
Operating profit before specific items[2]		**217**	341
Adjustment for:			
Depreciation and amortisation		**516**	391
EBITDA before specific items[2]		**733**	732
Working capital movements		**162**	(221)
Increase in inventories		**(1)**	(2)
Decrease/(increase) in receivables		**13**	(176)
Increase/(decrease) in payables		**126**	(51)
Net decrease in derivative assets		**19**	2
Increase in provisions (non-specific items)		**5**	6
Pension charge to cash difference adjustment	10	**108**	70
Share-based awards (LTIP and DSBP) charge		**4**	7
Cash cost of operating specific items		**(2)**	(6)
Cash inflow from operations		**1,005**	582
Income tax paid		**(69)**	(91)
Research and development expenditure credit		**14**	2
Net cash inflow from operating activities		**950**	493
Cash flow from investing activities			
Finance income received		**6**	5
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**12**	25
London Development Portfolio net proceeds (non-operating specific item)		**97**	7
Purchase of property, plant and equipment[3]		**(265)**	(264)
Acquisition of business interests, net of cash acquired		**(15)**	(212)
Purchase of intangible assets (software)[3]		**(77)**	(100)
Payment of deferred consideration in respect of prior years' acquisitions		**(2)**	(4)
Purchase of financial asset investments		**(30)**	-
Net cash outflow from investing activities		**(274)**	(543)
Net cash inflow/(outflow) before financing activities		**676**	(50)

Consolidated statement of cash flows (continued)

For the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

	Notes	Reported 52 weeks 2020 £m	Re-presented reported 53 weeks 2019 £m
Cash flow from financing activities			
Finance costs paid		**(53)**	(17)
Acquisition of non-controlling interests		**-**	(4)
Purchase of own shares		**(3)**	(10)
Employee exercise of SAYE options		**-**	5
Payment of capital element of obligations under lease contracts		**(172)**	(56)
Cash received on sale and leasebacks		**6**	13
Proceeds from loans and borrowings		**1,189**	-
Repayment of loans and borrowings		**(1)**	(1)
Dividends paid to equity holders of the Parent Company	9	**(244)**	(242)
Net cash inflow/(outflow) from financing activities		**722**	(312)
Net increase/(decrease) in cash and cash equivalents		**1,398**	(362)
Effect of foreign currency exchange rates on cash and cash equivalents		**6**	(2)
Cash and cash equivalents at the beginning of the year	14	**236**	600
Cash and cash equivalents at the end of the year	14	**1,640**	236

1 Transformation costs are no longer presented as a separate line item and are included in 'operating profit before specific items'. The transformation costs to cash difference is now presented in working capital (provisions). The comparative period cash flows have therefore been re-presented on this basis.

2 For further details on Alternative Performance Measures (APMs) used, see the section of the Financial Review entitled 'Presentation of Results and Alternative Performance Measures'.

3 Items comprise total gross capital expenditure within 'In-year trading cash flow' measure (see Financial Review).

Notes to the consolidated financial statements

1. Basis of preparation

General information

Royal Mail plc ('the Company') is incorporated in the United Kingdom (UK) and listed on the London Stock Exchange. The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 52 weeks ended 29 March 2020 (2018-19: 53 weeks ended 31 March 2019) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings.

Basis of preparation and accounting

(a) Going concern

In assessing the going concern status of the Group, the Directors are required to look forward a minimum of 12 months from the date of approval of these financial statements to consider whether it is appropriate to prepare the financial statements on a going concern basis.

The Directors have prepared business projections which are consistent with a lifting of the current COVID-19 lockdown restrictions from early July 2020, but with a GDP decline of 10 per cent in the 2020-21 reporting year, followed by a recovery thereafter, affecting both the UK business and GLS.

The Directors have also considered a severe, yet plausible, downside scenario that assumes a second wave of COVID-19 in the UK resulting in a further three-month lockdown during the autumn/winter in the UK, and a further deterioration in economic conditions impacting the UK and GLS. Whilst letter volumes could decline at a faster rate under this scenario, parcel volumes would be expected to remain broadly flat, or slightly ahead and overall margin would decline. This downside also assumes the potential impact of industrial action and continued spend on Protective Equipment and social distancing measures to protect our workforce. The scenario also takes into account the mitigating actions that are in the control of the Directors, such as suspending the dividend or reducing variable hours and cost of sales.

The Directors have reviewed both the business projections consistent with a lifting of the current COVID-19 lockdown restrictions from early July 2020 and the downside scenario business projections and assessed these against committed and undrawn funding facilities of £225 million at 29 March 2020 through the syndicated bank loan facility and other liquid resources available to the Group (cash at bank £209 million and cash equivalent/current asset investments of £1,440 million at 29 March 2020). The Directors have obtained a covenant waiver from its syndicate bank which removes the syndicated bank loan facility net debt/EBITDA and EBITDA/interest covenant tests for September 2020, March 2021 and September 2021, but which are replaced by a minimum liquidity covenant of £250 million. The Directors have also received approval from the Bank of England for the COVID Corporate Financing Facility (the 'CCFF') of up to £600 million. The CCFF can be drawn by the Group up to March 2021, and is available for a period of up to 12 months from the draw down date.

The downside case indicates that the Group would not need to draw on both the CCFF and the syndicated bank loan facility at the same time in order to maintain sufficient liquidity.

The Directors are satisfied that these facilities, coupled with business projections, show that the Group will continue to operate for a minimum of twelve months from the date of approval of these financial statements.

The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

(b) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and applicable IFRS as adopted for use in the EU. The consolidated financial statements have been prepared in accordance with the accounting policies stated in the Group's Annual Report and Financial Statements for the reporting year ended 29 March 2020.

The financial information set out in this document does not constitute the Group's statutory financial statements for the reporting years ended 29 March 2020 or 31 March 2019, but is derived from those financial statements. Statutory financial statements for the reporting year ended 31 March 2019 have been delivered to the Registrar of Companies. The statutory financial statements for the reporting year ended 29 March 2020 were approved by the Board of Directors on 24 June 2020 along with this Financial report, but will be delivered to the Registrar of Companies in due course. The auditor has reported on those statutory financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Financial Statements 2019-20, together with details of the Annual General Meeting (AGM), will be despatched to shareholders before the AGM. The AGM will take place on 8 September 2020.

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 in the Annual Report and Financial Statements 2019-20. Details of key sources of estimation uncertainty and critical accounting judgements are provided below.

These financial statements and associated Notes have been prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (IASB) (i.e. on a 'reported' basis). In some instances, Alternative Performance Measures (APMs) are used by the Group. This is because Management is of the view that these APMs provide a more meaningful basis on which to analyse business performance, and are 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 in the Financial Review.

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 judgment in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP and DBCBS are included within Note 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. For the main classes of assets:

- Equities listed on recognised stock exchanges are valued at closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted;
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves;
- Pooled investment vehicles are valued using published prices or the latest information from investment managers which includes any necessary fair value adjustments; and
- Properties are valued on the basis of open market value as at the year end date, in accordance with RICS Valuations Standards. As a result of the current situation with regards the COVID-19 pandemic, we have been advised by our valuers that conditions exist in the real estate markets that may result in uncertainty in the reliability of these valuations. Nonetheless, these represent the best estimate of the current valuation at the year end date and have been adjusted by our valuers to account for the expected impact of COVID-19, based on the information available at the time that the valuation was prepared.

For exchange-traded derivatives that are assets, fair value is based on bid prices. For exchange-traded derivatives that are liabilities, fair value is based on offer prices.

Non-exchange traded derivatives are valued as follows:

- Open forward foreign currency contracts at the balance sheet date are over the counter contracts and are valued using forward currency rates at that point. The unrealised appreciation or depreciation of open foreign currency contracts is calculated as the difference between the contracted rate and the rate to close out the contract;
- Open option contracts at the balance sheet date are over the counter contracts and fair value is calculated taking into account the strike price, maturity date and the underlying asset of the option. The unrealised appreciation or depreciation of open option contracts is calculated as the difference between the premiums paid for the options and the price to close out the options; and
- Interest rate and credit default swaps are over the counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money and market data at year end.

The value of the RMSEPP insurance policies held by the Group are equal to the accounting defined benefit obligation of the scheme as at the year end date.

The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 10.

It is not currently practical to provide a quantitative estimate of the impact of Covid-19 on the Group's schemes. The schemes' assets are invested across multiple sectors and locations and accordingly returns will vary due to these factors and the specific nature of the underlying asset. Scheme assets that could be significantly impacted include equities, bonds, property and pooled investments. The Trustees of the pension schemes have designed and implemented investment strategies taking a long-term view and have built in resilience to withstand short-term fluctuations that may impact the schemes.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date.

The majority of this balance is made up of stamps sold to the general public. To determine the amount of sales to defer, previously, an estimate of stamp volumes held by the general public at the year-end was made on the basis of monthly surveys performed by an independent third party. As surveys of this nature are inherently subjective and rely on the number and demographic profile of respondents, Management have adopted a modified approach utilising a number of different data sources to calculate the estimated deferred revenue liability given that stamps can be held and used for varying time periods.

At 29 March 2020 the Group recognised £185 million (2018-19: £188 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. The primary sources of data used to derive this estimate are as follows:

- Revenue data related to stamp sales through the Post Office network;
- Historic trends of deferred revenue balances;
- Changes in the number of working days during the period; and
- Adjustments to reflect posting patterns around key events close to the reporting year end e.g. Mothering Sunday, Easter

Analysis has been undertaken to understand the sensitivity of the reported deferred revenue balance to the methodology by which it is calculated. This analysis has shown that the amount reported is unlikely to fall outside a range of +/- £20 million (2018-19: +/- £22 million). This sensitivity arises because of Management's judgment in applying a weighting to the component parts of the data sources. Average stamp holding days has remained consistent year-on-year at 43 days (2018-19: 44 days).

Management are of the view that this new process will remove the reliance on a single data source, allow the timely close of critical period ends, and improve the accuracy of the estimated result.

Impairment test for goodwill and CGUs

In assessing whether there has been an impairment of goodwill, CGU or in some instances a specific asset, Management determines whether the carrying value is higher than the recoverable amount. The recoverable amount is the higher of a CGU or asset's fair value less costs to sell (realisable value) and value in use. The value in use of the CGU/asset is calculated based on its discounted cashflows. The key estimates that can impact the value in use calculations are changes to the growth rates applied to derive the terminal value, the adjusted EBITDA figure, excluding one-off uncommitted transformation expenditure and benefits, or a movement in the discount rate applied to the future cash flows.

These are key estimates as they are subjective in nature and significant assumptions are required. Any changes to assumptions may lead to impairment charges being recognised. For the annual impairment test for goodwill, the Group has considered the impact of the assumptions used in the GLS CGU tests and has conducted sensitivity analysis on the impairment tests as disclosed in Note 13.

Royal Mail UK CGU

During the reporting period this CGU was tested for impairment. At 29 March 2020 the carrying value of this CGU was £1,313 million. The recoverable amount, assessed as being the 'value in use' is calculated based on the Board's three year forecast free cash flows, with the assumption that the subsequent years will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of nil.

Cash flows have been discounted at the Group's pre-tax WACC of 9.0 per cent to reflect current market assessments of the time value of money and the risks specific to the CGU. The headroom of the CGU is £478 million. The Group has conducted sensitivity analysis on the impairment test for each of the key assumptions. The assumptions used and the impact of sensitivities on these assumptions are shown below.

The perpetuity growth rate included in the impairment model is nil. If the perpetuity rate decreased to a decline of 4.53 per cent into perpetuity the headroom of the Royal Mail UK CGU would be eroded to nil. The pre-tax discount rate for the Royal Mail UK CGU is 9.0 per cent. An increase in the pre-tax discount rate to 11.7 per cent would result in no headroom.

A key sensitivity in the Royal Mail UK impairment model is adjusted EBITDA excluding one-off uncommitted transformation expenditure and benefits. If each year in the plan was to decrease by 8.1 per cent the CGU would have no headroom.

Parcelforce Worldwide CGU

As a result of delays in the transformation of the Parcelforce Worldwide business, an impairment review of the Parcelforce Worldwide CGU was undertaken during the reporting period. This impairment assessment identified that the carrying value of the CGU was in excess of its recoverable amount which resulted in a £91 million impairment charge reported as a specific item within the UKPIL segment.

The recoverable amount of the CGU was calculated as the value in use and considered cash flows for the business forecasted for five years. The cash flows were discounted to present value at the pre-tax WACC of 9.0 per cent. As a result of the recoverable amount being significantly lower than the carrying value, all non-monetary assets were written off, this consisted of £58 million tangible assets and £33 million intangible assets.

GLS Canada CGU

In assessing whether there has been any impairment of goodwill, Management determines whether the CGU carrying value is higher than the recoverable amount of the underlying CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value in use. In the case of goodwill allocated to the GLS Canada CGU, the realisable value is estimated using five year forecast cash flows. Details of the impairment review of the CGU and the relevant estimates and assumptions are included in Note 13.

Critical accounting judgments

Provisions - Industrial diseases

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgments concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact. The industrial diseases claims provision arose as a result of a Court of Appeal judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981.

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. A 500bps decrease to the 0.7 per cent discount rate used at 29 March 2020 would result in a £6 million increase in the overall provision. If the number and value of expected claims per annum increased/decreased by 10 per cent, the provision would increase/decrease by £6 million. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item. The carrying value of this provision is included within Note 16.

IFRS 16 - Incremental borrowing rates (IBR)

Under IFRS 16, lease liabilities are initially recognised at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease or, where this is not readily determinable, an appropriate IBR. In practice, the rate inherent in the lease is not readily determinable for the majority of leases previously classed as operating leases under IAS 17 and so an IBR is used. These leases primarily relate to property and motor vehicles. In addition, an IBR has also been applied when calculating the opening transition lease liability balances.

The IBR is the rate of interest that a lessee would have to pay to borrow, over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The methodology used to obtain these rates and how they are applied to assets with different lease terms, is an area of significant judgement.

In considering the appropriate IBR to apply, the Group has adopted a three-step approach. This approach begins with an appropriate risk-free base rate; adjusts this rate to reflect the cost of company specific unsecured borrowing; and, finally, considers the need to adjust the rate determined to reflect the underlying leased asset acting as collateral.

From the evidence obtained, Management have concluded that for the UKPIL business, lenders do not make adjustments to the borrowing rates offered on lending, based upon the underlying asset to be obtained. The key factors in the borrowing rates available to UKPIL are judged to be the current credit rating of the Group (BBB) and the length of the borrowing term required.

On the basis of the work performed, UKPIL has treated assets being held for a similar length of time as having a similarly calculated IBR, with assets being grouped according to lease length, both at transition and in the future. By grouping assets in this way, a rate card has been produced, to be updated periodically, which can be applied to all future leases requiring an IBR. UKPIL have based IBR rates on UK BBB corporate bond yields, adjusted to reflect the different payment profile between a bond and a lease.

The GLS business has followed a similar methodology and grouping by lease length to that used in UKPIL. However, instead of basing the yields on corporate bond yield curves, which are not readily obtainable for all GLS currencies, a sovereign bond yield curve for the relevant country has been used as the starting point and an appropriate margin applied to this based upon consideration of consolidated GLS quantitative and qualitative information.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised on the balance sheet at the date of initial application is three per cent in UKPIL and two per cent in GLS. Sensitivity analysis performed as part of the IFRS 16 implementation work, identified that a movement of 100 bps in the incremental borrowing rate would lead to a movement in lease liabilities recognised of around four per cent.

2. Segment information

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the Royal Mail plc Board - the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' - in deciding how to allocate resources and assess performance.

A key measure of segment performance is operating profit before specific items (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). This is consistent with how financial performance is measured internally and reported to the CODM.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Transfer prices between segments are set at an arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments.

52 weeks 2020	**Adjusted**				**Specific items, and pension adjustment in people costs**		**Reported**
Continuing operations	**UKPIL (UK operations) £m**	**GLS (Non-UK operations) £m**	**Eliminations[1] £m**	**Group £m**	**UKPIL (UK operations) £m**	**GLS (Non-UK operations) £m**	**Group £m**
Revenue	**7,720**	**3,161**	**(41)**	**10,840**	**-**	**-**	**10,840**
People costs	**(5,234)**	**(722)**	**-**	**(5,956)**	**(108)**		**(6,064)**
Non-people costs	**(2,369)**	**(2,231)**	**41**	**(4,559)**	**-**	**-**	**(4,559)**
Operating profit before specific items	**117**	**208**	**-**	**325**	**(108)**	**-**	**217**
Operating specific items							
Regulatory fine	**-**	**-**	**-**	**-**	**(51)**	**-**	**(51)**
Employee Free Shares charge	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Impairment of assets	**-**	**-**	**-**	**-**	**(91)**	**-**	**(91)**
Legacy/other (costs)/credits	**-**	**-**	**-**	**-**	**(2)**	**5**	**3**
Amortisation of intangible assets in acquisitions	**-**	**-**	**-**	**-**	**(1)**	**(18)**	**(19)**
Operating profit	**117**	**208**	**-**	**325**	**(257)**	**(13)**	**55**
Profit on disposal of property, plant and equipment (non-operating specific item)	**-**	**-**	**-**	**-**	**88**	**1**	**89**
Profit before interest and tax	**117**	**208**	**-**	**325**	**(169)**	**(12)**	**144**
Finance costs	**(49)**	**(18)**	**11**	**(56)**	**-**	**-**	**(56)**
Finance income	**15**	**2**	**(11)**	**6**	**-**	**-**	**6**
Net pension interest (non-operating specific item)	**-**	**-**	**-**	**-**	**86**	**-**	**86**
Profit before tax	**83**	**192**	**-**	**275**	**(83)**	**(12)**	**180**

1 Revenue and non-people costs eliminations relate to intragroup trading between UKPIL and GLS, due to Parcelforce Worldwide being GLS' partner in the UK. Finance costs/income eliminations relate to intragroup loans between UKPIL and GLS.

Re-presented[2] 53 weeks 2019	Adjusted	Specific items, and pension adjustment in people costs	Reported

Continuing operations	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[3] £m	Group £m	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Revenue	7,732	2,888	(39)	10,581	-	-	10,581
People costs	(5,132)	(667)	-	(5,799)	(70)	-	(5,869)
Non-people costs	(2,366)	(2,044)	39	(4,371)	-	-	(4,371)
Operating profit before specific items	234	177	-	411	(70)	-	341
Operating specific items							
RMSEPP settlement	-	-	-	-	(64)	-	(64)
Employee Free Shares charge	-	-	-	-	(22)	-	(22)
Impairment of assets	-	-	-	-	-	(68)	(68)
Legacy/other costs	-	-	-	-	(5)	(2)	(7)
Amortisation of intangible assets in acquisitions	-	-	-	-	(1)	(19)	(20)
Operating profit	234	177	-	411	(162)	(89)	160
Profit on disposal of property, plant and equipment (non-operating specific item)	-	-	-	-	15	-	15
Profit before interest and tax	234	177	-	411	(147)	(89)	175
Finance costs	(17)	(10)	9	(18)	-	-	(18)
Finance income	12	2	(9)	5	-	-	5
Net pension interest (non-operating specific item)	-	-	-	-	79	-	79
Profit before tax	229	169	-	398	(68)	(89)	241

2 The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details).

3 Revenue and non-people costs eliminations relate to intragroup trading between UKPIL and GLS, due to Parcelforce Worldwide being GLS' partner in the UK. Finance costs/income eliminations relate to intragroup loans between UKPIL and GLS.

The depreciation and amortisation below are included within 'operating profit before specific items' in the income statement.

The non-current assets below exclude financial assets, retirement benefit surplus and deferred tax and are included within non-current assets on the balance sheet.

52 weeks 2020	**UKPIL (UK operations) £m**	**GLS (Non-UK Operations) £m**	**Total £m**
Depreciation[4]	**(306)**	**(106)**	**(412)**
Amortisation of intangible assets (mainly software)	**(90)**	**(14)**	**(104)**
Non-current assets	**2,695**	**1,390**	**4,085**

4 Includes £156 million resulting from the adoption of IFRS 16.

53 weeks 2019	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(213)	(45)	(258)
Amortisation of intangible assets (mainly software)	(120)	(13)	(133)
Non-current assets	2,103	991	3,094

3. Revenue

52 weeks 2020	**UKPIL £m**	**GLS £m**	**Intragroup revenue[1] £m**	**Group £m**
Letters and other revenue	**3,409**	**-**	**-**	**3,409**
Advertising Letters	**612**	**-**	**-**	**612**
Parcels	**3,699**	**3,161**	**(41)**	**6,819**
Total	**7,720**	**3,161**	**(41)**	**10,840**

Re-presented[2] 53 weeks 2019	UKPIL £m	GLS £m	Intragroup revenue[1] £m	Group £m
Letters and other revenue	3,431	-	-	3,431
Advertising Letters	705	-	-	705
Parcels	3,596	2,888	(39)	6,445
Total	7,732	2,888	(39)	10,581

1 Eliminations relate to intragroup revenue from trading between UKPIL and GLS. This is due to Parcelforce Worldwide being GLS' partner in the UK.

2 UK letters and parcels revenue and volumes have been allocated using a new methodology which reduces our reliance on sampling by using Post Office traffic data. This change only impacts the allocation of revenue between stamped letters and parcels and some international export products. Total UKPIL revenue remains unchanged.

During the year, around £290 million (2018-19: £280 million) of revenue was recognised which was previously held as a deferred revenue balance at 31 March 2019 (2018-19: 25 March 2018). This balance mainly relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' in the Annual Report and Financial Statements.

4. Operating costs

Operating profit before specific items is stated after charging the following operating costs:

	52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
People costs (see Note 5)	**(6,064)**	(5,869)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(361)**	(348)
Fuel costs	**(183)**	(156)
Infrastructure costs		
Depreciation, amortisation and impairment	**(516)**	(391)
Charge for property, plant and equipment	**(412)**	(258)
Charge for intangible assets	**(104)**	(133)

1 The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details).

Other operating costs		
Post Office Limited charges	**(351)**	(354)
Inventory expensed	**(41)**	(34)

Regulatory body costs
The following disclosure is relevant in understanding the extent of ongoing compliance costs in relation to the regulation of the Group.

	52 weeks 2020 £m	53 weeks 2019 £m
Ofcom administrative charge	**(5)**	(3)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	**(1)**	(2)
Total	**(6)**	(5)

Statutory audit costs
Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

Auditor's fees	52 weeks 2020 £000	53 weeks 2019 £000
Audit of Group statutory financial statements	**(1,247)**	(988)
Other fees to Auditor:		
Audit of the accounts of subsidiaries	**(1,453)**	(1,396)
Review of the interim financial information	**(219)**	(215)
Regulatory audit	**(128)**	(125)
Other assurance	**(100)**	-
Total	**(3,147)**	(2,724)

The 2019-20 fees relate to the services of the Group's appointed auditor KPMG LLP. In addition to the above amounts, KPMG LLP was paid by the respective Trustees, £102,500 for the audit of the Royal Mail Pension Plan (2018-19: £165,000) and £29,000 for the audit of the Royal Mail Defined Contribution Plan (RMDCP) (2018-19: £35,000).

5. People information

People costs	52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
Wages and salaries	**(4,904)**	(4,753)
UKPIL	**(4,267)**	(4,173)
GLS	**(637)**	(580)
Pensions (see Note 10)	**(679)**	(635)

Defined benefit UK	**(397)**	(374)
Defined contribution UK	**(97)**	(82)
Defined benefit and defined contribution Pension Salary Exchange (PSE) UK	**(178)**	(172)
GLS	**(7)**	(7)
Social security	**(481)**	(481)
UKPIL	**(403)**	(401)
GLS	**(78)**	(80)
Total people costs	**(6,064)**	(5,869)

Defined benefit pension plan rates:		
Income statement - RMPP	**-**	41.0%
- DBCBS	**20.8%**	18.9%
Cash flow - RMPP	**-**	17.1%
- DBCBS	**15.6%**	15.6%
Defined contribution pension plan average rate:		
Income statement and cash flow[2]	**8.6%**	8.0%

1 The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details).

2 Employer contribution rates are three per cent for employees in the entry level category and ten per cent for the majority of those in the standard level category. For the remaining standard level employees, the employer contribution is either eight or nine per cent, depending on the employees' selected contribution rate.

People numbers

The number of people employed, expressed as both full-time equivalents and headcount, during the reporting year was as follows:

	Full-time equivalents[3]				Headcount[4]			
	Year end		Average		Year end		Average	
	52 weeks 2020	53 weeks 2019	**52 weeks 2020**	53 weeks 2019	**52 weeks 2020**	53 weeks 2019	**52 weeks 2020**	53 weeks 2019
UKPIL	**146,445**	147,148	**149,351**	149,212	**141,466**	142,757	**142,444**	141,792
GLS	**15,818**	14,969	**15,721**	14,954	**19,306**	19,221	**19,191**	19,198
Total	**162,263**	162,117	**165,072**	164,166	**160,772**	161,978	**161,635**	160,990

3 These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same year.

4 These people numbers are based on permanent employees.

Directors' remuneration

	52 weeks 2020 £000	53 weeks 2019 £000
Directors' remuneration[5]	**(1,964)**	(2,300)
Amounts earned under Long-Term Incentive Plans (LTIP)	**(91)**	-
Number of Directors accruing benefits under defined contribution plans	**1**	2

5 These amounts include any cash supplements received in lieu of pension, details of the pension contributions are included in the Single Figure Tables of the Director's Remuneration Report in the Annual Report and Financial Statements. Details of the highest paid Director details are also included in the Single Figure Tables of the Directors' Remuneration Report.

6. Specific items and pension cost to cash difference adjustment

	52 weeks 2020 £m	53 weeks 2019 £m
Pension charge to cash difference adjustment (within People costs)	**(108)**	(70)
Operating specific items:		
Impairment of assets	**(91)**	(68)
Legacy/other credits/(costs)	**3**	(7)
Regulatory fine	**(51)**	-
Amortisation of intangible assets in acquisitions	**(19)**	(20)
Employee Free Shares charge	**(4)**	(22)
RMSEPP settlement	**-**	(64)
Total operating specific items	**(162)**	(181)
Non-operating specific items:		
Profit on disposal of property, plant and equipment	**89**	15
Net pension interest	**86**	79
Total non-operating specific items	**175**	94
Total specific items	**13**	(87)
Tax credit on certain specific items and the pension charge to cash difference	**60**	27

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

An impairment review of the Parcelforce Worldwide business identified that the carrying value of the assets exceeded their value in use, resulting in a £91 million impairment (see 'Key sources of estimation uncertainty' in Note 1 for more details).

Following the Competition Appeal Tribunal judgment of 12 November 2019, a provision for a fine from Ofcom of £50 million and £1 million associated interest has been made in the financial statements.

7. Taxation

	52 weeks 2020 £m	53 weeks 2019 £m
Tax charged in the income statement		
Current income tax:		
Current UK income tax charge	**(5)**	(21)
Foreign tax	**(55)**	(48)
Current income tax charge	**(60)**	(69)
Amounts over-provided in previous years	**5**	5
Total current income tax charge	**(55)**	(64)
Deferred income tax:		
Effect of change in tax rates	**6**	-
Relating to origination and reversal of temporary differences	**35**	3
Amounts under-provided in previous years	**(5)**	(5)
Total deferred income tax credit/(charge)	**36**	(2)
Tax charge in the consolidated income statement	**(19)**	(66)

Tax credited to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	**-**	1
Deferred tax:		
Tax credit in relation to remeasurement gains of the defined benefit pension schemes	**-**	2
Tax credit on revaluation of cash flow hedges	**11**	1
Total deferred income tax credit	**11**	3
Total tax credit in the consolidated statement of other comprehensive income	**11**	4

In addition to the amount charged to the income statement and other comprehensive income, the following amount relating to tax has been recognised directly in equity:

	52 weeks 2020 £m	53 weeks 2019 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**1**	(1)
Total deferred income tax credit/(charge) recognised directly in equity	**1**	(1)

Reconciliation of the total tax charge
A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019 is shown below.

	52 weeks 2020 £m	53 weeks 2019 £m
Profit before tax	**180**	241
At UK statutory rate of corporation tax of 19% (2018-19: 19%)	**(34)**	(46)
Effect of different tax rates on non-UK profits and losses	**(5)**	3
Tax under-provided in previous years[1]	**-**	(3)
Non-deductible expenses	**(4)**	(6)
Impairment of goodwill	**-**	(13)
Tax reliefs and incentives (including previous years) [2]	**(13)**	6
Tax effect of property disposals (including previous years)	**21**	5
Tax effect of closure of RMPP to future accrual	**(2)**	(2)
Net pension interest credit	**17**	15
Insurance policy settlement for the RMSEPP	**-**	(12)
Regulatory fine	**(10)**	-
Net decrease/(increase) in tax charge resulting from non-recognition of certain deferred tax assets		

and liabilities	**6**	(8)
Share-based payments - deferred tax-only adjustments	**(1)**	(5)
Effect of change in tax rates	**6**	-
Tax charge in the consolidated income statement	**(19)**	(66)

1 In 2018-19 the tax under-provided of £3 million is different to the total tax underprovided in the income statement of £5 million as certain items have been disaggregated, specifically, tax overprovided of £2 million related to tax reliefs and incentives and tax overprovided of £1 million relating to the tax effect of property disposals.

2 Tax reliefs and incentives of £(13) million includes £(16) million in relation to an increase in an uncertain tax provision for tax relief claimed in prior years.

Deferred tax

Deferred tax by balance sheet category 52 weeks 2020	**At 1 April 2019 £m**	**(Charged)/ credited to income statement £m**	**Credited to other comprehensive income £m**	**Credited to changes in equity £m**	**Charged to foreign exchange reserve £m[3]**	**Jurisdictional right of offset £m**	**At 29 March 2020 £m**
Liabilities							
Accelerated capital allowances	**(6)**	**(2)**	**-**	**-**	**-**	**-**	**(8)**
Employee share schemes	**(1)**	**-**	**-**	**1**	**-**	**-**	**-**
Intangible assets	**(57)**	**4**	**-**	**-**	**(1)**	**-**	**(54)**
Hedging derivatives temporary differences	**(1)**	**-**	**1**	**-**	**-**	**-**	**-**
	(65)	**2**	**1**	**1**	**(1)**	**-**	**(62)**
Jurisdictional right of offset	**10**	**-**	**-**	**-**	**-**	**(2)**	**8**
Deferred tax liabilities	**(55)**	**2**	**1**	**1**	**(1)**	**(2)**	**(54)**
Assets							
Deferred capital allowances	**6**	**8**	**-**	**-**	**-**	**-**	**14**
Pensions temporary differences	**13**	**20**	**-**	**-**	**-**	**-**	**33**
Provisions and other	**18**	**7**	**-**	**-**	**-**	**-**	**25**
Losses available for offset against future taxable income	**35**	**(1)**	**-**	**-**	**-**	**-**	**34**
R&D expenditure credit	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Hedging derivative temporary differences	**-**	**-**	**10**	**-**	**-**	**-**	**10**
	74	**34**	**10**	**-**	**-**	**-**	**118**
Jurisdictional right of offset	**(10)**	**-**	**-**	**-**	**-**	**2**	**(8)**
Deferred tax assets	**64**	**34**	**10**	**-**	**-**	**2**	**110**
Net deferred tax asset	**9**	**36**	**11**	**1**	**(1)**	**-**	**56**

3 Included in foreign exchange translation differences - exchange differences on translation of foreign operations within Other comprehensive income.

Deferred tax by balance sheet category 53 weeks 2019	At 26 March 2018 £m	(Charged)/ credited to income statement £m	Credited to other comprehensive income £m	Charged directly to equity £m	Acquisition of subsidiaries £m	At 31 March 2019 £m
Liabilities						
Accelerated capital allowances	(3)	-	-	-	(3)	(6)
Pensions temporary differences	(1)	1	-	-	-	-
Employee share schemes	(1)	1	-	(1)	-	(1)
Intangible assets	(48)	6	-	-	(15)	(57)
Hedging derivatives temporary differences	(2)	-	1	-	-	(1)
	(55)	8	1	(1)	(18)	(65)
Jurisdictional right of offset	10	-	-	-	-	10
Deferred tax liabilities	(45)	8	1	(1)	(18)	(55)
Assets						
Deferred capital allowances	14	(8)	-	-	-	6
Pensions temporary differences	-	11	2	-	-	13
Provisions and other	19	(1)	-	-	-	18
Losses available for offset against future taxable income	48	(13)	-	-	-	35
R&D expenditure credit	1	1	-	-	-	2
	82	(10)	2	-	-	74
Jurisdictional right of offset	(10)	-	-	-	-	(10)
Deferred tax assets	72	(10)	2	-	-	64

Net deferred tax asset	27	(2)	3	(1)	(18)	9

Deferred tax assets and liabilities are offset within the same jurisdiction where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for balance sheet presentation purposes.

Deferred tax - balance sheet presentation	**At 29 March 2020 £m**	At 31 March 2019 £m
Liabilities		
GLS group	**(54)**	(55)
Deferred tax liabilities	**(54)**	(55)
Assets		
GLS group	**8**	7
Net UK position	**102**	57
Deferred tax assets	**110**	64
Net deferred tax asset	**56**	9

The deferred tax position shows an increased overall asset in the reporting year to 29 March 2020. This is primarily due to the increase in accounting deficit of the DBCBS pension scheme, the effect of the increased UK corporation tax rate from 17 per cent to 19 per cent and the deferred tax asset recognition from losses on derivatives used for hedging.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangible assets in GLS Germany, for which the Group has already taken tax deductions, and intangible assets in relation to acquisitions in Canada and Spain.

At 29 March 2020, the Group had unrecognised tax losses and temporary differences of £278 million (2018-19: £333 million) with a tax value of £80 million (2018-19: £85 million). Unrecognised deferred tax in relation to tax losses comprises £73 million (2018-19: £63 million) relating to losses of £249 million (2018-19: £215 million) in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £1 million (2018-19: £9 million) in relation to £7 million (2018-19: £51 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprise £6 million (2018-19: £5 million) relating to GLS other temporary differences of £22 million (2018-19: £18 million) and £nil (2018-19: £8 million) relating to UK other temporary differences of £nil (2018-19: £49 million). The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £187 million (2018-19: £191 million) of capital losses, the tax effect of which is £35 million (2018-19: £32 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £388 million (2018-19: £421 million) of gains for which rollover relief has been claimed, the tax effect of which is £74 million (2018-19: £72 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate
The UK corporation tax rate is 19 per cent. The previously announced reduction to 17 per cent has been redacted following the Budget 2020. In accordance with accounting standards the deferred tax balances in these financial statements have been adjusted to effect this change.

8. Earnings per share

	52 weeks 2020			53 weeks 2019		
	Reported	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Profit for the year (£million)	**161**	**(35)**	**196**	175	(130)	305
Weighted average number of shares issued (million)	**999**	**n/a**	**999**	1,000	n/a	1,000
Basic earnings per share (pence)	**16.1**	**n/a**	**19.6**	17.5	n/a	30.5
Diluted earnings per share (pence)	**16.1**	**n/a**	**19.6**	17.5	n/a	30.5

1 Further details of the specific items and pension adjustment total can be found in the Financial Review.

The diluted earnings per share for the year ended 29 March 2020 is based on a weighted average number of shares of 1,001,079,845 (2018-19: 1,000,375,291) to take account of the potential issue of 658,250 (2018-19: 445,534) ordinary shares resulting from the Deferred Share Bonus Plans (DSBP) and 1,451,301 (2018-19: nil) ordinary shares resulting from the Long Term Incentive Plans (LTIP).

No ordinary shares (2018-19: 88) were issued in respect of the Save As You Earn (SAYE) scheme which ceased in the prior year.

The 1,029,706 (2018-19: 70,331) shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

9. Dividends

Dividends on ordinary shares	**52 weeks 2020 Pence per share**	53 weeks 2019 Pence per share	**52 weeks 2020 £m**	53 weeks 2019 £m
Final dividends paid	**17.0**	16.3	**169**	162
Interim dividends paid	**7.5**	8.0	**75**	80
Total dividends paid	**24.5**	24.3	**244**	242

In view of the current economic uncertainty, the Board believes it is prudent not to recommend a final dividend for the financial year ended 29 March 2020 (31 March 2019: 17.0 pence per share).

10. Retirement benefit plans

Summary pension information

	52 weeks 2020 £m	53 weeks 2019 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(397)**	(374)
UK defined contribution plan	**(97)**	(82)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(178)**	(172)
Total UK ongoing pension service costs	**(672)**	(628)
GLS pension costs accounted for on a defined contribution basis	**(7)**	(7)
Total Group ongoing pension service costs	**(679)**	(635)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions[3]	**(288)**	(304)
Defined contribution plans' employer contributions	**(104)**	(89)
UK defined benefit and defined contribution plans' PSE employer contributions	**(178)**	(172)
Total Group cash flows relating to ongoing pension service costs	**(570)**	(565)
RMSEPP death in service and administration expenses	**(1)**	(2)
Pension-related accruals (timing difference)	**-**	2
Pension charge to cash difference adjustment	**(108)**	(70)

	At 29 March 2020 '000	At 31 March 2019 '000
UK pension plans - active members		
UK defined benefit plan	**79**	83
UK defined contribution plan	**54**	51
Total	**133**	134

1 These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll - 20.8 per cent (2018-19: 41.0 per cent for the RMPP until 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the RMPP of £9 million (2018-19: £8 million) and the DBCBS of £4 million (2018-19: £2 million) continue to be included within the Group's ongoing UK pension service costs.

2 Eligible employees who are enrolled into Pension Salary Exchange (PSE) opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay.

3 The employer contribution cash flow rate of 15.6 per cent forms part of the payroll expense and is paid in respect of the DBCBS (2018-19 contributions included RMPP contributions of 17.1 per cent to 31 March 2018 and DBCBS contributions of 15.6 per cent from 1 April 2018). These contribution rates are set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS, the first full valuation for this will be performed as at 31 March 2021.

In the period, the Group operated the following plans.

UK Defined Contribution plan

Royal Mail Group Limited, the Group's main operating subsidiary, operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the RMPP to new members.

Ongoing UK defined contribution plan costs have increased from £135 million in 2018-19 to £169 million (including £72 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 8.0 per cent in 2018-19 to 8.6 per cent in 2019-20. This increase is largely as a result of members electing to transfer to the standard section which is subject to higher Group contribution rates, following a Government-mandated increase in contribution rates for members not in the standard section from 3 per cent to 5 per cent on 6 April 2019.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)[4]

The RMPP is funded by the payment of contributions to separate trustee administered funds. The RMPP includes sections A, B and C, each with different terms and conditions.

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;

- Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987, or for members of Section A who chose to receive Section B benefits; and
- Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Section A/B members built up a pension of 1/80th of pensionable salary plus a tax-free lump sum of 3/80ths of pensionable salary for each year of pensionable service, until 31 March 2018.

Section C members built up a pension of 1/60th of pensionable salary for each year of pensionable service, until 31 March 2018. If they want to take a tax-free lump sum at retirement they do so by exchanging some of their pension.

From 1 April 2018, Section A/B and C members began building up benefits on a DBCBS basis.

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals. They provide day to day plan management, advise the Trustee on its responsibilities and ensure that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries - including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP - to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions - the Trustee invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members; and
- keeping members informed - the Trustee sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.

No RMPP service contributions were made during 2019-20. One week of service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2018 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Group more flexibility over how these assets are best used for the benefit of members in future. These contributions are not considered to be Plan assets as the Trustee does not have control over the assets. This balance is included within non-current financial assets.

4 Any references to the RMPP relate to the scheme's defined pension liabilities built up to 31 March 2018. Members built up DBCBS benefits from 1 April 2018.

Defined Benefit Cash Balance Scheme (DBCBS)

A Defined Benefit Cash Balance Scheme (DBCBS) has been in place since 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Active former Section A/B and C members are accruing benefits under the DBCBS from 1 April 2018. Section F of the RMPP is for active former RMDCP members who became eligible to join the RMPP and have accrued DBCBS benefits from 1 April 2018.

DBCBS members build up a guaranteed lump sum benefit of 19.6 per cent of their pensionable pay each year. Although there are no guaranteed increases to this lump sum the aim is to provide above inflation increases, and the Trustee invests the scheme assets accordingly. If the value of the DBCBS assets were to fall below the value of the members' guaranteed lump sum benefits then no increases would be awarded until asset values had recovered as the Group has a legal obligation to prevent a decrease in the asset value. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the first increase granted in March 2020, Management is of the view that there is a constructive obligation to provide an increase to the lump sum, as scheme members would have a reasonable expectation of returns of CPI plus two per cent.

The Group signed a Schedule of Contributions on 19 July 2019. This covers a period of five years from the date of certification of the schedule i.e. until July 2024. In accordance with this schedule, the Group is required to make payments totalling 15.6 per cent per annum of pensionable payroll in respect of DBCBS.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. In accordance with the Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million was paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 25 March 2019, £500,000 has been paid in 2019-20 and is due to be paid per annum for the period 1 April 2020 to 31 March 2025.

Following the purchase of an additional insurance policy in September 2018 in respect of all remaining pensioners and deferred members it was decided to proceed to buy-out and wind-up the Plan. As a result, the purchase of the insurance policy was treated as a settlement in the 2018-19 financial statements. The difference between the IAS 19 surplus before and after the transaction resulted in £64 million being charged to the income statement as an operating specific item. Further progress towards buy-out and winding-up of the Plan has been made in the current year, and the target is to have the process completed in 2021.

All benefit payments due from the RMSEPP remain unchanged. The insurance policies held by the RMSEPP exactly match the value and timing of the benefits payable to individual members and the fair value is deemed to be the present value of the related obligations. The total value of the buy-in annuity policies in place is £296 million (31 March 2019: £335 million) and is included as a pension asset and a pension liability at 29 March 2020[5].

A liability of £2 million (2018-19: £2 million) has been recognised for future payment of pension benefits to a past Director.

Accounting and actuarial funding surplus position (RMPP, RMSEPP and DBCBS)

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for the purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds and the actuarial funding valuation uses gilt yields. As the accounting discount rate is higher than the actuarial funding discount rate, this leads to a lower computed liability.

The triennial valuation of RMPP at 31 March 2018 was agreed on 19 July 2019. Based on this set of assumptions rolled forward, the RMPP actuarial surplus at 29 March 2020 was estimated to be around £575 million. The DBCBS will be subject to triennial actuarial valuations in the future and the first full valuation for this will be performed as at 31 March 2021. A draft DBCBS funding position has however been calculated based on the assumption that the funding surplus is equal to the amount held in respect of the risk reserve. Under this method, the DBCBS actuarial surplus was estimated to be around £18 million.

Below is a summary of the combined plans' assets and liabilities on an accounting (IAS 19) and actuarial funding basis.

5 In accordance with IAS 19.

	DBCBS Accounting (IAS 19)		DBCBS Actuarial funding		RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding	
	At 29 March 2020 £m	At 31 March 2019 £m	**At 31 March 2020 £m**	At 31 March 2019 £m	**At 29 March 2020 £m**	At 31 March 2019 £m	**At 31 March 2020 £m**	At 31 March 2019 £m
Fair value of plans' assets (11(b) below)[6]	**730**	402	**735**	402	**11,989**	10,803	**11,700**	10,877
Present value of plans' liabilities	**(907)**	(474)	**(717)**	(393)	**(6,429)**	(7,097)	**(11,116)**	(10,818)
(Deficit)/surplus in plans (pre withholding tax payable)[7]	**(177)**	(72)	**18**	9	**5,560**	3,706	**584**	59
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,946)**	(1,298)	**n/a**	n/a
(Deficit)/surplus in plans[8]	**(177)**	(72)	**18**	9	**3,614**	2,408	**584**	59

6 The difference between accounting and actuarial funding asset fair values on 29 and 31 March 2020 arises from the different year end dates used for the valuation of the assets, and in both years due to the valuation of the RMSEPP buy-in assets under both methods.

7 Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

8 On an actuarial funding basis, the excess of DBCBS assets over liabilities is as a result of the risk reserve.

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

Having taken legal advice with regard to the rights of the Group under the Trust deeds and rules, the Directors believe there is a right to recognise a pension surplus on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis will result in a surplus on an actuarial funding basis. However, the Directors are required to account for the plans based on the Group's legal right to benefit from a surplus, using long-term actuarial funding assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus in the RMPP and RMSEPP, under IAS 19 and IFRIC 14, it must recognise the economic benefit it considers to arise from either a reduction to its future contributions or a refund of the surplus. This is a technical adjustment made on an accounting basis. There is no cash benefit from the surplus.

The legal right to benefit from a surplus has not changed as a result of the Group's decision to close the RMPP, however any surplus is no longer considered to be recoverable as a reduction to future employer contributions. Therefore the surplus is considered to be available as a refund. This surplus is presented net of a withholding tax adjustment of £1,942 million (at 31 March 2019: £1,294 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is a RMSEPP surplus at 29 March 2020 of £10 million (pre-withholding tax payable) (at 31 March 2019: £10 million surplus). Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

As the RMSEPP is also closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 and, as such, is shown net of a withholding tax adjustment of £4 million (at 31 March 2019: £4 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

The Group does not currently expect that the total cash contribution rate for all of the schemes as a percentage of pensionable pay will materially change over the next five years nor does it expect any deficit payments to be required.

Guaranteed Minimum Pensions (GMP)

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

The RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will be less than £0.5 million. This is still subject to further legal clarification on exact equalisation requirements, and also to the actual equalisation approach adopted.

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP, RMSEPP and DBCBS.

a) Major long-term assumptions used for accounting (IAS 19) purposes - RMPP, RMSEPP and DBCBS

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. The RMSEPP will continue in line with legacy RMPP benefits.

The major assumptions used to calculate the accounting position of the pension plans are as follows:

	At 29 March 2020	At 31 March 2019
Retail Price Index (RPI)	**2.5%**	3.2%
Consumer Price Index (CPI)	**1.7%**	2.2%
Discount rate - RMPP/RMSEPP[9]		
- nominal	**2.2%**	2.4%
- real (nominal less RPI)	**(0.3%)**	(0.8%)
Discount rate - DBCBS[10]		
- nominal	**2.2%**	2.2%
- real (nominal less RPI)	**(0.4%)**	(1.0%)

Rate of increase in pensionable salaries[11]	**RPI-0.1%**	RPI-0.1%
Rate of increase for deferred pensions	**CPI**	CPI
Rate of pension increases - RMPP Sections A/B	**CPI**	CPI
Rate of pension increases - RMPP Section C[11]	**RPI-0.1%**	RPI-0.1%
Rate of pension increases - RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases - RMSEPP all other members[11]	**RPI-0.1%**	RPI-0.1%
Rate of pension increases - DBCBS benefits	**CPI+2.0%**	CPI+2.0%
Life expectancy from age 60 - for a current 40/60 year old male RMPP member	**28/26 years**	28/26 years
Life expectancy from age 60 - for a current 40/60 year old female RMPP member	**30/28 years**	29/27 years

9 The discount rate reflects the average duration of the RMPP benefits of around 27 years

10 The discount rate reflects the average duration of the DBCBS benefits of 15 years. The pension service cost applicable from 1 April 2019 is based on 31 March 2019 assumptions.

11 The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

Retail Price Index

Historically the Group's calculations have been based on an assumed gap of 100bps between RPI and CPI rates. The UK Statistics Authority and HM Treasury are however currently jointly consulting on reforming the methodology of the Retail Price Index (RPI) with a view to abolishing this measure and replacing this with something close to CPI as a universal measure of inflation. As a result, the market appears to be pricing in a narrower gap between RPI and CPI, particularly after 2030. The Group has therefore adjusted its assumption for this measure to an 80bps gap, being the weighted average of the expected gap over the duration of the liabilities. The impact of this adjustment is approximately £65 million for RMPP and £25 million for DBCBS. It is expected that the RPI CPI gap will continue to decrease in future periods.

Mortality

The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (118 per cent for male pensioners (2018-19: 118 per cent) and 116 per cent for female pensioners (2018-19: 116 per cent)). Future improvements are based on the CMI 2017 core projections (smoothing factor 8.0 (2018-19: 8.0)) with a long-term trend of 1.5 per cent per annum (2018-19: 1.5 per cent). These assumptions were adopted following a mortality study undertaken as part of the March 18 actuarial valuation.

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	**-**	**230**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	**13**	**155**
Decrease in discount rate of 0.1% p.a.	**13**	**155**
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	**13**	**30**
Increase in constructive obligation of 0.1% p.a.	**13**	**-**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.5% p.a.	**70**	**780**
Decrease in discount rate of 0.5% p.a.	**65**	**680**
Increase in CPI assumption (assuming RPI remains constant) of 0.5% p.a.	**70**	**170**

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. The discount rate and RPI sensitivities are calculated using the mean term of the relevant section to derive the impact of a 0.1 per cent / 0.5 per cent change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 31 March 2019 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2020. This approach is unchanged from the prior year, although any change in mean terms will impact the sensitivities. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

As a result of the current COVID-19 pandemic, there has been significant volatility in these assumptions in recent months. At the end of May corporate bond yields had fallen significantly and as a result the discount rate was 100 basis points lower than the rate at the year end date for the DBCBS scheme and 90 basis points lower than the rate at year end for the RMPP scheme. The majority of the scheme's liabilities are however, hedged with government gilts, and yields in these have decreased from 2.35 per cent to 1.52 per cent in the same period.

b) RMPP, RMSEPP and DBCBS assets

	At 29 March 2020			At 31 March 2019		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities						
UK	**-**	**21**	**21**	10	-	10
Overseas	**21**	**33**	**54**	319	74	393
Bonds						
Fixed interest - UK	**292**	**18**	**310**	268	69	337

- Overseas	**137**	**82**	**219**	56	394	450
Pooled investments						
Absolute return	**-**	**496**	**496**	-	649	649
Equity	**-**	**86**	**86**	-	152	152
Private equity	**-**	**163**	**163**	-	80	80
Fixed interest	**-**	**402**	**402**	-	501	501
Private debt	**-**	**455**	**455**	-	202	202
Property	**-**	**59**	**59**	-	52	52
Liability-driven investments[12]	**9,104**	**234**	**9,338**	7,126	270	7,396
Property (UK)	**-**	**343**	**343**	-	295	295
Cash and cash equivalents	**468**	**-**	**468**	385	-	385
Other	**3**	**-**	**3**	1	(6)	(5)
Derivatives	**-**	**6**	**6**	(7)	(20)	(27)
RMSEPP buy-in annuity policies	**-**	**296**	**296**	-	335	335
Total plans' assets	**10,024**	**2,695**	**12,719**	8,158	3,047	11,205

12 A portfolio of largely gilt and swap contracts that is designed to hedge the majority of the interest rate and inflation risk associated with the Plans' obligations. At 29 March 2020 it included £9.3 billion of index-linked gilts, £353 million in short-term money market funds and £132 million of swaps, offset by negative fair value investments of £505 million of repurchase agreements and £77 million of cash and similar instruments.

There were no open equity futures or options derivatives within this portfolio at 29 March 2020 (2018-19: £nil). £8.8 billion (2018-19: £7 billion) of HM Government bonds are primarily included in the liability-driven investments balance above. The plans' assets do not include property or assets used by the Group or shares of Royal Mail plc at 29 March 2020 (2018-19: £nil).

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan and to provide, together with contributions, the financial resource from which benefits are paid. Investments are inevitably exposed to risks. The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options), from time to time to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that seeks to balance these requirements.

The RMPP's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the funding liabilities which it was estimated would be built up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps and gilt repurchase agreements) held in liability-driven investments providing economic exposure to gilts and swap rates. The nature of risks and their mitigation process are similar for the DBCBS.

The change in value of the liability-hedging assets is predominantly reflected in the liability-driven investment values, which have increased from £7,396 million at 31 March 2019 to £9,338 million at 29 March 2020.

The notional value covered by the inflation rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 29 March 2020 was £2.4 billion (2018-19: £2.4 billion). The notional value covered by the interest rate swaps at 29 March 2020 was £0.3 billion (2018-19: £1.5 billion).

The equity exposure of the RMPP has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to reduce downside risk whilst broadly maintaining the existing expected returns. The TRS has a market value as at 29 March 2020 of £9 million (2018-19: £(20) million) included in the derivative values above. The TRS economically offsets £62 million at 29 March 2020 (2018-19: £303 million) of the Plan's global equity market exposure.

The RMPP's liabilities are impacted by longer than expected life expectancy resulting in higher than expected payout levels. Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.

A fall in yields on AA- rated corporate bonds, used to set the IAS 19 discount rates, will lead to an increase in the IAS 19 liabilities. The RMPP's assets included corporate bonds, HM Government bonds and interest rate derivatives that are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared with the discount rate in some scenarios.

In the pension schemes, many of the Inflation linked increases that apply are restricted to a maximum increase of five per cent in any year. Therefore, the pension schemes give some protection from this risk of significantly higher levels of inflation (i.e. above five per cent a year), as many of the increases in the schemes would be restricted to five per cent in this scenario.

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

In addition to property and cash, the RMSEPP holds two buy-in annuity policies totalling £296 million at 29 March 2020 (2018-19: £335 million) to match its liabilities.

Further details on key sources of estimation uncertainty relating to pension assets can be found in the significant accounting policies section, 'Sources of estimation uncertainty and critical accounting judgments', including details on how the assets have been valued.

c) Movement in RMPP and RMSEPP assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Retirement benefit surplus (before withholding						

tax payable) at 1 April 2019 and 26 March 2018	**10,803**	10,361	**(7,097)**	(7,038)	**3,706**	3,323
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(9)**	(8)	**-**	(5)	**(9)**	(13)
RMSEPP settlement - operating specific item	**-**	(64)	**-**	-	**-**	(64)
Pension interest income/(cost)[13]	**258**	247	**(169)**	(168)	**89**	79
Total included in profit before tax	**249**	175	**(169)**	(173)	**80**	2
Amounts included in other comprehensive income - remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**-**	-	**751**	(197)	**751**	(197)
Demographic assumptions	**-**	-	**(17)**	169	**(17)**	169
Experience assumptions	**-**	-	**19**	67	**19**	67
Return on plans' assets (excluding interest income)	**1,020**	344	**-**	-	**1,020**	344
Total remeasurement gains of the defined benefit surplus	**1,020**	344	**753**	39	**1,773**	383
Other						
Employer contributions[14]	**1**	3	**-**	-	**1**	3
Employee contributions	**-**	-	**-**	-	**-**	-
Benefits paid	**(84)**	(78)	**84**	78	**-**	-
Curtailment costs	**-**	-	**-**	-	**-**	-
Movement in pension-related accruals	**-**	(2)	**-**	(3)	**-**	(5)
Total other movements	**(83)**	(77)	**84**	75	**1**	(2)
Retirement benefit surplus (before withholding tax payable) at 29 March 2020 and 31 March 2019	**11,989**	10,803	**(6,429)**	(7,097)	**5,560**	3,706
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,946)**	(1,298)
Retirement benefit surplus (net of withholding tax payable) at 29 March 2020 and 31 March 2019	**n/a**	n/a	**n/a**	n/a	**3,614**	2,408

13 Pension interest income results from applying the plans' discount rate at 31 March 2019 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 31 March 2019 to the plans' liabilities at that date.

14 Excludes payments into pension escrow investments of £nil (2018-19: £7 million) but includes PSE contributions of £nil (2018-19: £1 million).

d) Movement in DBCBS assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit deficit since the start of the scheme on 1 April 2018 are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Retirement benefit at 1 April 2019 and 26 March 2018	**402**	-	**(474)**	-	**(72)**	-
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	**(4)**	(2)	**(485)**	(465)	**(489)**	(467)
Pension interest income/(cost)[15]	**13**	-	**(16)**	-	**(3)**	-
Total included in profit before tax	**9**	(2)	**(501)**	(465)	**(492)**	(467)
Amounts included in other comprehensive income - remeasurement losses						
Actuarial gain/(loss) arising from:						
Financial assumptions	**-**	-	**49**	(16)	**49**	(16)
Experience assumptions	**-**	-	**(1)**	-	**(1)**	-
Return on plan assets	**(51)**	8	**-**	-	**(51)**	8
Total remeasurement (losses)/gains of the defined benefit deficit	**(51)**	8	**48**	(16)	**(3)**	(8)
Other						
Employer contributions[16]	**390**	403	**-**	-	**390**	403
Employee contributions	**4**	4	**(4)**	(4)	**-**	-
Benefits paid	**(24)**	(11)	**24**	11	**-**	-
Total other movements	**370**	396	**20**	7	**390**	403
Retirement benefit deficit at 29 March 2020 and 31 March 2019	**730**	402	**(907)**	(474)	**(177)**	(72)

15 Pension interest income results from applying the plans' discount rate at 31 March 2019 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 31 March 2019 to the plans' liabilities at that date.

16 Includes PSE contributions of £106 million (2018-19 £110 million).

11. Acquisition of businesses

On 30 September 2019, General Logistics Systems North America Inc., a subsidiary of General Logistics Systems (GLS), acquired MVE and MVFS, leading overnight and second day freight service providers based in California. This information includes the fair value of the identifiable assets and liabilities recognised as at the date of acquisition. Costs related to this acquisition recognised as an expense within other operating costs in the income statement amounted to £0.4 million.

	MVE and MVFS Total £m
Tangible assets acquired	**17**
Intangible assets recognised on acquisition	**7**
Trade and other receivables	**5**
Cash and cash equivalents	**2**
Goodwill recognised on acquisition	**2**
Total assets acquired	**33**
Trade and other payables	**(3)**
Loans and leases	**(10)**
Net assets acquired	**20**
Cash paid during the year	**17**
Consideration deferred	**3**
Total consideration	**20**

The fair value of trade debtors is equal to the gross contractual amounts receivable. A review of trade debtors did not indicate any recoverability issues.

The intangible assets recognised relate to customer lists and brands. The goodwill of £2 million arising on this acquisition is non-tax deductible.

No material fair value adjustments have been identified in respect of the remaining assets and liabilities acquired in the year.

Revenue generated from these entities since the date of acquisition is £22 million and profit is £1 million. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £47 million and the profit would have been £3 million.

There are no non-controlling interests in relation to this acquisition.

12. Leases

The adoption of IFRS 16 significantly impacts the Group balance sheet at the 1 April 2019 transition date, ROU assets have been recognised as 'property, plant and equipment' along with the associated lease liabilities. Certain prepayment, onerous lease provision and rent incentive balances have also been impacted. The table below shows the line by line impact on the balance sheet.

IFRS 16 transition impact on the Group balance sheet

	Reported at 31 March 2019 £m	IFRS 16 impact £m	Reported at 1 April 2019 £m
Non-current assets			
Property, plant and equipment	2,066	**1,045**	**3,111**
Deferred tax assets	64	**-**	**64**
Other non-current assets	3,647	**-**	**3,647**
	5,777	**1,045**	**6,822**
Assets held for sale	36	**-**	**36**
Current assets			
Trade and other receivables	1,310	**(20)**	**1,290**
Other current assets	278	**-**	**278**
	1,588	**(20)**	**1,568**
Total assets	7,401	**1,025**	**8,426**
Current liabilities			
Trade and other payables	(1,883)	**4**	**(1,879)**
Lease liabilities	(37)	**(118)**	**(155)**
Provisions	(58)	**1**	**(57)**
Other current liabilities	(11)	**-**	**(11)**
	(1,989)	**(113)**	**(2,102)**
Non-current liabilities			
Lease liabilities	(88)	**(944)**	**(1,032)**
Deferred tax liabilities	(55)	**-**	**(55)**
Provisions	(104)	**1**	**(103)**

Other non-current liabilities	(546)	**32**	**(514)**
	(793)	**(911)**	**(1,704)**
Total liabilities	(2,782)	**(1,024)**	**(3,806)**
Net assets	4,619	**1**	**4,620**
Equity			
Retained earnings	4,576	**1**	**4,577**
Other equity	43	**-**	**43**
Total equity	4,619	**1**	**4,620**

Reconciliation of operating lease commitments to the equivalent IFRS 16 lease liabilities at 31 March 2019

	£m
Undiscounted operating lease future minimum lease payments at 31 March 2019	(1,327)
Irrecoverable VAT included in future minimum lease payments at 31 March 2019[1]	88
Impact of discounting[2]	182
Short-term/low-value leases[3]	18
Other reconciling items (net)	(23)
IAS 17 operating lease liabilities at 31 March 2019 in scope for IFRS 16	**(1,062)**

1 Irrecoverable VAT was included in the operating lease commitments at 31 March 2019, under IFRS 16 this irrecoverable VAT is not included in the lease liability.

2 The previously disclosed lease commitments are undiscounted, whilst the IFRS 16 obligations have been discounted using RMG's incremental borrowing rate.

3 The Group has elected to apply the exemption from recognising leases for short-term and low value assets on the balance sheet.

The Group primarily leases office buildings and letter and parcel processing facilities. At 29 March 2020 the Group held approximately 1,110 land and building leases (994 at 1 April 2019 on transition to IFRS 16). The Group also has leases for some of its vehicle fleet and plant and equipment used in the operation. Leases are negotiated on an individual basis and may include extension or termination options.

The lease liabilities are reported as follows in the balance sheet:

	At 29 March 2020	At 31 March 2019
Lease liabilities	**Present value of lease payments £m**	Present value of lease payments £m
Current liabilities		
Lease liabilities due within one year	**(201)**	(37)
Non-current liabilities		
Lease liabilities due between one and five years	**(575)**	(74)
Lease liabilities due beyond five years	**(412)**	(14)

The right of use assets resulting from lease agreements are detailed below.

Right of use assets	**Land and Buildings £m**	**Plant and machinery £m**	**Motor vehicles £m**	**Fixtures and equipment £m**	**Total £m**
At 29 March 2020					
Cost	**1,096**	**195**	**504**	**4**	**1,799**
Additions	109	3	29	-	141
Accumulated depreciation and impairment losses	**(133)**	**(125)**	**(275)**	**(1)**	**(534)**
Deprecation charge	(128)	(25)	(55)	(1)	(209)
Carrying amount	**963**	**70**	**229**	**3**	**1,265**

Leases in the income statement

Leases are presented in the income statement as detailed below.

	52 weeks 2020 £m
Other operating income	
Sublease income	**3**
Material expenses	
Expenses from short-term/low-value leases	**(44)**
Variable lease payments not included in the measurement of lease liabilities	**(10)**
Depreciation and impairment losses	
Depreciation of right-of-use assets	**(209)**

Net finance costs	
Interest expense on lease liabilities	**(30)**

The Group engages in sale and leaseback transactions for plant and machinery and vehicles, cash received from these transactions in the year was £6 million (2018-19: £13 million).

The Group has £6 million of lease liabilities and right of use assets that are unrecognised at 29 March 2020 resulting from leases that have been signed but are yet to commence.

At 29 March 2020, the Group have signed a conditional agreement for a lease. Subject to discharge of the conditions, the intention is to complete the lease during the 2021-22 financial year. When completed, the lease liability and right of use asset to be recognised is expected to be circa £80 million.

13. Goodwill

	2020 £m	2019 £m
Cost		
At 1 April 2019 and 26 March 2018	**821**	715
Exchange rate movements	**25**	(7)
Acquisition of businesses	**2**	113
At 29 March 2020 and 31 March 2019	**848**	821
Impairment		
At 1 April 2019 and 26 March 2018	**441**	391
Exchange rate movements	**17**	(3)
Impairments (Operating specific item)	**-**	53
At 29 March 2020 and 31 March 2019	**458**	441
Net book value:		
At 29 March 2020 and 31 March 2019	**390**	380
At 31 March 2019 and 25 March 2018	**380**	324

GLS Europe

The carrying value of goodwill of £390 million (2018-19: £380 million) at the balance sheet date includes £270 million (2018-19: £257 million) in relation to GLS' European network (GLS Europe CGU - cash generating unit). The carrying value of the GLS European network, is £787 million. The CGU has been assessed for impairment by comparing the carrying value of the CGU to its recoverable amount, being the CGU's value in use. The value in use has been calculated by discounting cash flows for a five year period with the period beyond five years assumed to have a perpetuity growth rate of 0.4 per cent. All cash flows of the CGU have been discounted to present value at the CGU's post-tax WACC of 9.0 per cent. The pre-tax discount rate was 10.0 per cent. The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU.

GLS US excluding Mountain Valley Express (MVE)

The GLS US businesses represent two separate CGUs, comprising the US West coast operations (Golden State Overnight Delivery Services Inc. (GSO) and Postal Express Inc. (PEX)), and the newly acquired Mountain Valley Express and Mountain Valley Freight Solutions businesses. In the prior year, all the goodwill in the GSO/PEX CGU was fully impaired, along with other tangible and intangible fixed assets. The GLS US turnaround plan, initiated last year, is progressing well with losses in GSO and PEX reduced by £7m during the year.

Mountain Valley Express (MVE)

During the reporting year, GLS acquired Mountain Valley Express and Mountain Valley Freight Solutions (together 'MVE') which resulted in the recognition of £2 million goodwill. An impairment review was performed comparing the carrying amount of the MVE CGU of £20 million, to its recoverable amount. The recoverable amount has been calculated by discounting cash flows for a five year period with the period beyond five years assumed to have a perpetuity growth rate of 0.7 per cent. All cash flows of the CGU have been discounted to present value at the CGU's post-tax WACC of 13.0 per cent. The pre-tax discount rate was 18.0 per cent. This impairment assessment identified that the CGU has headroom of £9 million.

GLS Canada

In the prior reporting year, GLS acquired Dicom Canada which resulted in the recognition of £110 million goodwill. The value of the goodwill at 29 March 2020 is £106 million. The carrying value of this CGU is £211 million.

To assess the CGU for impairment, the carrying amount has been compared to its value in use which has been calculated by discounting cash flows covering a period of five years with the period beyond five years assumed to have a perpetuity growth rate of 1.4 per cent. All cash flows have been discounted to present value using a post-tax discount rate of 10.0 per cent. The pre-tax discount rate was 13.0 per cent. Based on these assumptions the CGU has a headroom of £29 million.

For the MVE and GLS Canada CGUs, sensitivity analysis has been conducted on the impairment tests for each of the key assumptions. The assumptions used and the impact of sensitivities on these assumptions are shown below.

				Used in impairment assessment		**Rate required to erode headroom**	
CGU	**Carrying value £m**	**Goodwill £m**	**Value in use £m**	**Discount rate (post tax) %**	**Perpetuity growth rate %**	**Discount rate (post tax) %**	**Perpetuity (decline) rate %**
Mountain Valley Express (MVE)	20	2	29	13.0	0.7	17.4	(8.3)
GLS Canada	211	106	240	10.0	1.4	11.1	(0.1)

The remaining goodwill of £13 million (2018-19: £13 million) arising from an aggregation of goodwill on business acquisitions, each being a separate CGU within the UKPIL segment, is supportable but not material in the context of the Group's total goodwill.

14. Cash and cash equivalents

	At 29 March 2020 £m	At 31 March 2019 £m
Cash at bank and in hand	**209**	141
Client cash	**21**	20
Cash equivalent investments: Short-term bank and money market fund investments	**1,410**	75
Total	**1,640**	236

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and deposits for three months or less, dependent on the immediate cash requirements of the Group. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates.

Client cash is cash collected from consignees by GLS on behalf of its posting customers. It is maintained in separate bank accounts to the cash of the business so it can be tracked and reconciled.

15. Loans and borrowings

	At 29 March 2020						
	Loans and borrowings £m	**Further committed facility £m**	**Total facility £m**	**Average interest rate of loan drawn down %**	**Basis of interest rate chargeable**	**Average maturity date of loan drawn down Year**	**Average maturity date of loan facility Year**
Syndicated bank loan facilities	**700**	**225**	**925**	**0.9**	**LIBOR plus 0.70%[1]**	**2020**	**2024**
€500 million bond - 2.375% Senior Fixed Rate Notes	**446**	**-**	**446**	**2.5**	**Fixed at 2.5%**	**2024**	**2024**
€550 million bond - 1.25% Senior Fixed Rate Notes	**489**	**-**	**489**	**2.7[2]**	**Fixed at 2.7%[2]**	**2026**	**2026**
Total	**1,635**	**225**	**1,860**	**1.9**		**2023**	**2025**

1 The total margin over LIBOR consists of a 0.40 per cent margin and a utilisation fee of 0.30% (as the facility was over two thirds drawn at 29 March 2020, the utilisation fee is 0.075 per cent when the facility is under one third drawn).

2 On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25 per cent and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent.

	At 31 March 2019						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	-	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2022
€500 million bond - 2.375% Senior Fixed Rate Notes	430	-	430	2.5	Fixed at 2.5%	2024	2024
Loans in overseas subsidiaries	1	-	1	0.9	Fixed at 0.9%	2022	2022
Total	431	1,050	1,481	2.5		2024	2022

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.118 (2018-19: £1/€1.158). The effective interest rate on the bond of 2.5 per cent (2018-19: 2.5 per cent) consists of the interest coupon of 2.375 per cent (2018-19: 2.375 per cent) plus the unwinding of the discount and fees on issuing the bond of 0.08 per cent (2018-19: 0.08 per cent). The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a loss of £15 million (2018-19: £5 million gain) on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the gains on translation of the net investment in GLS. There was no hedge ineffectiveness in the current or comparative reporting years.

On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25 per cent and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent. The €550 million bond is shown net of issue discount and fees and at a closing spot rate of £1/€1.118. The effective interest rate on the bond plus the cross currency swap (2.7 per cent) consists of the interest coupon of 1.25 per cent plus the effects of the cross currency swap (1.00 per cent) and the unwinding of the discount and fees on issuing the bond (0.40 per cent). The revaluation of the bond is hedged by the cross currency swap. The exchange rate on the Bond on issue in October 2019 of £1/€1.120 was similar to the closing spot rate of £1/€1.118, meaning that there was no material loss on the retranslation of this borrowing and no corresponding movements on the cross currency swap. There was no hedge ineffectiveness in the current year.

The syndicated bank loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenants. On 24 June 2020, a covenant amendment was agreed that waived the financial covenants relating to interest (excluding arrangement fees), adjusted net debt and EBITDA until March 2022, replacing them with a quarterly minimum liquidity covenant. It is not anticipated that the Group is at risk of breaching any of these amended obligations.

The existing financial covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3.5:1 and EBITDA to interest (excluding certain arrangement fees) above 3.5:1. The covenant ratios are calculated on an IAS 17 basis for leases. Adjusted net debt consists of net debt less leases capitalised under IFRS 16, plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote) and is adjusted for exchange rate movements during the year. EBITDA is adjusted to deduct operating lease expense on leases capitalised under IFRS 16 and to remove transformation costs and certain specific items (the pension charge to cash difference is not removed). Interest is adjusted to remove interest on leases capitalised under IFRS 16. The Group's leverage ratio at 29 March 2020 is 0.2:1 (2018-19: 0.5:1). The Group's ratio of EBITDA to interest at 29 March 2020 is 36.0:1 (2018-19: 72.8:1). Accordingly, the Group comfortably meets the covenants tests within its syndicated bank loan facilities agreement. The minimum liquidity covenant requires the Group to maintain at least £250 million of liquidity defined as cash, cash equivalent, current asset investments and undrawn, committed facilities (excluding the Covid Corporate Financing Facility).

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and also if the Group's leverage ratio exceeded 1:1. Under the loan agreement, the maximum interest rate chargeable would be LIBOR plus 2.05 per cent. The €500 million bond and the €550 million bond become repayable immediately on the occurrence of an event of default under the bond agreements. These events of default include non-payment and insolvency. It is not anticipated that the Group is at risk of breaching any of these obligations.

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, were £225 million maturing in September 2024 (2018-19: £1,050 million of which £952 million maturing in March 2020 and £98 million maturing in March 2020).

There is no security in place under the syndicated bank loan facilities or the bonds.

The syndicated bank loan facility contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender. The €500 million bond and the €550 million bond both contain provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Group to redeem or, at the Group's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

16. Provisions

	Specific items £m	**Other £m**	**Total £m**
Reported at 31 March 2019	**(100)**	**(62)**	**(162)**
IFRS 16 opening adjustments	**-**	**2**	**2**
Reported at 1 April 2019 on transition to IFRS 16	**(100)**	**(60)**	**(160)**
Arising during the year:			
Charged in operating specific items	**(45)**	**-**	**(45)**
Charged in other operating costs	**-**	**(62)**	**(62)**
Amounts reclassified in the period[1]	**-**	**(16)**	**(16)**
Utilised in the year	**2**	**57**	**59**
Unwinding of discount - industrial diseases claims	**(1)**	**-**	**(1)**
At 29 March 2020	**(144)**	**(81)**	**(225)**
Disclosed as:			
Current	**(57)**	**(56)**	**(113)**
Non-current	**(87)**	**(25)**	**(112)**
At 29 March 2020	**(144)**	**(81)**	**(225)**
Disclosed as:			
Current	(9)	(49)	(58)
Non-current	(91)	(13)	(104)
At 31 March 2019	(100)	(62)	(162)

	Specific items £m	Other £m	Total £m
At 26 March 2018	(106)	(56)	(162)
Arising during the year:			
Charged in operating specific items	(1)	-	(1)
Charged in other operating costs	-	(73)	(73)
Unused amounts released	3	4	7
Utilised in the year	6	63	69
Unwinding of discount - industrial diseases claims	(2)	-	(2)
At 31 March 2019	(100)	(62)	(162)
Disclosed as:			
Current	(9)	(49)	(58)
Non-current	(91)	(13)	(104)
At 31 March 2019	(100)	(62)	(162)
Disclosed as:			
Current	(13)	(46)	(59)
Non-current	(93)	(10)	(103)
At 25 March 2018	(106)	(56)	(162)

1 £16 million was reclassified to Other provisions during the period (previously presented within accruals) in respect of GLS liabilities, mainly in respect of employee benefits and litigation claims.

Below is a summary of the ageing profile of specific items and other provisions.

	At 29 March 2020					At 31 March 2019				
	Expected period of settlement					Expected period of settlement				
	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m
Specific items										
Industrial diseases claims	**(5)**	**(3)**	**(9)**	**(68)**	**(85)**	(3)	(3)	(9)	(68)	(83)
German property tax	**-**	**-**	**-**	**-**	**-**	-	(5)	-	-	(5)
Employee Free Shares - NI	**-**	**-**	**-**	**-**	**-**	(4)	-	-	-	(4)
Legacy property costs	**-**	**-**	**(1)**	**(6)**	**(7)**	-	-	(1)	(5)	(6)
Regulatory fine	**(51)**	**-**	**-**	**-**	**(51)**	-	-	-	-	-
Other	**(1)**	**-**	**-**	**-**	**(1)**	(2)	-	-	-	(2)
Total	**(57)**	**(3)**	**(10)**	**(74)**	**(144)**	(9)	(8)	(10)	(73)	(100)
Other										
Voluntary redundancy	**(12)**	**-**	**-**	**-**	**(12)**	(11)	-	-	-	(11)
Property decommissioning obligations	**(3)**	**(2)**	**(5)**	**(4)**	**(14)**	(5)	(3)	(3)	(5)	(16)
Litigation claims	**(38)**	**(2)**	**-**	**-**	**(40)**	(30)	(1)	-	-	(31)
LTIP - NI	**-**	**(1)**	**-**	**-**	**(1)**	-	(1)	-	-	(1)
Employee benefits	**(2)**	**(1)**	**(7)**	**-**	**(10)**	-	-	-	-	-
Other	**(1)**	**-**	**(3)**	**-**	**(4)**	(3)	-	-	-	(3)
Total	**(56)**	**(6)**	**(15)**	**(4)**	**(81)**	(49)	(5)	(3)	(5)	(62)

On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million. Royal Mail lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. On 12 November 2019, the CAT issued its judgment, which upheld Ofcom's decision and fine. In light of the CAT judgment, a provision has been made for £51 million, charged to operating specific items, representing the fine and associated interest.

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

The potential liability for industrial diseases claims relating to both current and former employees of the Group arose in 2010 as a result of a Court of Appeal judgement that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11. The Group has derived its current provision by using estimates and ranges calculated by its actuarial adviser, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted.

Provisions for litigation claims mainly comprise outstanding liabilities in relation to road traffic accident and personal injury claims.

17. Contingent liabilities

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position (see Note 16). Whistl's High Court claim is on hold until after the completion of any further appeal process. Royal Mail believe Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

18. Events after the reporting period

Covid Corporate Financing Facility

On 30 April 2020 the Bank of England approved Royal Mail plc's application for the Covid Corporate Financing Facility. This provides a £600 million facility in line with other corporates of the same credit rating. There have been no drawings of this facility since the balance sheet date.

Management changes

On 15 May 2020 the Royal Mail plc Board and Rico Back agreed that he would step down as Group CEO and from the Board with immediate effect and leave Royal Mail on 15 August 2020.

Keith Williams assumed the role, with immediate effect, of interim Executive Chair to lead discussions with stakeholders about an accelerated pace of change across the business. He is expected to remain in this executive role until a permanent CEO of Royal Mail is appointed. Stuart Simpson has been appointed interim CEO of Royal Mail. This is a Board appointment. Michael Jeavons was appointed as interim Group CFO.

A comprehensive internal and external search for a permanent CEO of Royal Mail will be undertaken. In order to ensure greater focus, this permanent CEO of Royal Mail will report directly to the Board once Keith Williams returns to the role of non-executive Chairman.

Loan covenant amendment

On 24 June 2020, a covenant amendment was agreed that waived the financial covenants relating to interest (excluding arrangement fees), adjusted net debt and EBITDA until March 2022, replacing them with a quarterly minimum liquidity covenant.

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year in accordance with applicable law and regulations. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement which 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 Directors' Report 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, are 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:

Keith Williams
Interim Executive Chair
24 June 2020

Stuart Simpson
Interim Chief Executive Officer Royal Mail
24 June 2020

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.

END

FR EAAKSADLEEEA