Registered Number 04138203

Royal Mail Group Limited

Annual Report and Financial Statements

For the 53 weeks ended 31 March 2019

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Royal Mail Group Limited

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Strategic report

Royal Mail Group Limited (the Company) is a wholly-owned subsidiary of Royal Mail plc.

UK Parcels, International & Letters (UKPIL) is the Company's operating unit and comprises Royal Mail's core UK and international parcels and letter delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands.

Business Review of 2018-19

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

Our contribution to the UK economy, including through employment and procurement, totalled £10.3 billion[1] last year in terms of value added. We made the seventh largest contribution to the UK economy of all UK corporations[2].

Results and dividends

The profit after tax for the year was £162 million (2017-18: £105 million). The Company's operating profit after transformation costs was £139 million (2017-18: £120 million loss).

There is a proposal for the Directors to recommend an interim dividend of £170 million (2017-18: £163 million), to be payable to the Company's parent company, Royal Mail plc, on or before 4 September 2019.

Winning in parcels

In 2018-19, we handled around 1.3 billion parcels in the UK. The addressable parcels market has, according to our estimates, returned to its medium-term growth rate of four-five per cent per annum[1]. Our parcel volume growth in key areas has outpaced the addressable market growth rate for some years, including 2018-19, when our combined Royal Mail Tracked 24®/48® and Tracked Returns® volumes grew by 24 per cent.

Customers – both senders and recipients – rate us highly on trust and reliability. Royal Mail is the UK's most trusted delivery provider. Three out of four people trust Royal Mail to deliver their online purchases[2].

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

Defending letters

Letters continue to be important to Royal Mail, accounting for 51 per cent of UKPIL revenue. Letters are a powerful communications tool, with many advantages compared with social media and email. For example, recent research found that letters have a 35 per cent better recall rate among consumers compared to social media, or 49 per cent better compared to email. They are also a proven driver of sales for businesses: around one third of addressed advertising mail generates a commercial action[3].

While addressed letter volumes are in structural decline, the UK mail bag continues to be one of the biggest in Europe. After Germany, the UK currently has the most letters per capita (151 per annum) in Europe[4]. For some years, addressed letters have declined within our forecast four-six per cent range, primarily driven by e-substitution. This year, however, while the rate of e-substitution is broadly unchanged, addressed letter volumes have declined by eight per cent (excluding political parties' election mailings), in line with our updated expectations. Marketing mail revenue declined by ten per cent, largely reflecting the impact of GDPR.

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

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

[2] Delivery Matters, 2018; RMG analysis.

[3] JICMAIL, Kantar TNS, Q2 2017 – Q1 2018.

[4] Annual Reports, IPC, Statistical Database, Worldometer.info.

Strategic report (continued)

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

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

Adding value and improving our network

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

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

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

Becoming more digitally-enabled

In October 2018, we launched a new mobile app to help consumers track their items from their smartphone. With a reference number, parcel recipients can check the progress of deliveries. They can book a redelivery if it has not been possible to deliver an item, or arrange for a redelivery to their address, neighbour or a local Post Office – all via the app. Amazon Alexa was launched on the app in April 2019, and allows you to quickly track the status of your Royal Mail deliveries, by providing Alexa with your Royal Mail tracking number. This is available through all Alexa voice enabled devices. More enhancements will make it even easier for recipients to manage deliveries.

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

Our workforce

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

Strategic report (continued)

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

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

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

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

Customer focus

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

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

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

Strategic report (continued)

Five-year strategic plan

The Company, along with its overseas subsidiary General Logistics Systems B.V. (GLS) will be integral to the Royal Mail plc Group ambition to build a parcels-led, more balanced and more diversified international business, connecting customers, companies and countries.

To achieve this ambition, the Company's strategy is focused on the delivery of two key priorities:

'Turnaround and grow' in the UK:

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

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

Enhancing our cross-border proposition:

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

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

1. 'Turnaround and grow' our UK business

Backdrop and shape of the transformation programme.

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

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

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

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

Strategic report (continued)

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

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

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

1b) Extending our UK network to handle small and larger parcels more efficiently and effectively. This includes a unit cost reduction for both, and significantly enhancing our next day parcel proposition.
Our review found that our existing network has many strengths. We aim to preserve them. It provides us with good economics, particularly in letters and small parcels, with the latter accounting for most of our parcel volumes. The review established that our network can be enhanced to handle the growing number of next day and larger parcels, including our current reliance on manual sortation and a two-sort approach. Having assessed the models adopted by other countries, there is no 'one size fits all' network design. Our approach is to therefore seek the best of both worlds. This means maintaining our existing network for letters and small parcels, and extending our network to handle next day and larger parcels more cheaply and more competitively.

Our network extension is timed to coincide with a strategically important period for the UK parcels market. We expect addressable UK parcel market volume growth of four-five per cent a year[1]. We are targeting revenue growth of over five per cent CAGR. Parcels generated by UK retailers will be a key growth area for us. Royal Mail's own view is that small (less than 2kg) parcels will continue to grow at above the market rate, while parcels at the larger end of the volumetric scale will grow at around the market rate. Within all size categories, next day parcels are expected to significantly outpace growth in other delivery time categories.

A range of consumer and e-retailer initiatives will launch in the next 12 months. They will include the single biggest repurposing of our postbox network for over 160 years: we will introduce c.1,400 parcel postboxes across the UK. In addition, we will begin to collect returns – a fast-growing category – from consumers at their homes and offer in-flight redirections for individual parcels. The value of online returns is expected to increase by more than 27 per cent over the next five years; clothing and footwear is forecast to account for almost £7 in every £10 of goods returned[2].

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

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

[2] GlobalData Online Returns in the UK, 2018.

Strategic report (continued)

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

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

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

2. Enhancing our cross-border proposition

The parcels market is large, global and growing. For example, the proportion of UK adults purchasing online cross-border has increased substantially from 28 per cent in 2013 to 43 per cent in 2017[3]. It is an attractive growth opportunity for us, centred around three key geographies: Europe, North America and Asia. At a product level and based on volume, deferred parcels (65 per cent) and small parcels (12 per cent) predominate; express parcels account for about 23 per cent. This profile matches the Royal Mail plc Group focus on deferred (GLS) and small parcels (Royal Mail International).

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

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

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

[3] Eurostat ICT Usage in Households and Individuals 2017.

Strategic report (continued)

Key Performance Indicators

The 2018-19 Corporate Balanced Scorecard includes 10 equal measures, all weighted at 10 per cent. Six of the 10 measures alongside the relevant key performance indicators (KPIs) are set out below. The Corporate Balanced Scorecard links all managers' remuneration to our performance against a set of key financial and non-financial performance measures. Note that the Company's financial performance is measured as part of the KPIs within the Royal Mail plc Group consolidated financial statements, using IFRS numbers, but adjusted for specific and underlying items that distort the reported results of the Company. These financial KPIs are not therefore disclosed in these financial statements.

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

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

Strategic report (continued)

Principal Risks and Uncertainties

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

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

Strategic report (continued)

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

Strategic report (continued)

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

Strategic report (continued)

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

Strategic report (continued)

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

Strategic report (continued)

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

Strategic report (continued)

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

Strategic report (continued)

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

Strategic report (continued)

Financial risk management objectives and policies

Interest rate risk

The Company's exposure to market risk for changes in interest rates arises from the Company's loans, leases and interest-bearing financial assets. Drawings under the syndicated bank loan facilities are at floating rate. At 31 March 2019 there were no drawings (2017-18: £nil). The total interest-bearing financial assets of the Company (excluding the RMPP and RMSEPP pension escrow investments) consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates. These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

The Company's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed.

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Foreign currency transaction risk

The Company is exposed to foreign currency risk due to obligations under Euro denominated finance leases; trading with overseas postal administrations for carrying UK mail abroad and delivering foreign origin mail in the UK; and various purchase contracts denominated in foreign currency (all of these exposures are in UKPIL).

These risks are mitigated by hedging programmes managed by the Company's Treasury function. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts. Hedging will not normally be considered for exposures of less than £1 million and hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

Foreign currency translational risk

The Company's functional currency is Sterling. The Company's obligation to settle with overseas postal administrations is denominated in Special Drawing Rights (SDRs) – a basket of currencies which comprise US Dollar, Japanese Yen, Chinese Renminbi, Sterling and Euro.

The Company has six active hedge programmes (commenced during the current and previous reporting years) covering obligations to settle Euro and US Dollar invoices on automation projects.

The Company entered into €15 million of Euro denominated finance leases during the year (2017-18: €31 million) which act as a hedge of the net assets of General Logistics Systems (GLS) (the overseas operations of the Royal Mail plc Group for which the Company's investment is held by its Royal Mail Investments Limited subsidiary – see Note 12 to the financial statements). The lease payables are revalued at year end exchange rates and the movement taken to equity to offset, at Royal Mail plc Group level, the movement taken to equity from the revaluation of GLS' balance sheet.

Commodity price risk

The Company is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe - which consumes over 130 million litres of fuel per year - and a jet fuel price risk arising from the purchasing of air freight services. The Company's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US Dollar commodity price and US Dollar/Sterling exchange rate) to manage these exposures.

In addition, the Company is exposed to the commodity price risk of purchasing electricity and gas. The Company's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers and using over-the-counter derivative products.

Credit risk

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that the Company is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, which are commensurate with the Company's appetite for risk.

With regard to credit risk arising from other financial assets of the Company, which comprise cash, cash equivalent investments, loans and receivables and certain derivative instruments, the Company invests/trades only with high-quality financial institutions. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Strategic report (continued)

Liquidity risk
The Company's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and term deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facilities for the Company of £1,050 million expire in 2020-22 (2017-18: £1,050 million expiring in 2020-22).

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

Our CR strategy comprises six key objectives:

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

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

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

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

Social and environmental risk management
We assess risks arising from the social and environmental issues relevant to our business at least once a year, using our risk management framework to determine their criticality. The risks deemed most critical to the Company are set out on pages 9 - 16 in the Principal Risks section of this report. Our non-financial key performance indicators are shown on page 8.

Measuring our progress
Royal Mail plc is independently rated as a leading responsible business. In 2018, it was named global leader of the Transportation industry group in the Dow Jones Sustainability Indices, ahead of over 135 companies in ground-based transportation, marine and aviation industries.

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

Strategic report (continued)

Our customers

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

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

We are introducing new products and services, as well as strengthening those currently available, to provide a better customer experience. For example, in October 2018, we launched a new mobile app to help consumers manage their deliveries more effectively. The new app enables consumers to easily track their items from their smartphone. There is also an option to book a redelivery if it has not been possible to deliver an item. This latest enhancement is part of a programme of innovation making Royal Mail's services more accessible and convenient.

In 2018-19, our mean business customer satisfaction score remained the same at 78 points (see KPIs on page 8). Our consumer sending satisfaction score remained the same at 80 points. The mean proportion of business customers rating Royal Mail as being 'Easy to Do Business With' decreased marginally from 80 to 79.

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

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

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

Scam mail

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

Our people

Engagement and culture

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

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

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

Strategic report (continued)

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

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

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

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

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

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

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

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

Gender diversity
At senior management level, 32 per cent of our colleagues are women, compared with 18 per cent in operational grades. In 2018-19, Royal Mail was named as one of The Times Top 50 Employers for Women for the sixth consecutive year.

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

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

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

Strategic report (continued)

Ethnic diversity
Royal Mail's ethnic profile is broadly representative of the UK population. According to our 2018-19 Employee Survey, around 14 per cent of employees declared themselves to be from Black, Asian and Minority Ethnic (BAME) backgrounds. Royal Mail is a signatory of the Race at Work Charter. We work with Business in the Community's Opportunity Now and Race for Opportunity campaigns to ensure we support and follow best practice in gender and race diversity. Our BAME steering group participated in targeted focus groups to better understand the experiences of our BAME colleagues - feedback from which will be used to inform our Diversity and Inclusion strategy.

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

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

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

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

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

We are working hard to reduce road traffic collisions. As such, the Road Traffic Collision Frequency Rate is one of the measures on our Corporate Balanced Scorecard. This year, we reduced our Road Traffic Collision Frequency Rate by 5.3 per cent, compared with 2017-18. We continue to invest in driver training and road safety campaigns to promote safe driver behaviours. During the year, we updated and expanded the courses that we offer. We also successfully trialled the use of forward facing cameras in Heavy Goods Vehicles and have since expanded the trial with a view to national deployment.

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

Strategic report (continued)

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

Our communities

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

We make the seventh biggest contribution of any UK company to the UK economy. One in every 192 jobs in the UK is provided by Royal Mail[1]. We make a significant contribution to social inclusion through the vital employment and earnings that we bring to some of the UK's poorer regions.

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

Our environment

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

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

- embedding internal and external environment standards across our operation, such as our Safety, Health and Environment Management System standards for energy, carbon, waste and water management, and developed to be compliant with the requirements of International Standard ISO14001;
- actively anticipating and responding to emerging environmental issues by working closely with relevant stakeholders and implementing effective governance controls;
- adopting existing and new technologies that will help us to reduce our emissions and resource use;
- building environmental awareness and encouraging behavioural change in our workforce in order to drive performance against our carbon, waste and water targets; and promoting the benefits of strong environmental management with customers and through our supply chain.

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

Climate change risks and opportunities

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

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

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

[1] CEBR Research, conducted for Royal Mail in May 2019.

Strategic report (continued)

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

Risk Management: In line with the TCFD's recommendations, we consider both physical and transitional risks in the risk assessment process, along other types of risk. During the year, the RMC agreed that climate-related risks be added to the Company Principal Risk Profile. We recognise that climate change presents both risks and opportunities for our Company. As such, we maintain an environmental risk and opportunity register. The EGB and other relevant internal stakeholders, including the central Risk team, review and update this regularly.

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

We have a target to reduce our absolute carbon emissions by 20 per cent by 2020-21, against a 2004-05 baseline. We are proud to have met this target, with current reduction of 29 per cent against the 2004-05 baseline, as such we are currently reviewing and updating our emissions target. Over two-thirds of our carbon emissions are derived from our vehicles and transport, therefore, a vital part of maintaining our performance against our carbon emissions reduction target is improving our fleet fuel efficiency.

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

Carbon emissions

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

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

Fleet emissions

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

Investing in new vehicles and technologies: We are undertaking a number of trials and initiatives in our current fleet to drive down fuel consumption. When older vehicles come to the end of their lifecycle, they are replaced with new vehicles that meet the latest emissions standards. Our fleet also includes electric and liquefied natural gas (LNG) vehicles. During 2018-19, 100 electric vans were used for delivery and collection in 17 Delivery Offices across the UK. We also trialled an electric LDV van in our Mount Pleasant Mail Centre which is able to support the larger volumetric requirements within London. Following the success of the trial and introduction of ultra-low emission zone streets in London, we have purchased three electric LDV vans. We have recently purchased a number of zero emission cargo trikes, which we are trialling in Stratford, Cambridge and Sutton Coldfield.

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

Strategic report (continued)

Changing driving styles: We use telemetry systems to promote safer and more efficient driving. We use our telemetry data in our training to change driver behaviour, and encourage safer and more fuel-efficient driving styles. Around 53 per cent of our vehicle fleet is fitted with telemetry, which in 2018-19 saved us approximately 380,000 litres of diesel, equating to over 990 tonnes of CO_2e.

Making our transport network more efficient: We use cutting-edge routing technology to improve efficiency for our transport networks. We maximise our capacity by loading mail items as efficiently as possible. We are focused on minimising the use of air transport in order to reduce both CO_2e emissions and costs.

Buildings emissions

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

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

We use our Building Energy Management System (BEMS) to maximise energy efficiency at our top energy consuming sites. In 2018-19, Solar panels at our Chelmsford Mail Centre generated 82,101 kWh in 2018-19, saving approximately 23,240 $kgCO_2e$.

Waste and water management

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

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

During the year, we partnered with a new third-party contractor to cover all water purchases in England and Scotland. By switching to a single supplier, we have greater visibility to better monitor our water use. We calculate average daily water usage for each type of Royal Mail site. This enables us to pinpoint the locations where water consumption is higher than average for the site type, investigate the reasons and take appropriate action.

Our suppliers

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

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

Strategic report (continued)

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

Business integrity

Anti-bribery and corruption

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

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

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

Human rights

The Company is committed to playing its part to uphold and protect human rights in our business and supply chains. We obey the laws, rules and regulations of every country in which we operate. Our commitment is embedded in our Company-wide Corporate Responsibility Policy, our Responsible Procurement Code and our Business Code of Conduct. We are committed to implementing the United Nations (UN) Guiding Principles on Business and Human Rights as well as the UN Declaration of Human Rights and the International Labour Organisation Fundamental Conventions. These cover freedom of association, the abolition of forced labour, equality and the elimination of child labour. We recognise that human rights violations, including forced labour and trafficking, can occur in all sectors and countries, and as a responsible business are committed to playing our part to help eliminate it.

We are committed to helping to prevent any incidence of modern slavery throughout our operations. We expect the same level of commitment from all our business partners, suppliers and contractors, and to do the same within their respective supply chains. The Royal Mail plc Modern Slavery Act statement, provides an overview of our operations and our approach to responsible business, the risks we have identified and the steps we take to mitigate them. We strive to continuous improvement and therefore will take on board feedback on the content of this statement from the Business & Human Rights Resources Centre report - From Disclosure to Action when we publish our 2018-19 statement.

Our taxation strategy

Our taxation strategy sets out our taxation principles, alongside a detailed description of our approach. The Company has a low risk appetite in relation to tax matters. We are committed to complying with all applicable tax laws and will make decisions in relation to tax with due regard to our reputation, integrity and status.

The Strategic report was approved by the Board on 16 July 2019 and signed on its behalf by:

Michael Jeavons
Director
Royal Mail Group Limited
Registered Number: 04138203
Registered Office: 100 Victoria Embankment, London, EC4Y 0HQ
16 July 2019

Directors' report

The Directors present the Annual Report and Financial Statements of the Company. These financial statements relate to the 53 weeks ended 31 March 2019 (2017-18: 52 weeks ended 25 March 2018).

Directors and their interests
The following have served as Directors of the Company during the year ended 31 March 2019 and up to the date of approval of these financial statements, unless otherwise stated:

Stuart Simpson	
Michael Jeavons	
Rico Back	Appointed 8 June 2018
Moya Greene	Resigned 8 June 2018

No Director has a beneficial interest in the share capital of the Company.

With the exception of Michael Jeavons, the Directors listed above were also Directors of Royal Mail plc, the Company's ultimate parent company for all or part of the reporting year, and as such their disclosable interests in Royal Mail plc are all declared in the financial statements of that company.

Research and development
During the year the Company continued to develop products and services within the business. An indication of the nature of the activities performed are provided in the Strategic report.

Political donations
There were no political donations during the year (2017-18: £nil). The Company intends to continue its policy of not making such donations for the foreseeable future.

Audit information
The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Indemnity of Directors
To the extent permitted by the Companies Acts, the Company may indemnify any Director or former Director of the Company or any associated company against any liability. The ultimate parent undertaking, Royal Mail plc, holds a Directors' and Officers' liability insurance policy covering the Directors and Officers or former Directors of its subsidiary undertakings against any liability.

Cautionary statement regarding forward-looking information
Where this report contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. A number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

Going concern
These financial statements have been prepared on a going concern basis. The Directors have reviewed business projections to consider business cash flows under different trading scenarios that could reasonably take place during the year under review. The Company's business activities, strategy, performance and principal risks are outlined on pages 2 to 25.

The Directors have assessed these cash flows against committed and undrawn funding facilities (£1,050 million at 31 March 2019) and other liquid resources available to the Company (cash at bank £8 million and financial assets investments £75 million, less a bank overdraft of £30 million, at 31 March 2019) and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months.

Auditor
The auditor is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Directors' report (continued)

Strategic report

In accordance with s414c(ii) of the Companies Act, the Company has set out certain information in its Strategic report that is otherwise required to be disclosed in the Directors' report. This includes information regarding results and activities, dividends, employees and financial risk management.

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 Company and to prevent and detect fraud and other irregularities.

By Order of the Board

Michael Jeavons
Director
Royal Mail Group Limited
Registered Number: 04138203
Registered Office: 100 Victoria Embankment, London, EC4Y 0HQ
16 July 2019

Independent Auditor's Report to the members of Royal Mail Group Limited

Opinion
We have audited the financial statements of Royal Mail Group Limited ("the Company") for the 53 week period ended 31 March 2019 which comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and related notes, including the accounting policies in Note 1.

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the 53 week period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and Directors' report
The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the members of Royal Mail Group Limited (continued)

Directors' responsibilities
As explained more fully in their statement set out on page 27, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Pinckard

Richard Pinckard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
16 July 2019

Income statement
for the 53 weeks ended 31 March 2019 and the 52 weeks ended 25 March 2018

	Notes	53 weeks 2019 £m	52 weeks 2018 £m
Continuing operations			
Revenue	2	**7,748**	7,608
People costs	3	**(4,970)**	(5,230)
Other operating costs[1]	4	**(2,506)**	(2,385)
Operating profit/(loss) before transformation costs[2]		**272**	(7)
Transformation costs		**(133)**	(113)
Operating profit/(loss) after transformation costs[2]		**139**	(120)
Operating specific items	5	**(97)**	(52)
Operating profit/(loss)		**42**	(172)
Profit on disposal of property, plant and equipment		**9**	34
Earnings before interest and tax		**51**	(138)
Income from investments	7	**72**	71
Finance costs	8	**(19)**	(19)
Finance income	8	**3**	1
Net pension interest	21	**79**	91
Profit before tax		**186**	6
Tax (charge)/credit	9	**(24)**	99
Profit for the year		**162**	105

[1] Operating costs are stated before transformation costs and operating specific items.

[2] These measures of performance are both before operating specific items

Statement of comprehensive income
for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Notes	53 weeks 2019 £m	52 weeks 2018 £m
Profit for the year		**162**	105
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**239**	(658)
Withholding tax payable on distribution of RMPP and RMSEPP surplus	21	(138)	(1,144)
Remeasurement gains of the defined benefit surplus in RMPP and RMSEPP	21(c)	383	10
Remeasurement losses of the defined benefit deficit in DBCBS	21(d)	(8)	-
Deferred tax	9(d)	2	476
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**(3)**	-
Exchange differences on translation of loan to subsidiary		(4)	-
Tax on above item	9(d)	1	-
Designated cash flow hedges		**(3)**	2
Gains on cash flow hedges deferred into equity		14	11
Gains on cash flow hedges released from equity to income		(17)	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	(1)
Tax on above items	9(d)	1	(1)
Total other comprehensive income/(expense) for the year		**233**	(656)
Total comprehensive income/(expense) for the year		**395**	(551)

There is no statement of historical cost profits and losses as the financial statements are produced under the historic cost accounting convention.

Balance sheet
at 31 March 2019 and 25 March 2018

	Notes	At 31 March 2019 £m	At 25 March 2018 £m
Non-current assets			
Property, plant and equipment	10	1,433	1,476
Intangible assets	11	473	513
Investments in subsidiaries and associates	12	1,176	1,078
Financial assets – pension escrow investments	13	207	198
Financial assets – derivatives		4	5
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	21	2,408	2,163
Other receivables	22	150	55
Deferred tax assets	9(d)	78	86
		5,929	5,574
Assets held for sale	23/30	35	50
Current assets			
Inventories	14	22	20
Trade and other receivables	15	844	755
Income tax receivable		13	12
Financial assets – derivatives		9	15
Cash and cash equivalents	16	83	422
		971	1,224
Current liabilities			
Trade and other payables	17	(2,490)	(2,624)
Financial liabilities – obligations under finance leases	27	(36)	(59)
Financial liabilities – derivatives		(3)	(3)
Bank overdraft	19	(30)	-
Income tax payable		(8)	(27)
Provisions	20	(52)	(52)
Net current liabilities		(1,648)	(1,541)
Total assets less current liabilities		4,316	4,083
Non-current liabilities			
Other payables	18	(67)	(64)
Financial liabilities – obligations under finance leases	27	(87)	(107)
Financial liabilities – derivatives		(2)	(4)
DBCBS retirement benefit deficit	21	(72)	-
Provisions	20	(97)	(95)
Net assets		3,991	3,813
Equity			
Share capital	25	-	-
Retained earnings		3,979	3,795
Other reserves	25	12	18
Total equity		3,991	3,813

The financial statements were approved by the Board of Directors on 16 July 2019 and signed on its behalf by:

Stuart Simpson
Director
Royal Mail Group Limited
Registered Number 04138203
Registered Office: 100 Victoria Embankment, London, EC4Y 0HQ

Statement of changes in equity
for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Notes	Share capital £m	Retained earnings £m	Hedging reserve £m	Foreign currency translation reserve £m	Other reserve £m	Total equity £m
At 26 March 2017		-	4,538	7	-	9	4,554
Profit for the year		-	105	-	-	-	105
Other comprehensive income for the year		-	(658)	2	-	-	(656)
Total comprehensive income for the year		-	(553)	2	-	-	(551)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid	26	-	(233)	-	-	-	(233)
Share-based payments in respect of Royal Mail plc	24						
Employee Free Shares issue[1]		-	35	-	-	-	35
Save As You Earn (SAYE) scheme		-	1	-	-	-	1
Long-Term Incentive Plan (LTIP)[2]		-	3	-	-	-	3
Deferred Shares Bonus Plan (DSBP)		-	2	-	-	-	2
Deferred tax on share-based payments in respect of Royal Mail plc		-	5	-	-	-	5
Settlement of LTIP 2014		-	(3)	-	-	-	(3)
At 25 March 2018		-	3,795	9	-	9	3,813
Profit for the year		-	162	-	-	-	162
Other comprehensive income for the year		-	239	(3)	(3)	-	233
Total comprehensive income for the year		-	401	(3)	(3)	-	395
Transactions with owners of the Company, recognised directly in equity							
Dividend paid	26	-	(243)	-	-	-	(243)
Share-based payments in respect of Royal Mail plc	24						
Employee Free Shares issue[1]		-	23	-	-	-	23
Long-Term Incentive Plan (LTIP)[2]		-	4	-	-	-	4
Deferred Shares Bonus Plan (DSBP)		-	3	-	-	-	3
Deferred tax on share-based payments in respect of Royal Mail plc		-	(1)	-	-	-	(1)
Settlement of LTIP 2015		-	(3)	-	-	-	(3)
At 31 March 2019		-	3,979	6	(3)	9	3,991

[1] Excludes £1 million credit (2017-18: £2 million credit) for National Insurance, recognised in the income statement, included in provisions in the balance sheet.
[2] Excludes £1 million credit (2017-18: £1 million charge) for National Insurance, recognised in the income statement, included in provisions in the balance sheet.

Notes to the financial statements

1. Accounting policies
The following accounting policies apply throughout the Company.

Accounting reference date
The financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are made up to the 53 weeks ended 31 March 2019 (2017-18: 52 weeks ended 25 March 2018).

Authorisation of financial statements and statement of compliance with FRS 101
The financial statements of the Company for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 16 July 2019. The Company is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The amendments to FRS 101 (2016-17 Cycle) issued in July 2017 and effective immediately have been applied.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Royal Mail plc. The consolidated financial statements of Royal Mail plc are available from www.royalmailgroup.com/results.

Basis of preparation
The Company has applied FRS 101 for all years presented. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment* (details of the number and weighted average exercise prices of share options and how the fair value of goods or services received are determined);[1]

(b) the requirements of IFRS 7 *Financial Instruments: Disclosures*;[1]

(c) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement* (disclosure of valuation techniques and inputs used for fair value measurements of assets and liabilities);[1]

(d) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';

(e) the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
- (i) paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding);
- (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment* (reconciliation of the carrying amount at the beginning and end of the year);
- (iii) paragraph 118(e) of IAS 38 *Intangible Assets* (reconciliation of the carrying amount at the beginning and end of the year);

(f) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*;

(g) the requirements of IAS 7 *Statement of Cash Flows*;

(h) the requirements of paragraph 17 and 18(a) of IAS 24 *Related Party Disclosures* (key management compensation and related party transaction amounts); and

(i) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

[1] Exemption taken as equivalent disclosures are included in the consolidated financial statements of Royal Mail plc.

1. Accounting policies (continued)

Going concern
In assessing the going concern status of the Company, the Directors are required to look forward by a minimum of 12 months from the end of the year, 31 March 2019, to ensure that there is sufficient headroom to enable the Company to pay its creditors as they fall due.

The Directors have assessed these cash flows against committed and undrawn funding facilities (£1,050 million at 31 March 2019) and other liquid resources available to the Company (cash at bank £8 million and financial assets investments of £75 million, less a bank overdraft of £30 million, at 31 March 2019).

The Directors are satisfied that these facilities, coupled with business projections, show that the Company will continue to operate for a minimum of 12 months from the signing date of these financial statements.

Changes in accounting policy
The accounting policies applied in the preparation of these financial statements are consistent with those of the previous reporting year, and the adoption of new and amended accounting standards with effect from 26 March 2018 as detailed below:

New and amended accounting standards adopted in 2018-19
IFRS 15 'Revenue from Contracts with Customers'

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

IFRS 2 (Amended) 'Classification and Measurement of Share-based Payment Transactions'

IFRS 4 (Amended) 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'

IAS 40 (Amended) 'Transfers of Investment Property'

Annual improvements 2014-2016

The adoption of IFRS 15 has been made in accordance with all transitional provisions and disclosure requirements of the standard. Management has elected to follow the modified transition approach, under which there is no requirement to restate prior year balances, applying the standard to all contracts from 25 March 2018.

From a review of existing revenue policies and specific significant contracts in place at the transition date, no adjustment to the opening retained earnings balance was required. The adoption of IFRS 15 has had no significant impact on the current year financial statements or earnings per share.

Other accounting standards
The Directors do not expect that the adoption of any other new or amended standards issued during the reporting period that are not yet effective will have a material impact on the financial performance or position of the Company in future periods.

IFRS 9
The Company adopted IFRS 9 'Financial Instruments' for the 2017-18 reporting year, one year earlier than the effective date advised by the International Accounting Standards Board.

Sources of estimation uncertainty and critical accounting judgements
The preparation of 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 Company's statement of comprehensive income. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP are included within Note 21.

1. Accounting policies (continued)

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Company applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 21.

Constructive obligation – Defined Benefit Cash Balance Scheme (DBCBS)
In accounting for the DBCBS pension scheme Management must apply judgement in determining whether a constructive obligation exists in relation to annual pension benefit increases in the absence of a legal obligation. Any such constructive obligation must be included in the calculation of the fair value of the DBCBS defined benefit liability. From an assessment of announcements and internal communications made to members of the scheme to date, Management is of the view that scheme members would have a reasonable expectation of returns of CPI plus two per cent. Further details are available in Note 21, including sensitivities around measures involving CPI.

Deferred revenue
The Company recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 17).

The majority of this balance is made up of stamps sold to the general public. To determine the amount of sales to defer, estimates of stamp volumes held are made on the basis of monthly surveys performed by an independent third-party. Surveys of this nature are inherently subjective, and rely upon the number and demographic profile of respondents. Together with the third party and consistent with prior years, we make adjustments that seek to address potential bias by capping and constraining the data.

The impact of these adjustments are shown in the table below:

Number of public stamp holdings		Capped			Uncapped
		30	As reported 99	300	
At 31 March 2019	**Constrained (as reported)**	**156**	**188**	**211**	**213**
(£m)	**Unconstrained**	**196**	**232**	**252**	**254**
At 25 March 2018	Constrained (as reported)	154	179	188	188
(£m)	Unconstrained	190	220	228	228

The survey provides a 95 per cent confidence that the amount reported is unlikely to fall outside a range of +/- £22 million (2017-18: £19 million), and this approximately represents 44 days of stamp holdings in the hands of customers. Should the actual number of days of stamp holdings be 10 days more or less, then the amount deferred would change by £43 million (2017-18: £43 million). The results are reviewed by Management in order to make a judgement of the carrying amount of the accrual.

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

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The result of a 0.5 per cent decrease in the discount rate estimate would be a £6 million increase in the overall industrial diseases provision. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item. The carrying value of this provision is included within Note 20.

Critical accounting judgements

Contingent liabilities – Ofcom fine
Management considered Ofcom's decision following its investigation into whether Royal Mail had breached competition law, the subsequent imposition of a fine and Royal Mail's appeal of Ofcom's decision and fine. Following this assessment, which included extensive legal review, both internal and external to the Company, Management's view is that it is not probable that Royal Mail will be required to pay the fine and, accordingly, no liability should be recognised in these financial statements. Further details are provided in Note 28.

1. Accounting policies (continued)

Pension settlement – Royal Mail Senior Executives Pension Plan (RMSEPP) buy-in
During the period the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members of the RMSEPP. Alongside previous insurance policies purchased, this means that substantially all the liabilities of the scheme are now covered by insurance policies. The new policy also includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. From an assessment of the nature of the policies in place, Management has applied judgement to conclude that the purchase of this additional insurance policy should be treated as a settlement under IAS 19.

Revenue
Revenue relates principally to the delivery of letters and parcels for a wide range of public and private customers. In the majority of cases contracts contain a single service performance obligation, which is considered to be satisfied at the point of delivery. Transaction prices for services rendered are typically fixed and agreed in advance with the price being allocated in full to the single delivery performance obligation.

Payment for services is typically received shortly before the related performance obligation is satisfied, leading to no significant contract assets or liabilities arising. In some cases payment may be received in advance for a service that is due to be performed over a longer period of time, for example a 12 month redirection service. In these cases the payment is initially recognised on the balance sheet as a contract liability (deferred revenue), with revenue recognised on a straight-line basis over the life of the contract, in line with the performance of the service.

Where products are sold through third party agents, such as the Post Office, but the responsibility to fulfil the service lies with the Group, the revenue receivable is recognised gross with any commission payments being charged to operating costs. Where sales are known to have occurred through a third party vendor at the balance sheet date, and the proceeds are yet to be received, revenue for the sale is recognised, with the amount still to be received recognised as a contract asset (accrued revenue).

In some instances volume-based incentives may be offered to customers, which leads to variable transaction prices. In these cases the relevant contracts are continually assessed, and revenue for services performed to date at the period end recognised in line with the expected contract outturn price. Where incentives are issued in the form of sales-based vouchers an element of the initial sales proceeds, proportional in value to the voucher issued, is held as a contract liability and released to revenue upon use or expiry of the voucher.

Revenue from direct sales of products or services is recognised when services are rendered, goods are delivered and the amount of revenue that will flow to the Group can be measured reliably. Where payments are received for a service to be provided over a specified length of time, payments received are recognised as deferred revenue and released to the income statement over the period that the service is performed.

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Contracted services that have been paid for but not yet rendered at the balance sheet date are designated as deferred revenue.

Revenue derived from Network Access agreements is recognised when the delivery of the related items is complete.

Revenue relating to public, retail and business stamp and meter sales is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer. Further details on this deferred revenue adjustment are provided in the 'Key sources of estimation uncertainty' section above.

IFRS 15 Practical expedients:
Management has taken advantage of the following practical expedients available under IFRS 15:

(a) to not adjust transaction prices for financing components where it is expected that the time between payment and the satisfaction of the performance obligation is less than one year (IFRS 15.63);

(b) to recognise any incremental costs of obtaining a contract (such as commissions) as an expense if the amortisation period of any capitalised costs would be expected to be less than one year (IFRS 15.94); and

(c) to exclude disclosures on any remaining performance obligations where the original contract was expected to last for less than one year or where revenue from a service contract corresponds directly with value to the customer of the performance completed to date (IFRS 15.121(a-b)).

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

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

1. Accounting policies (continued)

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. These items currently include the charge for Employee Free Shares in recognition of the services provided by employees of the Company to Royal Mail plc, and impairment and legacy costs (for example, movements in the industrial diseases provision).

Income tax and deferred tax
The charge for current income tax is based on the results for the reporting year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- Initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; and
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future;

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date against internal forecasts of future profits against which those assets may be utilised and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is charged or credited directly to equity if they relate to items that are charged or credited directly to equity, otherwise it is recognised in the income statement.

Where tax credits are claimed against eligible research and development costs, these amounts are credited against the relevant expense or capitalised asset to match the accounting treatment applied to the original expenditure.

Dividends
Distributions to owners of the Company are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders but not paid at the period end. Interim dividends are recognised as a distribution when paid.

Property, plant and equipment
Property, plant and equipment is recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to cost, the useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	3 to 15 years
Motor vehicles and trailers	2 to 12 years
Fixtures and equipment	2 to 15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is derecognised. Gains or losses from the disposal of assets are recognised in the income statement at the point that all significant risks and rewards of ownership are transferred.

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts replaced is derecognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

1. Accounting policies (continued)

Intangible assets
Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Software	3 to 10 years

Borrowing costs
Interest on borrowings related to the construction or development of qualifying assets is capitalised, until such time as the assets are substantially ready for their intended use. Borrowing costs capitalised are deducted in determining taxable profit in the period in which they are incurred.

Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, the assets cease being depreciated.

Impairment reviews
Unless otherwise disclosed in these accounting policies, assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Company assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Investments in subsidiaries and associates
Investments in subsidiaries and associates within the Company's financial statements are stated at cost less any accumulated impairment losses.

Leases
Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Company, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In addition to lease contracts, other significant arrangements or contracts are assessed (by reference to IFRIC 4) to determine whether, in substance, they are, or contain, a lease. This assessment is based on the substance of the arrangement at inception date, including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Trade receivables
Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts. This allowance is calculated by first creating an allowance for identified trade receivables where collection of the full amount is no longer probable and then applying lifetime expected credit loss (ECL) rates to the remaining unprovided balance. ECL rates have been set by ageing category based on historic loss rates with adjustments made to reflect forward-looking information where material. Movements in the loss allowance are recognised in the income statement within other operating costs. At the point that a debt is considered unrecoverable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in the income statement.

1. Accounting policies (continued)

Inventories
Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other costs attributable in bringing inventories to their present location and condition. The principal stock balance consists of engineering spare parts.

Trade payables
Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

Financial instruments
Financial assets within the scope of IFRS 9 'Financial Instruments' are classified as financial assets at: fair value through the profit and loss (FVTPL) if they are not part of an effective hedge designation (held for trading); amortised cost or fair value through other comprehensive income (FVOCI) as appropriate. Financial liabilities within the scope of IFRS 9 are classified as either financial liabilities at FVTPL or financial liabilities measured at amortised cost.

The Company determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at FVTPL, any directly attributable transactional costs.

The Company only has financial assets and liabilities measured at amortised cost and derivative assets and liabilities measured at FVTPL if they are not part of an effective hedge designation.

The subsequent measurement of financial instruments depends on their classification as follows:

Financial assets measured at amortised cost
Non-derivative financial assets which are held for the purpose of collecting contractual cash flows, including interest, are classified as financial assets measured at amortised cost. These assets are carried at amortised cost with finance income recognised in the income statement using the effective interest rate method. Any gains or losses are recognised in the income statement when the assets are derecognised or impaired.

Financial liabilities measured at amortised cost
All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. These liabilities are measured at amortised cost with finance costs recognised in the income statement using the effective interest method. Any gains or losses are recognised in the income statement when the liabilities are derecognised or impaired.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Company uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents.

Financial assets - pension escrow investments
Pension escrow investments comprise a Royal Mail Senior Executives Pension Plan (RMSEPP) money market fund investment, a Royal Mail Pension Plan (RMPP) money market fund investment and a short-term loan to the RMSEPP Trustees.

Financial assets - other investments
Other investments comprise short-term deposits (other investments) with banks with an original maturity of three months or more. Short-term deposits are classified as financial assets at amortised cost.

Financial liabilities - obligations under finance leases
All obligations under finance leases are classified as financial liabilities measured at amortised cost. The Euro-denominated finance lease creditors are measured at amortised cost in Euro and converted to Sterling at the closing Sterling/Euro exchange rate.

1. Accounting policies (continued)

Derivative financial instruments and hedging programmes
The Company uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Company, in line with the Company's treasury management policies. Such derivative financial instruments are initially stated at fair value.

For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. Derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date).

Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement'.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

Fair value measurement of financial instruments
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

The Company determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting year. For the purposes of disclosing the Level 2 fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date.

For the purposes of comparing carrying amounts to fair value, fair values have been calculated using current market prices (bond price, interest rates, forward exchange rates and commodity prices) and discounted using appropriate discount rates.

1. Accounting policies (continued)

Pensions and other post-retirement benefits
The pension assets for the defined benefit plans are measured at fair value (Fair value levels 1 and 2). Unlisted securities and other pooled investment vehicles are valued at the Trustee's valuation using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued using the latest external RICS surveyor valuations (under "Red Book" guidelines) adjusted for any capex spend and impairments since that valuation. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions. Where the economic benefit to be obtained is in the form of a refund, this is recognised less taxation expense, in line with IFRIC 14. The Company considers this taxation to be a tax, other than income tax and the pension surplus is presented net of this tax on the balance sheet.

Full actuarial/cash funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed.

For defined benefit plans, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The amount resulting from applying the Plan's discount rate (for liabilities) to the pension surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the remeasurement gains and losses is also recognised immediately in the statement of comprehensive income.

For defined contribution plans, the Company's contributions are charged to operating profit within people costs in the year to which the contributions relate.

Intercompany trading
The Company operates through business units that make use of the services of other companies within the Royal Mail Group in order to take advantage of Group synergies, with regard to the mutual dependencies that exist. The inter-company charges recognise these dependencies and are reached through negotiation between the respective companies.

Foreign currencies
The functional and presentational currency of the Company is £ Sterling (£).

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Company's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are discussed further in the 'Key sources of estimation uncertainty and critical accounting judgements' part of this accounting policies section.

Contingent liabilities
Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless an outflow of resources is considered to be remote.

1. Accounting policies (continued)

Accounting standards issued but not yet applied
The following new and amended accounting standards are relevant to the Company and are in issue but were not effective (and in some instances, have not yet been adopted by the EU) at the balance sheet date:

IAS 1 (Amended) and IAS 8 (Amended) 'Definition of Material'*

IAS 19 (Amended) 'Plan Amendment, Curtailment or Settlement'*

IAS 28 (Amended) 'Long-term Interests in Associates and Joint Ventures'

IFRS 3 (Amended) 'Definition of a Business'*

IFRS 9 (Amended) 'Prepayment Features with Negative Compensation'

IFRS 10 (Amended) and IAS 28 (Amended) 'Sale of Assets between an Investor and its Associate or Joint Venture'*

IFRS 16 'Leases'

IFRS 17 'Insurance Contracts'*

IFRIC 23 'Uncertainty over Income Tax Treatments'

Annual Improvements 2015-2017*

* Not yet endorsed by the EU.

With the exception of IFRS 16, the Directors do not expect that the adoption of the amendments, interpretations and annual improvements listed above (which the Company does not expect to early adopt) will have a material impact on the financial performance or position of the Company in future periods. IFRS 16 is explained in more detail below as it is considered of particular importance to the Company.

IFRS 16 'Leases'
Effective 1 January 2019, IFRS 16 'Leases' was issued in January 2016 to replace IAS 17 'Leases'. The Company will apply the standard with effect from 1 April 2019. As lessees the Company will capitalise operating leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments will be recognised as lease liabilities.

The most significant impact on the Company from applying IFRS 16 will be the recognition of 'right of use' assets in respect of property, vehicles and equipment, leased by the Company under contracts previously classified as operating leases under IAS 17. The Company will apply IFRS 16 on a modified retrospective basis without restating prior years and apply the following exemptions and choices on transition at 1 April 2019:

Only apply IFRS 16 to contracts previously identified as leases under IAS 17.

Apply a single discount rate to portfolios of leases with similar characteristics.

Not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months; instead, continue to recognise the lease costs through the income statement as they are incurred.

Rely on the assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right of use assets created. Where this is the case the carrying amount of the assets will be adjusted by the onerous lease provision.

Exclude initial direct costs from the measurement of the right of use asset.

The opening balance sheet at 1 April 2019 will be adjusted to create 'right of use' assets of around £600 million to £800 million. A corresponding lease liability of around £750 million to £950 million will also be recognised. Equity will decrease by around £100 million to £200 million after tax. This adjustment to equity arises from the decision to calculate the opening 'right of use' asset values for certain properties, as if IFRS 16 had always applied, and represents depreciation that would have been charged up to 1 April 2019.

The Company will continue to implement and refine procedures and processes to apply the new requirements of IFRS 16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above. However, these are not currently expected to be material.

Application of IFRS 16 by the Company is not expected to have a significant impact on the Company's finance lease accounting.

2. Revenue

	53 weeks 2019 £m	52 weeks 2018 £m
Letters and other revenue	**2,910**	3,068
Marketing mail	**1,102**	1,101
Parcels	**3,736**	3,439
Total	**7,748**	7,608

During the year, around £280 million (2017-18: £290 million) revenue was recognised which was previously held as a deferred revenue balance at 25 March 2018 (2017-18: 26 March 2017). This balance mainly relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' (see Note 17).

3. People costs and numbers

	53 weeks 2019 £m	52 weeks 2018 £m
Wages and salaries	**(3,793)**	(3,707)
Social security costs	**(391)**	(381)
Pension costs	**(625)**	(995)
Temporary resource	**(161)**	(147)
Total	**(4,970)**	(5,230)

People numbers, calculated on a headcount basis and including part-time employees were as follows:

	Year end employees		Average employees	
	At 31 March 2019	At 25 March 2018	At 31 March 2019	At 25 March 2018
Total employees	**139,850**	138,160	**138,873**	138,002

4. Other operating costs

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

	53 weeks 2019 £m	52 weeks 2018 £m
Distribution and conveyance costs		
Charges from overseas postal administrations	**(348)**	(342)
Fuel costs	**(147)**	(137)
Operating lease costs – vehicles	**(15)**	(12)
Short-term vehicle hire	**(31)**	(28)
Infrastructure costs		
Depreciation and amortisation	**(328)**	(279)
Depreciation of property, plant and equipment	(208)	(197)
Amortisation of intangible assets (software)	(120)	(82)
Other operating costs		
Post Office Limited charges	**(354)**	(341)
Inventory expensed	**(34)**	(35)
Operating lease costs – property, plant and equipment	**(112)**	(108)
Intercompany property rent	**(13)**	(52)

4. Other operating costs (continued)

The following disclosure is relevant in understanding the extent of costs in relation to the regulation of the Company.

Regulatory body costs	53 weeks 2019 £m	52 weeks 2018 £m
Ofcom administrative charge	(3)	(3)
Citizens Advice/Consumer Council for Northern Ireland	(2)	(2)
Total	(5)	(5)

Auditor's remuneration amounted to £290,000 (2017-18: £285,000) for the audit of the statutory financial statements. The auditor did not provide any non-audit services for the years ended 31 March 2019 and 25 March 2018.

5. Operating specific items

	53 weeks 2019 £m	52 weeks 2018 £m
Accounting impact of RMSEPP buy-in settlement	(64)	-
Employee Free Shares charge	(22)	(33)
Potential industrial diseases claims (see Note 20)	-	2
Impairments	(11)	(12)
Other	-	(9)
Total	(97)	(52)

6. Directors' emoluments

	53 weeks 2019 £000	52 weeks 2018 £000
Short-term employee benefits	(1,666)	(2,763)
Post-employment benefits	(12)	(32)
Share-based payments	-	(819)
Total	(1,678)	(3,614)

There were no Directors in the Company's defined benefit pension scheme (2017-18: none) and two Directors (2017-18: two) in the Company's defined contribution pension scheme during the year. There were no Directors (2017-18: none) in a money purchase pension scheme.

The total amount payable to the highest paid Director in respect of emoluments was £647,633 (2017-18: £1,797,000), which includes pension contributions of £nil (2017-18: £10,000) made to the Company's defined contribution pension scheme on their behalf.

7. Income from investments

	53 weeks 2019 £m	52 weeks 2018 £m
Royal Mail Investments Limited	62	49
Royal Mail Property and Facilities Solutions Limited	10	10
Royal Mail Finance Limited	-	11
Royal Mail Finance (No 2) Limited	-	1
Dividends received from subsidiaries	72	71

8. Net finance costs

	53 weeks 2019 £m	52 weeks 2018 £m
Interest payable on finance leases	(3)	(4)
Net interest payable to Royal Mail Group entities	(13)	(13)
Other miscellaneous interest payable	(3)	(2)
Finance costs	(19)	(19)
Finance income - interest receivable on investments	3	1
Net finance costs	(16)	(18)

9. Taxation

(a) Tax (losses)/gains recognised in the year

	53 weeks 2019 £m	52 weeks 2018 £m
Tax (charge)/credit in the income statement:		
Current tax:		
Corporation tax charge for the year	(16)	(36)
Tax over-provided in previous year	2	-
Total current tax charge	(14)	(36)
Deferred tax:		
Origination and reversal of timing differences	(7)	127
Amounts (under)/over-provided in previous year	(3)	13
Effect of change in tax rates	-	(5)
Total deferred tax (charge)/credit	(10)	135
Total tax (charge)/credit	(24)	99

Tax credit on items taken to other comprehensive income:

	53 weeks 2019 £m	52 weeks 2018 £m
Current tax:		
Tax credit on foreign currency translation	1	-
Deferred tax:		
In relation to the change in manner of recovery of the defined benefit surplus	-	478
Origination and reversal of timing differences	3	(3)
Total	4	475

(a) Tax gains/(losses) recognised in the year (continued)

Tax (charge)/credit on items taken directly to equity:

	53 weeks 2019 £m	52 weeks 2018 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	(1)	5
Total	(1)	5

9. Taxation (continued)

(b) Reconciliation of the total tax charge

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017-18: 19%). The differences are explained below:

	53 weeks 2019 £m	52 weeks 2018 £m
Profit on ordinary activities before tax	186	6
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017-18: 19%)	(35)	(1)
Expenditure disallowable for tax	(6)	(7)
Profit on disposal of fixed assets	2	8
Adjustment in respect of prior year[1]	(3)	-
Decision to close RMPP to future accrual	(2)	78
Net pension interest credit	15	-
Buy-in insurance policy for the RMSEPP	(12)	-
Effect of Group relief surrenders to other companies for no payment	-	(3)
Non-taxable dividend received	14	13
Tax reliefs and incentives (including previous years)	6	12
Net increase in tax charge resulting from non-recognition of certain deferred tax assets	2	3
Share-based payments – deferred tax only adjustments	(5)	1
Effect of change in tax rates	-	(5)
Total tax (charge)/credit in the income statement	(24)	99

[1] The tax under-provided of £3 million (2017-18: £nil) is different to the total tax under-provided in the income statement of £1 million (2017-18: £13 million over-provided) as tax over-provided of £2 million (2017-18: £13 million over-provided) relating to tax reliefs and incentives has been disaggregated.

(c) Factors that may affect future tax charges

At 31 March 2019, the Company had unrecognised tax losses and temporary differences of £83 million (2017-18: £104 million) with a tax value of £14 million (2017-18: £18 million). Unrecognised tax losses comprise £6 million (2017-18: £9 million) in relation to £34 million (2017-18: £55 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprise £8 million (2017-18: £8 million) relating to UK other temporary differences of £49 million (2017-18: £49 million). The Company 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 Company also has temporary differences in respect of £190 million (2017-18: £114 million) of capital losses, the tax effect of which is £32 million (2017-18: £19 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £382 million (2017-18: £191 million) of gains for which rollover relief has been claimed, the tax effect of which is £65 million (2017-18: £32 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled) to be sold at their residual values, no capital gain would arise.

9. Taxation (continued)

Changes to UK corporation tax rate

The UK corporation tax rate is 19 per cent and will reduce to 17 per cent on 1 April 2020. In accordance with accounting standards, the effect of this rate reduction on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

(d) Net deferred tax asset

	At 31 March 2019 £m	At 25 March 2018 £m
Deferred capital allowances	**30**	38
Pensions	**12**	(1)
Losses	**25**	39
Employee Shares schemes	**(1)**	-
Short-term timing differences	**11**	11
Hedging	**(1)**	(2)
Research & Development expenditure credit	**2**	1
Total	**78**	86

The movement on deferred tax is shown below:

	£m
Deferred tax asset at 26 March 2018	**86**
Deferred tax charge in the income statement	(10)
Deferred tax credit on items taken to other comprehensive income	3
Deferred tax charged directly to equity – employee share schemes and pensions	(1)
Deferred tax asset at 31 March 2019	**78**

10. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 26 March 2018	1,099	252	826	660	934	269	4,040
Reclassification	(11)	1	10	-	-	-	-
Additions	70	1	11	73	25	19	199
Disposals	(6)	-	(3)	(47)	(25)	(9)	(90)
Legal entity transfer	(27)	1	-	-	-	-	(26)
Reclassification from non-current assets held for sale	14	-	-	-	-	-	14
At 31 March 2019	**1,139**	**255**	**844**	**686**	**934**	**279**	**4,137**
Depreciation							
At 26 March 2018	643	164	610	321	633	193	2,564
Charge for the year (see Note 4)[1]	31	6	35	53	58	25	208
Disposals – external	(4)	-	(3)	(41)	(24)	(9)	(81)
Legal entity transfer	13	-	-	-	-	-	13
At 31 March 2019	**683**	**170**	**642**	**333**	**667**	**209**	**2,704**
Net book value							
At 31 March 2019	**456**	**85**	**202**	**353**	**267**	**70**	**1,433**
At 25 March 2018	456	88	216	339	301	76	1,476

[1] Includes £12 million accelerated depreciation relating to a reassessment of the remaining useful lives of letters sorting machinery, recognised prospectively in 'infrastructure costs' in the income statement.

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £124 million (2017-18: £121 million) of the total cost of properties.

The net book value of the Company's property, plant and equipment includes £110 million (2017-18: £72 million) in respect of assets in the course of construction. The net book value of the Company's land and buildings includes £362 million (2017-18: £389 million) in respect of building fit-out.

The £199 million (2017-18: £170 million) additions include £1 million of borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets. The net book value of the Company's property, plant and equipment held under finance leases amounts to £302 million (2017-18: £316 million).

Non-current assets held for sale of £35 million at 31 March 2019 (2017-18: £50 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months. An assessment of the fair value of these properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

11. Intangible assets

	At 31 March 2019 £m
Cost	
At 26 March 2018	838
Additions	80
Disposals	(21)
At 31 March 2019	897
Amortisation and impairment	
At 26 March 2018	325
Charge for the year (see note 4)[1]	120
Disposals	(21)
At 31 March 2019	424
Net book value	
At 31 March 2019	473
At 25 March 2018	513

[1] Includes £30 million impairment relating to certain operational assets, recognised in 'infrastructure costs' in the income statement.

The intangible assets outlined above relate to software, have finite lives and are being written down on a straight-line basis. The £80 million (2017-18: £128 million) additions include £1 million (2017-18: £2 million) borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets.

12. Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
Cost			
At 26 March 2018	1,073	28	1,101
Additions	109	-	109
At 31 March 2019	1,182	28	1,210
Impairment			
At 26 March 2018	-	23	23
Impairment	11	-	11
At 31 March 2019	11	23	34
Net book value			
At 31 March 2019	1,171	5	1,176
At 25 March 2018	1,073	5	1,078

Additions comprise £106 million investment in RM Investments Limited and £3 million in NetDespatch Limited.

The impairment relates to the Company's investment in NetDespatch Limited.

Details of the Company's subsidiaries and associates are provided in Note 32.

13. Financial assets – pension escrow investments

The pension escrow investment of £207 million at 31 March 2019 (2017-18: £198 million) comprises RMPP pension escrow investments of £187 million (2017-18: £178 million) and RMSEPP pension escrow investments of £20 million (2017-18: £20 million).

14. Inventories

	At 31 March 2019 £m	At 25 March 2018 £m
Supplies, equipment and materials	19	17
Merchandise	3	3
Total	22	20

The difference between purchase price and replacement cost of the stocks is not material.

15. Trade and other receivables

	At 31 March 2019 £m	At 25 March 2018 £m
Trade receivables	704	589
Prepayments and accrued income	95	126
Interest	1	1
Amounts owed by Royal Mail Group entities	44	39
Total	844	755

Movements in the loss allowance for bad and doubtful debts are shown below.

	2019 £m	2018 £m
At 26 March 2018 and 27 March 2017	(23)	(19)
Receivables provided for during the year	(11)	(19)
Release of allowance	4	6
Utilisation of allowance	6	9
At 31 March 2019 and 25 March 2018	(24)	(23)

The amount of trade receivables that were past due but not impaired are shown below.

	At 31 March 2019 £m	At 25 March 2018 £m
Not yet overdue	648	530
Past due not more than one month	39	41
Past due more than one month and not more than two months	6	7
Past due more than two months	11	11
Total	704	589

16. Cash and cash equivalents

	At 31 March 2019 £m	At 25 March 2018 £m
Cash at bank and in hand	8	18
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	75	404
Total cash and cash equivalents	83	422

17. Trade and other payables

	At 31 March 2019 £m	At 25 March 2018 £m
Trade payables and accruals	(842)	(963)
Advance customer payments (mainly for stamps held, not yet used by customers)	(291)	(283)
Social security	(92)	(72)
Amounts due to Royal Mail Group entities	(1,229)	(1,262)
Capital expenditure payables	(36)	(43)
Other	-	(1)
Total	(2,490)	(2,624)

18. Non-current other payables

	At 31 March 2019 £m	At 25 March 2018 £m
Amounts due to Royal Mail Group entities	(31)	(28)
Other	(36)	(36)
Total	**(67)**	(64)

19. Bank overdraft

	At 31 March 2019 £m	At 25 March 2018 £m
Bank overdraft	(30)	-
Total	**(30)**	-

The overdraft of £30 million consists of £20 million (2017-18: £nil) overdraft within a cash pool (offsetting other Group companies cash balances within the pool leaving a net credit balance on the pool at year end) and £10 million (2017-18: £nil) of accounting overdrafts related to payments being processed but which have not yet cleared the bank account.

20. Provisions

	Transformation costs £m	*Specific items £m*	Other £m	Total £m
At 26 March 2018	(1)	(100)	(46)	(147)
Arising during the year:				
- charged in transformation costs and operating specific items	(46)	(1)	-	(47)
- released in operating specific items	-	3	-	3
- charged in other operating costs	-	-	(24)	(24)
Unused amounts released	-	-	3	3
Utilised in the year	36	5	24	65
Unwinding of discount - industrial diseases claims	-	(2)	-	(2)
At 31 March 2019	**(11)**	**(95)**	**(43)**	**(149)**
Disclosed as:				
Current	**(11)**	**(9)**	**(32)**	**(52)**
Non-current	**-**	**(86)**	**(11)**	**(97)**
At 31 March 2019	**(11)**	**(95)**	**(43)**	**(149)**
Disclosed as:				
Current	(1)	(12)	(39)	(52)
Non-current	-	(88)	(7)	(95)
At 25 March 2018	(1)	(100)	(46)	(147)

Transformation provisions

Transformation cost provisions comprise £11 million (2017-18: £1 million) in respect of redundancy schemes.

Specific Items

The specific items provisions of £95 million (2017-18: £100 million) include £83 million (2017-18: £83 million) for potential industrial diseases claims relating to both current and former employees of the Company.

The Company's liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgement that held the Company 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 Company has derived its current provision by using estimates and ranges calculated by its actuary, 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 Company has a rigorous process of ensuring that only valid claims are accepted. £3 million of this provision is expected to be utilised in 2018-19.

20. Provisions (continued)

The remaining £12 million (2017-18: £17 million) includes employer's National Insurance associated with the award of Employee Free Shares of £4 million, which is expected to be utilised in 2019-20. The remainder consists of legacy property costs of £6 million, of which £1 million is expected to be utilised within two to five years and £5 million over a period greater than five years, and costs associated with integrating RM Property and Facilities Solutions Limited (formerly Romec Limited) of £2 million, which is all due to be utilised in 2019-20.

Other provisions (charged in other operating costs)
Other provisions of £43 million (2017-18: £46 million) include onerous property lease and decommissioning obligations of £14 million, of which £4 million is expected to be utilised in 2019-20, £2 million within one to two years, £3 million within two to five years, and £5 million over a period greater than five years, and exposures resulting from legal claims incurred in the normal course of business of £28 million, expected to be utilised in 2019-20. The remaining £1 million comprises employers National Insurance associated with the Long-Term Incentive Plan, which is expected to be utilised within one to two years.

21. Retirement benefit plans

Summary pension information

	53 weeks 2019 £m	52 weeks 2018 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs)[1]	**(372)**	(788)
UK defined contribution plan	**(81)**	(56)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(172)**	(151)
Total UK ongoing pension service costs	**(625)**	(995)

	At 31 March 2019 '000	At 25 March 2018 '000
UK pension plans - active membership		
UK defined benefit plan	**83**	83
UK defined contribution plan	**51**	47
Total	**134**	130

[1] These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll - 41.0 per cent (2017-18: 41.1 per cent) for the RMPP until 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the RMPP of £8 million (2017-18: £7 million) and the DBCBS of £2 million (2017-18: £nil) continue to be included within the Company's ongoing UK pension service costs.

[2] Eligible employees who are enrolled into PSE opt out of making employee contributions to their pension and the Company makes additional contributions in return for a reduction in basic pay.

UK Defined Contribution plan
The Company operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Company from 31 March 2008, following closure of the RMPP to new members. Improvements to the RMDCP were made during the year and further details can be found in the Strategic report.

Ongoing UK defined contribution plan costs have increased from £92 million in 2017-18 to £134 million (including £53 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 6.3 per cent in 2017-18 to 8.0 per cent in 2018-19 following an increase in Company contributions from 1 April 2018.

UK Defined Benefit plans

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

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

21. Retirement benefit plans (continued)

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

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

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

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

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

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

One week of RMPP[3] service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2015 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

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

Defined Benefit Cash Balance Scheme (DBCBS)
A new Defined Benefit Cash Balance Scheme (DBCBS) has been put in place from 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Section F of the RMPP is for RMDCP members who became eligible to join the RMPP and build up DBCBS benefits from 1 April 2018. RMPP section A, B and C members accrue benefits under the DBCBS from 1 April 2018.

The Company signed a new Schedule of Contributions on 27 March 2018. This covers the period of five years from the date of certification of the schedule i.e. until March 2023. In accordance with this schedule, the Company is required to make payments totalling 15.6 per cent per annum of pensionable payroll in respect of DBCBS.

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 Company makes no regular future service contributions. In accordance with the Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million was paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 25 March 2019, £500,000 per annum is due to be paid for the period 1 April 2019 to 31 March 2025.

On 21 September 2018, the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members. This insurance policy, alongside the previous insurance policy purchased in April 2016, means that substantially all the liabilities of the scheme are now covered by insurance policies. As with the previous insurance policy purchased in April 2016, this policy is considered an asset of the RMSEPP and does not confer any rights to individual members. This insurance policy includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. After consideration of the facts outlined above, Management has concluded that the purchase of this further insurance policy should be treated as a settlement. The difference between the IAS 19 surplus before and after the transaction has resulted in £64 million being charged to the income statement as an operating specific item.

All benefit payments due from the RMSEPP remain unchanged. The insurance policy exactly matches the value and timing of the benefits payable under the RMSEPP (for the remaining pensioners and deferred members) and the fair value is deemed to be the present value of the related obligation. The total value[4] of the buy-in annuity policies in place is £334 million (March 2018: £148 million) and is included as a pension asset and a pension liability at 31 March 2019.

[3] Any references to the RMPP relate to the scheme's defined benefit pension liabilities built up to 31 March 2018. Members built up DBCBS benefits from 1 April 2018.
[4] In accordance with IAS 19.

21. Retirement benefit plans (continued)

A liability of £2 million (2017-18: £2 million) has been recognised for future payment of pension benefits to a past Director. In 2019-20 the Company expects to continue to contribute around £400 million in respect of all UK pension schemes.

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

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds and the actuarial funding valuation uses gilt yields. As the accounting discount rate is higher than the actuarial funding discount rate, this leads to a lower computed liability. The triennial valuation of the RMPP at 31 March 2018 is still in progress. The actuarial funding position at that date will not be known until the actuarial valuation has been completed, with the results being very sensitive to the assumptions adopted at that date. However, based on a set of assumptions which we are expecting to form the basis for the March 2018 valuation and then rolled forward, the RMPP actuarial surplus at 31 March 2019 was estimated to be around £50 million (at 31 March 2018: £100 million). The accounting liabilities have been based on the preliminary results of the 31 March 2018 valuation rolled forward, and use certain assumptions that are expected to be consistent with the funding valuation once finalised. The DBCBS will be subject to triennial actuarial valuations in the future. Below is a summary of the combined plans' assets and liabilities on an accounting (IAS 19) and actuarial funding basis.

	DBCBS Accounting (IAS 19)	DBCBS Actuarial funding	RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding.	
	At 31 March 2019 £m	At 31 March 2019 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m
Fair value of plans' assets (21(b) below)[5]	400	402	10,782	10,340	10,877	10,461
Present value of plans' liabilities	(472)	(393)	(7,076)	(7,017)	(10,818)	(10,318)
(Deficit) / Surplus in plans (pre withholding tax payable)[6]	(72)	9	3,706	3,323	59	143
Witholding tax payable	n/a	n/a	(1,298)	(1,160)	n/a	n/a
(Deficit)/surplus in plans[7]	(72)	9	2,408	2,163	59	143

[5] Difference between accounting and actuarial funding asset fair values on 25 and 31 March 2018 arises from the different year end dates used for the valuation of the assets, and in both years due to the valuation of the RMSEPP buy-in assets under both methods.

[6] Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

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

The legal right to benefit from a surplus has not changed as a result of the Company's decision to close the RMPP from 31 March 2018. However, since this date, any surplus is no longer considered to be recoverable as a reduction to future employer contributions. Therefore, at 31 March 2019 the surplus is considered to be available as a refund. This surplus is presented net of a withholding tax adjustment of £1,294 million (at 25 March 2018: £1,134 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 31 March 2019 of £10 million (pre withholding tax payable) (at 25 March 2018: £73 million surplus).

As the RMSEPP is closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 and, as such, is shown net of a withholding tax adjustment of £4 million (at 25 March 2018: £26 million) on the balance sheet which represents the tax that would be withheld on the surplus amount.

21. Retirement benefit plans (continued)

Guaranteed Minimum Pensions (GMP)
The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMP). From Royal Mail's perspective, the transfer of RMPP's historical pension liabilities to HM Government in 2012, in accordance with the Postal Services Act 2011, included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

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

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

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP, RMSEPP and DBCBS
IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. The RMSEPP will continue in line with legacy RMPP benefits.

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

	At 31 March 2019	At 25 March 2018
Retail Price Index (RPI)	3.2%	3.1%
Consumer Price Index (CPI)	2.2%	2.1%
Discount rate – RMPP/RMSEPP [8]		
– nominal	2.4%	2.4%
– real (nominal less RPI)	(0.8%)	(0.7%)
Discount rate – DBCBS[9]		
– nominal	2.2%	2.4%
– real (nominal less RPI)	(1.0%)	(0.7%)
Rate of increase in pensionable salaries [10]	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 [10]	RPI-0.1%	RPI-0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	CPI	CPI
Rate of pension increases – RMSEPP all other members[10]	RPI-0.1%	RPI-0.1%
Rate of pension increases – DBCBS benefits	CPI+2.0%	CPI+2.0%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	28/26 years	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	29/27 years	31/29 years

[8] The discount rate reflects the average duration of the RMPP of around 27 years and RMSEPP of around 20 years.
[9] The discount rate reflects the average duration of the DBCBS benefits of 11 ½ years. The pension service cost applicable from 1 April 2018 is based on 25 March 2018 assumptions.
[10] The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after 1 April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

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

21. Retirement benefit plans (continued)

Sensitivity analysis for RMPP and DBCBS liabilities

The RMPP and DBCBS liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP and DBCBS liabilities is as follows:

Key assumption change	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m
Additional one year of life expectancy	-	270
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	6	180
Decrease in discount rate of 0.1% p.a.	6	180
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	6	35
Increase in constructive obligation of 0.1% p.a.	6	-

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

b) RMPP, RMSEPP and DBCBS assets

	At 31 March 2019			At 25 March 2018[11]		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	10	-	10	12	3	15
Overseas	318	74	392	384	121	505
Bonds						
Fixed interest – UK	267	69	336	296	72	368
– Overseas	56	393	449	99	583	682
Index linked – UK	-	-	-	175	-	175
Pooled investments						
Absolute return	-	647	647	-	395	395
Equity	-	152	152	-	61	61
Private equity	-	80	80	-	53	53
Fixed interest	-	500	500	-	466	466
Private debt	-	202	202	-	147	147
Property	-	52	52	-	52	52
Liability-driven investment	7,113	269	7,382	6,283	385	6,668
Property (UK)	-	294	294	-	270	270
Cash and cash equivalents	384	-	384	425	-	425
Other	1	(6)	(5)	2	-	2
Derivatives	(7)	(20)	(27)	(113)	21	(92)
RMSEPP buy-in annuity policies	-	334	334	-	148	148
Total plans' assets	8,142	3,040	11,182	7,563	2,777	10,340

[11] Restated following re-interpretation of the classifications, including the allocation between quoted and unquoted assets.

There were no open equity futures or options derivatives within this portfolio at 31 March 2019 (2017-18: £nil). £7 billion (2017-18: £6 billion) of HM Government bonds are primarily included in liability-driven investments above. The plans' assets do not include property or assets used by the Company, or shares of Royal Mail plc at 31 March 2019 (2017-18: £84,000 approximate market value of shares).

Risk exposure and investment strategy

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

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

21. Retirement benefit plans (continued)

The change in value of the liability-hedging assets is predominantly reflected in the liability-driven investment values above, which have increased from £6,668 million at 25 March 2018 to £7,382 million at 31 March 2019.

The notional value covered by the inflation rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 31 March 2019 was £2.4 billion (2017-18: £2.4 billion). The notional value covered by the interest rate swaps at 31 March 2019 was £1.5 billion (2017-18: £3.2 billion).

The equity exposure of the RMPP has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS was introduced in order to reduce downside risk whilst broadly maintaining the existing expected returns. The TRS has a market value as at 31 March 2019 of £(20) million (2017-18: £21 million) included in the derivative values above. The TRS economically offset £303 million as at 31 March 2019 (2017-18: £257 million) of the Plan's global equity market exposure.

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

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

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

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

In addition to property and cash, the RMSEPP holds two buy-in annuity policies totalling £334 million at 31 March 2019 (2017-18: £148 million) to match its liabilities.

Further details on sources of material uncertainty and judgements relating to pensions, including how the assets have been valued, can be found in Accounting policies - Note 1 ('Sources of estimation uncertainty and critical accounting judgements').

21. Retirement benefit plans (continued)

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

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 26 March 2018 and 27 March 2017	**10,340**	9,829	**(7,017)**	(5,974)	**3,323**	3,855
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(8)**	(7)	**(5)**	(896)	**(13)**	(903)
RMSEPP buy-in settlement costs	**(64)**	-	**-**	-	**(64)**	-
Pension interest income/(cost)[12]	**247**	251	**(168)**	(160)	**79**	91
Total included in profit before tax	**175**	244	**(173)**	(1,056)	**2**	(812)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial (loss)/gain arising from:						
Financial assumptions	**-**	-	**(197)**	(53)	**(197)**	(53)
Demographic assumptions	**-**	-	**169**	-	**169**	-
Experience adjustment	**-**	-	**67**	1	**67**	1
Return on plans' assets (excluding interest income)	**344**	62	**-**	-	**344**	62
Total remeasurement gains/(losses) of the defined benefit surplus	**344**	62	**39**	(52)	**383**	10
Other						
Employer contributions[13]	**3**	269	**-**	-	**3**	269
Employee contributions	**-**	5	**-**	(5)	**-**	-
Benefits paid	**(78)**	(70)	**78**	70	**-**	-
Curtailment costs	**-**	-	**-**	(3)	**-**	(3)
Movement in pension-related accruals	**(2)**	1	**(3)**	3	**(5)**	4
Total other movements	**(77)**	205	**75**	65	**(2)**	270
Retirement benefit surplus (pre IFRIC 14 adjustment) at 31 March 2019 and 25 March 2018	**10,782**	10,340	**(7,076)**	(7,017)	**3,706**	3,323
IFRIC 14 adjustment	**n/a**	n/a	**n/a**	n/a	**(1,298)**	(1,160)
Retirement benefit surplus (net of IFRIC 14 adjustment) at 31 March 2019 and 25 March 2018	**n/a**	n/a	**n/a**	n/a	**2,408**	2,163

[12] Pension interest income results from applying the plans' discount rate at 25 March 2018 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 25 March 2018 to the plans' liabilities at that date.

[13] Excludes payments into pension escrow investments of £7 million (2017-18: £178 million), but includes PSE contributions of £9 million (2017-18: £115 million).

d) Movement in DBCBS assets, liabilities and net position

	Defined benefit asset	Defined benefit liability	Net defined benefit deficit
	2019 £m	2019 £m	2019 £m
Retirement benefit at 26 March 2018	**-**	**-**	**-**
Amounts included in the income statement			
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(2)**	**(463)**	**(465)**
Total included in profit before tax	**(2)**	**(463)**	**(465)**
Amounts included in other comprehensive income – remeasurement losses			
Actuarial (loss)/gain arising from:			
Financial assumptions	**-**	**(16)**	**(16)**
Return on plans' assets	**8**	**-**	**8**
Total remeasurement losses of the defined benefit deficit	**8**	**(16)**	**(8)**
Other			
Employer contributions[14]	**401**	**-**	**401**
Employee contributions	**4**	**(4)**	**-**
Benefits paid	**(11)**	**11**	**-**
Total other movements	**394**	**7**	**401**
Retirement benefit deficit at 31 March 2019	**400**	**(472)**	**(72)**

[14] Includes PSE contributions of £110 million.

22. Non-current other receivables

	At 31 March 2019 £m	At 25 March 2018 £m
Amount owed by Royal Mail Group entities	147	51
Other	3	4
Total	**150**	55

23. Assets held for sale

The balance sheet values of the assets held for sale during the reporting year are shown below.

	At 31 March 2019 £m	At 25 March 2018 £m
Property assets held for sale	35	50
Total	**35**	50

Non-current assets held for sale of £35 million (2017-18: £50 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months. The carrying value relates primarily to plots at the Nine Elms site. The in-year decrease in the carrying value represents the reclassification of certain plots on this site back to property, plant and equipment (see Note 10). This is because although they are being marketed, they are not expected to be sold in the next 12 months due to the current economic climate and also, the expected length of negotiations with prospective purchasers. Management, however, remain firmly committed to a sale of these plots.

An assessment of the fair value of the properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

24. Share-based payments

Employee Free Shares
Employee Free Shares in Royal Mail plc are held on behalf of employees in a tax-advantaged Share Incentive Plan (SIP).

The shares are held in a Trust administered by Equiniti Share Plan Trustees Limited (Equiniti) and may only be distributed to, or for the benefit of, eligible employees. The Trust is funded by Royal Mail plc and has been consolidated within the Royal Mail plc Annual Report and Financial Statements.

2015 SIP
On 5 October 2015, ordinary shares representing one per cent of Royal Mail plc were granted free of charge to eligible full-time employees by HM Government. This was in addition to a portion of the unallocated shares arising from earlier SIP schemes. Accordingly, each eligible full-time employee received 103 Royal Mail plc shares as their 2015 SIP allocation with part-time eligible employees being allocated a pro-rata number of shares. The vesting period for the award is three years from the date of award with all allocated shares to be equity-settled.

2016 SIP
On 6 October 2016, ordinary shares representing one per cent of Royal Mail plc were granted free of charge to eligible full-time employees by HM Government. Accordingly, each eligible full-time employee received 81 Royal Mail plc shares as their 2016 SIP allocation with part-time eligible employees being allocated a pro-rata number of shares. The vesting period for the award is three years from the date of award with all allocated shares to be equity-settled.

Partnership and matching shares
Beginning in October 2018, a partnership and matching share scheme was introduced for eligible employees. Under the terms of the scheme employees may elect to purchase a limited number of Royal Mail plc shares through monthly payroll deductions at the current market price (partnership shares). For every five partnership shares purchased, the employee receives one unallocated SIP share (matching shares), up to a maximum of two matching shares per month, free of charge.

At the year end there had been six such monthly awards and a total of 191,468 matching shares had been awarded to eligible staff members at a weighted average market price of 295.7 pence. The vesting period for each award is three years from the award date with all allocated shares to be equity-settled.

A charge to the income statement of £22 million (including a net £1 million National Insurance credit) has been made for the year ended 31 March 2019 for all SIP allocations.

24. Share-based payments (continued)

A reconciliation of the ordinary shares held in the SIP at 31 March 2019 is shown below.

	Number of shares
Total shares remaining in SIP at 26 March 2018	**81,917,180**
Shares sold/transferred out of SIP during the reporting year (fully vested)	**(2,368,290)**
Shares transferred out of SIP during the reporting year ('good leavers')[1]	**(4,365,455)**
Total shares remaining in SIP at 31 March 2019	**75,183,435**

[1] 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme.

Of the total shares remaining in the scheme, 72,589,514 have been allocated to current employees. The remaining 2,593,921 shares are unallocated and have arisen as a result of forfeitures.

Award of shares under the Long-Term Incentive Plan (LTIP)

2016 LTIP
LTIP awards were granted to senior management on 21 July 2016 and 8 December 2016 (together the 2016 LTIP). The vesting period of three years from 1 April 2016, and the performance conditions, are identical for both awards. These awards are equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 333.0 pence and 278.0 pence, respectively. The maximum shares that have the potential to vest under the 2016 LTIP are 2,337,394.

2017 LTIP
LTIP awards were granted to senior management on 28 July 2017 and 11 December 2017 (together the 2017 LTIP). The vesting period of three years from 1 April 2017, and the performance conditions, are identical for both awards. These awards are equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 203.0 pence and 283.0 pence, respectively. The maximum shares that have the potential to vest under the 2017 LTIP are 2,170,407.

2018 LTIP
LTIP awards were granted to senior management on 9 August 2018 (2018 LTIP) with a vesting period of three years from 1 April 2018. This award is equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 160.0 pence. The maximum shares that have the potential to vest under the 2018 LTIP are 1,230,222.

A charge to the income statement of £3 million (including £1 million credit for National Insurance) has been made for the year ended 31 March 2019 in relation to all LTIP schemes (2017-18: £4 million, including £1 million charge for National Insurance). The LTIP shares are not part of the SIP explained above.

Deferred Shares Bonus Plan (DSBP)

2016 DSBP
DSBP awards were granted to senior management on 20 June 2017 (2016 DSBP). The vesting period is three years from 1 April 2017. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 441.4 pence. The maximum shares that have the potential to vest under the scheme are 557,261.

2017 DSBP
DSBP awards were granted to senior management on 20 June 2018 (2017 DSBP). The vesting period is three years from 1 April 2018. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 506.5 pence. The maximum shares that have the potential to vest under the scheme are 453,212.

24. Share-based payments (continued)

Save As You Earn (SAYE) share option scheme

On 24 July 2014, a SAYE share option scheme was introduced for eligible employees. Under the terms of the scheme, the Board permits the grant of options in respect of ordinary shares in Royal Mail plc to those employees who enter into an HMRC-approved SAYE savings contract.

These contracts are for a term of three years, with contributions from employees of an amount between £5 and £59 each month.

The options purchased may be exercised during the six month period following the end of the contract at an exercise price of not less than 80 per cent of the average of the mid-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

As this scheme ended in December 2017, no charge has been made to the income statement for the year ended 31 March 2019 (2017-18: £1 million) in relation to the SAYE scheme. The fair values of the options have been calculated using the Black-Scholes share option pricing model.

The table below shows the movements in share options during the reporting year.

	Number of options
Balance at the beginning of the reporting year	2,772,480
Options exercised	(1,538,600)
Options expired	(1,229,574)
Options forfeited	(3,526)
Balance at the end of the reporting year	**780**

For SAYE options exercised during the year (by 'good leavers'), the weighted average share price at the date of exercise was 406 pence. The weighted average exercise price for each of the above categories of share options is 360 pence.

As a result of reaching the end of the contribution period and scheme rules in relation to 'good leavers', 780 (2017-18: 2,748,990) share options were exercisable at 31 March 2019 at a weighted average exercise price of 360 pence.

25. Issued share capital

	At 31 March 2019 £	At 25 March 2018 £
Authorised and issued		
50,000 ordinary shares of £1 each	50,000	50,000
Total	50,000	50,000

Hedging reserve
The Hedging reserve is used to record gains and losses arising from cash flow hedges since 28 March 2005.

Other reserve
The other reserve relates to a dividend in specie received from Royal Mail Estates Limited in the form of a property transfer. This balance will be held as a separate, non-distributable reserve until the property is either sold or otherwise disposed of.

26. Dividends

Dividends on ordinary shares	53 weeks 2019 pence per share	52 weeks 2018 pence per share	53 weeks 2019 £m	52 weeks 2018 £m
Paid interim dividend	326,000	312,000	163	156
Paid interim dividend	160,000	154,000	80	77
Total dividend paid	**486,000**	466,000	**243**	233

27. Commitments

Operating lease commitments

The Company is committed to the following minimum lease payments under non-cancellable operating leases:

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	At 25 March 2018 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m
Within one year	(112)	(150)	(16)	(12)	(4)	(4)	(132)	(166)
Between one and five years	(348)	(317)	(52)	(41)	(11)	(5)	(411)	(363)
Beyond five years	(462)	(415)	(5)	(9)	-	-	(467)	(424)
Total	(922)	(882)	(73)	(62)	(15)	(9)	(1,010)	(953)

Existing leases for UK land and buildings have an average term of 17 years and lease renewals are agreed with the lessor as appropriate. Vehicle leases generally have a term of between four and seven years, depending on the asset class, with the average term being six years. The existing leases have an average term remaining of five years. The majority of the IT commitments relate to three contracts, with an average term remaining of two years.

Finance lease commitments

	At 31 March 2019		At 25 March 2018	
	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	(38)	(36)	(61)	(59)
Between one and five years	(85)	(73)	(107)	(94)
Beyond five years	(121)	(14)	(122)	(13)
Total minimum lease payments	(244)	(123)	(290)	(166)
Less future finance charges	119	-	122	-
Less exchange rate impact	2	-	2	-
Total finance lease obligations	(123)	(123)	(166)	(166)

The Company has finance lease contracts for vehicles, land and buildings and plant and equipment. The leases have no terms of renewal, purchase options, escalation clauses or restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between one and five years, depending on the class of vehicle, with the average term being two years. Property leases have a term of between 10 and 109 years with the average term being 48 years. The plant and equipment leases have a term of five years.

Capital commitments

The Company has commitments of £11 million (2017-18: £48 million) for property, plant and equipment, £7 million (2017-18: £14 million) for vehicles and £3 million (2017-18: £11 million) for intangible assets, which are contracted for but not provided in the financial statements.

28. Contingent liabilities

On 14 August 2018, Ofcom published its decision following its investigation into whether the Company had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that the Company 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 the Company £50 million. In October 2018, Whistl filed a damages claim against the Company at the High Court relating to Ofcom's decision.

The Company robustly defended its conduct in written and oral representations made to Ofcom during the investigation and continues to maintain that it has not infringed competition law. It launched an appeal with the Competition Appeal Tribunal (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 during June and July 2019. A final decision is not expected from the CAT until around six to nine months after this hearing. No fine is payable and Whistl's High Court claim is on hold until after the completion of the appeal process.

29. Related party information

Royal Mail plc is the ultimate parent company of the Company. The Company's principal investments in subsidiaries held directly by the Company are as follows:

	Country of incorporation	% Holding	Principal activities
Principal subsidiaries			
Royal Mail Investments Limited	UK	100	Holding company
Royal Mail Estates Limited	UK	100	Property company
Royal Mail Property and Facilities Solutions Limited	UK	100	Facilities management

The above companies have a year end date of the last Sunday in March.

The principal subsidiary of Royal Mail plc that is not an investment held directly by the Company is General Logistics Systems B.V. - a holding company incorporated in the Netherlands which has investments in other operational companies based in Europe. Royal Mail Investments Limited has a 100 per cent holding in General Logistics Systems B.V.

All shareholdings are equity shares.

A full list of the Company's related undertakings is included in Note 32.

Related party transactions

The Company has taken advantage of two of the exemptions conferred by FRS 101.8, whereby certain details regarding transactions with 100 per cent owned subsidiaries within the same group do not have to be disclosed where Group financial statements are publicly available and disclosures relating to key management personnel compensation are not required.

During the year, the Company entered into transactions which included administration and investment services, recharged to the Company's pension plans by Royal Mail Pensions Trustees Limited. The Company also entered into transactions with other entities within the same group but which are less than 100 per cent owned. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the year end were as shown below.

	Sales/recharges to related party		Purchases/ recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	53 weeks 2019 £m	52 weeks 2018 £m	53 weeks 2019 £m	52 weeks 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m	At 31 March 2019 £m	At 25 March 2018 £m
RMSEPP[1]	-	-	-	-	6	-	-	-
RMPP (administration and investment service recharge)	5	5	-	-	-	-	-	-
Quadrant Catering Limited	-	-	7	7	-	-	1	1
NetDespatch Limited	-	-	1	1	-	-	-	-

[1] In December 2018 the Company agreed to a loan of £7,750,000 being made from the RMSEPP escrow to the Trustees of that Plan. This facilitated completion of the purchase of a buy-in policy of insurance. This loan is unsecured and is being repaid with the proceeds from the sale of Plan investments, as they are received by the Trustees. The loan is due to be repaid by 21 September 2019, or such later date as the Company agrees. At 31 March 2019, £6,200,200 was outstanding. The outstanding loan is included as a non-current asset as it will be repaid to the pension escrow investment - money market funds.

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash.

30. Events after the reporting period

Non-current assets held for sale

During June and July 2019, sale transactions were completed for Plots B & D and Plot C at our Nine Elms site, London. These Plots were categorized on the balance sheet as 'assets held for sale', with a carrying value of £32 million at the 31 March 2019 year end date.

31. Immediate and ultimate parent company

At 31 March 2019, the Directors regarded Royal Mail plc as the immediate and ultimate parent company. The results of the Company form part of the Royal Mail plc Annual Report and Financial Statements, which are available from www.royalmailgroup.com/results or the Company Secretary, 100 Victoria Embankment, London, EC4Y 0HQ.

32. Related undertakings of Royal Mail Group Limited

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 31 March 2019 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held directly by the Company or its subsidiaries.

Subsidiary undertakings

Company Name	Share Class	% held by Group
Austria		
Traunuferstrasse 105A, A-4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	Ordinary shares	100.000
Belgium		
Humaniteitslaan 233, 1620 Drogenbos, Belgium		
General Logistics Systems Belgium N.V.	€100.00 Ordinary shares	100.000
GLS Belgium Distribution S.A/N.V.	€4.27 Ordinary shares	100.000
China		
Suite 966, 9F, No.2 bldg, China Central Place, No.79, Jian District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	-	100.000
Canada		
10500, av. Ryan Dorval Quebec H9P 2T7		
Dicom Transportation Group Canada, Inc.	Common shares, no par value	100.000
Dicom Real Estate Holdings, Inc.	Common shares, no par value	100.000
Modern Forwarding Incorporated	Common shares, no par value	100.000
Dicom Dedicated Fleet, Inc.	Common shares, no par value	100.000
Dicom Transportation Group Canada Parent, Inc.	99.00 Shares Common stock	100.000
1055, West Hastings Street, Suite 1700, Vancouver BC V6E 2E9		
1176984 B.C. Ltd	Common shares, no par value	100.000
Croatia		
10010360 Popovec, Varazdinska ulica 116, Croatia		
General Logistics Systems Croatia d.o.o	Ordinary shares	100.000
Czech Republic		
Průmyslová 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic s.r.o	Ordinary shares	100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
Kokholm 13, 6000 Kolding, Denmark		
General Logistics Systems Express A/S	DKK1,000.00 Ordinary shares	100.000
Finland		
Rydöntie 6, 20360 Turku, Finland		
General Logistics Systems Finland Oy	€50.00 Ordinary shares	100.000
France		
14 Rue Michel Labrousse, CS 93730, 31037 Toulouse Cedex 01, France		
General Logistics Systems France S.A.S	€50.00 Ordinary shares	100.000
GLS Invest France S.A.S	€271.21 Ordinary shares	100.000

32. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Group
Germany		
Doerrwiese 2, 36286 Neuenstein, Germany		
Der Kurier Beteiligungsgesellschaft mbH	Ordinary shares	100.000
Der Kurier GmbH & Co. KG	€2,561,572.32 Cash contribution	100.000
GLS Germany-Str. 1-7, 36286 Neuenstein, Germany		
General Logistics Systems Germany GmbH & Co. OHG	€47,968,004.75 Cash contribution	100.000
GLS IT Services GmbH	Ordinary shares	100.000
GLS Beteiligungs GmbH	Ordinary shares	100.000
GLS Verwaltungs-und Service GmbH	Ordinary shares	100.000
GLS eCom Lab GmbH	Ordinary shares	100.000
Wendenstraße 349, 20537 Hamburg, Germany		
Overnight Services GmbH Vermittlung Ueberregionaler Kurierdienste	Ordinary shares	100.000
Guernsey		
PO BOX 160, Dixcart House, St Peter Port, GY1 4EY, Guernsey		
Postcap (Guernsey) Limited	£1.00 Ordinary shares	100.000
Hungary		
GLS Europa utca 2, 2351 Alsonemedi, Hungary		
GLS General Logistics Systems Hungary Kft.	Ordinary shares	100.000
Ireland		
Unit 1 Stadium Business Park, Ballycoolin Road, Ballycoolin, Dublin, D11 DK24, Ireland		
RM Financing Operations Limited	€1.00 Ordinary shares	100.000
	€1.00 Redeemable Preference shares	100.000
RMF Operations Designated Activity Company	US$1.00 Ordinary shares	100.000
	US$1.00 Redeemable Preference shares	-
Italy		
Via Basento No. 19, 20098 San Giuliano Milanese, Italy		
Agone S.r.L	€10,000.00 Ordinary shares	100.000
General Logistics Systems Enterprise S.r.L	1,014,000.00 Ordinary shares	100.000
General Logistics Systems Italy S.p.A.	€0.52 Ordinary shares	100.000
Gruppo Executive Societa Consortile a.r.l	€0.51 Ordinary shares	83.670
Luxembourg		
Avenue de Luxembourg, 2 a 4950 Bascharage		
General Logistics Systems Belgium S.A. Succursale de Luxembourg[1]	-	-

[1] Branch of GLS Belgium. No shares are issued or held.

32. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Group
Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, Netherlands		
General Logistics Systems B.V.	€100.00 Ordinary shares	100.000
Proostwetering 40, 3543 AG Utrecht, Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Holding B.V.	€0.50 Ordinary shares	100.000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100.000
Poland		
Ul. Teczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka zo.o	PLN1,721.00 Ordinary shares	100.000
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	Ordinary shares	100.000
Romania		
106, Str. Dorobantilor, 550231 Sibiu, Romania		
GLS General Logistics Systems Romania Srl	RON4,000.00 Ordinary shares	100.000
Slovakia		
Budca 1039, 962 33 Budca, Slovakia		
GLS General Logistics Systems Slovakia s.r.o	Ordinary shares	100.000
Slovenia		
Cesta v Prod 84, 1129 Ljubljana, Slovenia		
General Logistics Systems, logisticne storitve, d.o.o.	Ordinary shares	100.000

32. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Group
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		
General Logistics Systems Spain S.A	€60.10 Ordinary shares	100.000
United Kingdom		
100 Victoria Embankment, London, EC4Y 0HQ, United Kingdom		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
Community Couriers Ltd[2]	£1.00 Ordinary shares	100.000
Consignia (Customer Management) Limited[2]	£1.00 Ordinary shares	100.000
Consignia Limited[2]	£1.00 Ordinary shares	100.000
DGMH Clayton Limited[2]	£1.00 Ordinary shares	100.000
Envision Licensing Limited[2]	£1.00 Ordinary-A shares	100.000
	£1.00 Ordinary-B shares	100.000
	£1.00 Ordinary-C shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
IRED Partnership Limited[2]	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Phatware Limited[2]	£1.00 Ordinary shares	100.000
POSG Limited[2]	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Finance (No2) Limited[2]	£1.00 Ordinary shares	100.000
Royal Mail Finance Limited[2]	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000
Royal Mail Investments Limited	£1.00 Ordinary shares	100.000
Senditnow Limited[2]	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Viacode Limited[2]	£1.00 Ordinary shares	100.000
Century House, 19 High Street, Marlow, Buckinghamshire, SL7 1AU, United Kingdom		
NetDespatch Ltd	£0.001 Ordinary-A shares	100.000
	£0.001 Ordinary-B shares	100.000
	£0.001 Ordinary-C shares	100.000
	£0.001 Ordinary-D shares	100.000

[2] In liquidation

32. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Group
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
Romec Enterprises Limited	£1.00 Ordinary shares	100.000
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000
USA		
1679 S. Dupont Highway, Suite 100, Dover, Delaware 19901, USA		
General Logistics Systems North America Inc.	USD 0.001 Common stock	100.000
7901 Stoneridge Drive, Suite 400, Pleasanton, CA 94588, USA		
Golden State Overnight Delivery Services, Inc.	1,000 Shares Common stock	100.000
3400 Capital Blvd SE 101, Tumwater, WA 98501, USA		
Postal Express, Inc.	428.57 Shares Common stock	100.000
676, N. Michigan Ave, Suite 3700, Chicago IL 60611		
Dicom JD, LLC.[3]	-	100.000

Associate undertakings

Company Name	Share Class	% held by Group
Associates		
Australia		
Level 1, 60 Toorak Road, South Yarra, VIC 3141		
Market Engine Global Pty Limited	AUD1.00 Preference shares	34.474
United Kingdom		
Hayweight House, 5th Floor, 23 Lauriston Street, Edinburgh, Scotland, EH3 9DQ, United Kingdom		
Mallzee Ltd	£0.01 Ordinary shares	21.050
Parklands Court, 24 Parklands, Birmingham Great Park, Rubery, Birmingham, West Midlands, B45 9PZ, United Kingdom		
Quadrant Catering Limited	£1.00 Ordinary-A shares	51.000
70 Margaret Street, London, W1W 8SS, United Kingdom		
JICMAIL Limited[4]	-	20.000

[3] Member managed company.
[4] Limited by guarantee.

Corporate information

Registered Office and Group Head Office
Royal Mail Group Limited
100 Victoria Embankment
LONDON
EC4Y 0HQ
020 7250 2888
Registered No: 04138203