Royal Mail plc

20 May 2021

ROYAL MAIL PLC
RESULTS FOR THE FULL YEAR ENDED 28 MARCH 2021

Reported measures (£m) [1]	52 weeks ended March 2021	52 weeks ended March 2020	Change[3]
Revenue	12,638	10,840	16.6%
Operating profit	611	55	n.m.
Profit before tax	726	180	n.m
Basic earnings per share (pence)	62.0p	16.1p	45.9p

Adjusted measures (£m) [1,2]			
Operating profit	702	325	116.0%
Operating margin (%)	*5.6%*	*3.0%*	*260 bps*
Profit before tax	664	275	n.m
Basic earnings per share (pence)	52.1	19.6	32.5
In-year trading cashflow[4]	762	556	
Net debt	(457)	(1,132)	
Net cash / (debt) (ex. IFRS 16)	622	(46)	

Royal Mail and GLS summary[1,2]

	Revenue			Adjusted operating profit		
(£m)	52 weeks ended March 2021	52 weeks ended March 2020	Change[3]	52 weeks ended March 2021	52 weeks ended March 2020	Change[3]
Royal Mail	8,649	7,720	12.0%	344	117	194.0%
GLS	4,040	3,161	27.8%	358	208	72.1%
Intragroup	(51)	(41)	24.4%	-	-	-
Group	12,638	10,840	16.6%	702	325	116.0%

Highlights

- Full year performance well above initial expectations driven by strong parcel growth at both Royal Mail and GLS.
- Group adjusted operating profit[2] up 116.0% with a broadly equal contribution from Royal Mail and GLS.
- Royal Mail parcels revenue up 38.7%, partly offset by letters decline of 12.5%. Operating costs up 9.2%.
- GLS adjusted operating margin increased 230 basis points to 8.9%. Improved performance in focus countries, Spain, France and the US.
- April 2021 trading: Royal Mail revenue up 24.1%, GLS up 22.3% year on year. Royal Mail parcel volumes down 2% and addressed letters (excluding elections) volume up 25%. Parcel volume growth at GLS remained strong until mid-April, with a subsequent slowdown given the high volumes observed last year.
- Strong Group in-year trading cash flow of £762 million (2019-20: £556 million).
- 10p one-off final dividend proposed in respect of 2020-21.
- Progressive future dividend policy, with dividend for 2021-22 set at 20 pence per share. Subject to retaining a prudent capital structure, the Board will not retain excess capital which is unutilised under our capital allocation framework.

Keith Williams, Non-Executive Chair, commented:

"The Group has delivered a pleasing set of results in what has been an unprecedented year. This is in no small part thanks to the dedication of our colleagues across the Group who have played a key role keeping people and businesses connected. The Group has demonstrated that it can effectively harness market growth opportunities even in difficult circumstances and revenues previously forecast for three years' time have been delivered this year.

However there is still much to do. We need to accelerate the transformation of Royal Mail and continue to build on GLS' strengths."

"As the outlook for 2021-22 contains a number of uncertainties that could significantly influence volumes and costs it is difficult to provide specific guidance for 2021-22 for Royal Mail. Instead we have provided information on costs and some sensitivities to assist in quantifying potential outcomes for the year ahead. GLS is expected to perform in line with the guidance given in March 2021. Despite this uncertainty, there are grounds for optimism. The opportunities are there. We must harness them."

Simon Thompson, Chief Executive, Royal Mail said:

"Last year stood out as one of remarkable change at Royal Mail. It has been challenging at times, but we have learnt that we can deliver results and change at lightning pace when we are united by a common purpose. From starting to deliver on Sundays through to trialling drones - We're changing. And it's working.

"Looking ahead, we must remain laser focused on accelerating the pace of change, being brilliant for our customers, and doing all this in an increasingly efficient way."

Martin Seidenberg, Chief Executive, GLS added:

"GLS has delivered a strong performance including an exceptional margin. Our 'Accelerate GLS' strategy, which builds on our strengths, has already delivered benefits in 2020-21 and will unlock further growth opportunities in the future."

1 Reported results are in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.
2 For further details on Adjusted Group operating profit, reported results and Alternative Performance Measures (APMs) used, see section entitled 'Presentation of results and Alternative Performance Measures'.
3 All percentage changes reflect the movement between figures as presented, unless otherwise stated.
4 In-year trading cashflow is reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments.

Results presentation

A results webcast presentation for analysts and institutional investors will be held at 9:00am today, Thursday 20 May 2021 at www.royalmailgroup.com/results .

Enquiries:

Investor Relations
John Crosse
Email: investorrelations@royalmail.com

Royal Mail investor relations line: 020 7449 8183

Media Relations
Jenny Hall
Phone: 07776 993 036
Email: jenny.hall@royalmail.com

Mark Street
Phone: 07515 924 344
Email: mark.street@royalmail.com

Royal Mail press office: press.office@royalmail.com

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

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

Financial Calendar

Q1 trading update	21 July 2021
Annual General Meeting	21 July 2021
Ex-dividend date*	29 July 2021
Dividend record date*	30 July 2021
Dividend payment date*	6 September 2021

** subject to approval at AGM.*

GROUP REVIEW: NON-EXECUTIVE CHAIR, KEITH WILLIAMS

The past year has brought unprecedented challenge for the Group. It has magnified our purpose and the unique contribution both Royal Mail and GLS make to society by connecting customers, companies and countries.

Our colleagues across the Group have responded magnificently to this challenge, and have worked relentlessly to play a key frontline role. On behalf of the Board I would like to thank each and every one of them for their dedication, and extend our deepest sympathies to the families and friends of our colleagues whose lives were lost to COVID-19.

Financial performance

Parcels now represent 72% of Group revenue. The pandemic has accelerated trends we have been seeing for years in our markets. Parcels, rather than letters, provided Royal Mail with the majority of its revenue for the first time in its five-century history. Similarly, in GLS over half of our volume came from B2C, while only five years ago two-thirds came from B2B. GLS has managed this shift successfully, delivering its highest margin in thirteen years.

Royal Mail delivered a full-year performance well above our initial expectations. Revenue grew by 12.0%, with adjusted operating profit increasing year on year by £227 million to £344 million. Similarly, in GLS our focus countries – Spain, France and the US – have emerged stronger and GLS revenue was up 27.8% year on year with adjusted operating profit up 72.1%. Overall Group revenue grew by 16.6%, and we delivered this year the £12 billion of Group revenue that we had previously forecast for 2023-24.

However, we incurred significant additional costs associated with COVID-19 across Royal Mail and GLS. In the UK, we also incurred additional costs associated with delivering more parcels and fewer letters and our UK management restructure.

Notwithstanding these increased costs, Group operating profit was £611 million on a reported basis (2019-20: £55 million) and, on an adjusted basis, £702 million (2019-20: £325 million), an increase of 116.0% year on year, with adjusted basic earnings per share of 52.1 pence (2019-20: 19.6 pence).

Strategy

While the Group faces many challenges it also has many opportunities. The past year has demonstrated that we can effectively harness market growth opportunities even in difficult circumstances. It has also demonstrated the strategic value of the Group's structure. While there is still much to do and the pace of change needs to accelerate, the financial contribution Royal Mail is capable of adding to the Group and the potential value two successful businesses can create is now clearly evident. In addition, market developments, including the growth in international and B2C volumes will benefit both Royal Mail and GLS, and create opportunities for future potential synergies through leveraging the capabilities of both businesses.

Recognising that Royal Mail and GLS have different market positions, strengths and opportunities, we have developed separate strategies to drive sustainable growth and meet changing customer needs. In Royal Mail we aim to grow our market share by creating a more agile parcels business that is laser focused on the customer. We have launched and are continuing to develop new services and are expanding into new areas, such as our parcel collection service 'Parcel Collect', Sunday parcel deliveries and the expansion of our pharmaceutical delivery services. We have also supported the national response to the pandemic by delivering test kits, PPE and vaccination letters.

I was delighted that the Communication Workers Union (CWU) showed its understanding of our potential by reaching agreement with management on operational change, pay and job security. However, effective execution and delivery of benefits for all our stakeholders will be the key measures of success of the agreement.

Given the significant changes we continue to see in the market – more parcels, fewer letters - we continue to believe the best way to ensure that the Universal Service continues to meet customers' needs is to rebalance our UK business model more towards parcels. We remain absolutely committed to the universal affordable, 'one price goes anywhere' nature of the Universal Service. But as customers change, so must we. This year, Royal Mail will simplify and improve its product offerings under a 'good', 'better', 'best' approach. As we develop this further we will engage with Government and Ofcom about the regulatory changes needed to allow us to adapt quickly to offer what customers want, and to ensure the Universal Service regains relevance and is sustainable.

In GLS we are building on the business's established strengths and focusing on the growth opportunities that will deliver the best return on our investment. Through implementation of our 'Accelerate GLS' strategy, we expect adjusted operating profit of €500 million in 2024-25 and €1 billion cumulative free cash flow[1] over the five years to 2024-25.

Responsible business

Our impact on society has always been central to our purpose, discussions and decisions. We seek to be an integral, trusted and valued part of every community, operating in a responsible and sustainable way simply because it is the right thing to do. And as customers demand more sustainable deliveries, effective management of our environmental, social and governance (ESG) issues can create significant benefits and competitive advantage. In response to this demand, delivering a sustainable network is embedded in both Royal Mail and GLS' strategies.

Capital allocation and dividend policy

Our balance sheet remains strong and we had good cash generation with £762 million in-year trading cash flow.

Following the Group's stronger than anticipated financial performance during the past year, the Board concluded that it was appropriate to propose a one-off final dividend of 10 pence per share in respect of 2020-21.

The Board has reviewed its approach to capital allocation and dividend. We have a clear capital allocation framework:

- invest in our business to support growth;
- maintain our investment grade rating;
- pay a sustainable dividend;
- and retain flexibility for selective acquisitions.

Following management changes and our focus on running the business through the pandemic, we will now start to evaluate further accretive business opportunities that would complement our existing business.

1. Free cash flow represents cash flow after working capital, capital expenditure, tax, interest and IFRS 16 capital lease payments but before acquisitions.

Given the uncertainty that still remains around the economic recovery from the pandemic, how consumer behaviour might change over the coming months and the ongoing investment needs of both Royal Mail and GLS, the Board considers that it remains important for the Group to retain a prudent capital structure. We will prioritise maintaining our investment grade credit rating, and given the high operational leverage in our business, we will continue to keep low levels of financial leverage. In the current risk environment, we believe running a Group net cash position on a pre-IFRS 16 basis is appropriate.

We are now confident - notwithstanding the ongoing uncertainty - that both our main businesses will independently generate cash sufficient for their own organic investment purposes. So whilst investment is expected to step up in the coming period, we do not anticipate the need for any cross subsidy.

The Board has taken an appropriately cautious stance on the future dividend policy. However, reflecting the progress that has been achieved within the business and our confidence in the future prospects of the Group, the Board will adopt a sustainable progressive divided policy and expects to propose a full year dividend for 2021-22 of 20 pence per share, to be paid one third (6.7 pence per share) as an interim, two thirds (13.3 pence per share) as a final dividend. From 2022-23 the interim dividend will be one third of the prior year's full year dividend.

The Board will review the Group's capital structure on a regular basis, taking into account the market environment, the cash flow generation of the Group and its capital allocation framework and will not retain excess capital which is unutilised under our capital allocation framework.

Board changes

During the year, the executive leadership of the Group has been reformed.

Martin Seidenberg, Chief Executive Officer of GLS, was appointed to the Board on 1 April 2021, reflecting the growing contribution and importance of GLS to the Group. Our Board discussions are already benefiting from Martin's detailed knowledge of the parcels sector and his Group role will become increasingly important as Royal Mail and GLS work more closely together.

Simon Thompson, previously one of our Non-Executive Directors, was appointed Chief Executive Officer of Royal Mail on 11 January 2021. Simon has a wealth of experience both in digital transformation and customer experience and is ideally placed to lead the business as it harnesses the opportunity to grow and expand our UK parcels business and continues to meet our customers' needs across both letters and parcels.

Mick Jeavons, Interim Chief Financial Officer for the Group since May 2020, was confirmed in this role and joined the Board as an Executive Director on 11 January 2021. Mick has been with the Group for 27 years and has served in a variety of senior positions, including as Deputy Group CFO and, before that, as Chief of Staff to the then Group CEO.

Having acted as Group Interim Executive Chair since Rico Back's departure as Group CEO in May 2020, I reverted to being Non-Executive Chair on 1 February 2021. Stuart Simpson, who had been acting as Interim Chief Executive of Royal Mail since May 2020, left Royal Mail at the end of January 2021. On behalf of the Board I would like to thank him for the significant contribution he made to the Group over the last 11 years and wish him well as he develops his career in the future.

There were also a number of changes to the Board's Committees. I re-joined the Remuneration Committee on 4 February 2021. With effect from the same date, Baroness Hogg was appointed to the Corporate Responsibility (CR) Committee and Maria da Cunha was appointed as the Designated Non-Executive Director for engagement with the workforce.

Outlook
Significant uncertainties with respect to public health and economic growth cloud the outlook for the year ahead. Our challenge is to build on the opportunities we now have in the markets in which Royal Mail and GLS operate. Royal Mail must intensify its customer focus, deliver its transformation programme and improve productivity. The corresponding challenge for GLS is to build on the achievements from this year and deliver the right balance of growth and profitability.

While the future holds a great deal of uncertainty, there are grounds for optimism. The opportunities are there. We must harness them.

Royal Mail
Context
The revenue windfall we have experienced in 2020-21 has given Royal Mail the breathing space to transform. Instead of the feared trajectory into material losses, the changing customer behaviours during the course of the pandemic have provided top line growth and profitability in 2020-21. But there is still much to do if we are to secure and improve on this position for the long term.

The margin trajectory in the short term is assisted by the cost reduction programmes launched in June 2020, the benefits of which flow into 2021-22, but we must now also make swift progress with the business fundamentals that will deliver a sustainably profitable and growing business in the UK.

Commercially we must adapt more quickly to the needs of customers and consumers, and finally deliver the long-promised changes on operational and cost transformation, including successfully leveraging the new deal with CWU to allow us to improve not only service and efficiency, but also to help us drive growth. Without these changes, we cannot be competitive into the future.

1. Revenue
2020-21 had quite different revenue outcomes between the two halves of the year. Parcel revenue growth was circa. 10% higher in the second half than it was in the first half of the year. And on letters, revenue decline was only 5% in the second half of the year, compared with a decline of over 20% in the first half.

April 2021 trading saw total revenue growth of 24.1%, benefitting from a better mix. We experienced year on year parcel revenue growth and letter revenue growth in the month. Parcel revenue grew by 20.0%, and total letter revenue by 29.6%, whilst parcel volumes declined 2% and letter volumes (excluding elections) grew by 25%. April 2021 demonstrates that, as we look forward into 2021-22, we face an unusual set of volume and revenue comparatives, which become increasingly difficult as the year unfolds. This could well lead to Q1 and even H1 performance in 2021-22 being reasonably strong. However, H2 is more difficult to call. The unwind from the impacts of the pandemic is likely to be just as volatile as when we entered it, is similarly difficult to forecast, and it may be some time before we know the true impact of the pandemic on the topline.

This significant short-term uncertainty means that we will not be issuing revenue guidance for 2021-22 at this stage. Changes in consumer behaviour as lockdown restrictions are progressively eased, and economic factors such as GDP growth and unemployment will impact on revenue development. The evolution of international volumes and the success of our commercial initiatives will also have an impact. In letters the underlying rate of e-substitution as we emerge from lockdown restrictions will also be an important driver.

That said, we expect that the COVID-19 crisis will have accelerated the long-term structural shifts in both parcel volume growth and letter volume decline. On parcels, the changes experienced in 2020-21 were extreme. A proportion of the growth will start to unwind as the lockdown restrictions are removed, although it also seems certain that a significant proportion will stick, as consumer behaviour and buying preferences switch online permanently.

On letters, whilst it is unlikely that business mail customers who have found an electronic alternative to mail during the pandemic will switch back to mail, we believe that advertising mail has an intrinsic value as a part of the marketing mix, so we could see a more positive recovery in that stream over time.

We intend to publish our parcel and letter volume metrics on a bi-monthly basis during 2021-22 in order to provide transparency as to the emerging trends.

2. Costs

£m Tailwind / (Headwind) from 2020-21	2021-22
Management restructure (charge and saving)	208
Non-people cost programme flow through	35
Frontline pay award	(110)
Total	133

We will benefit from the impacts of the cost reduction activities that were announced in June 2020, including the management restructure and the non-people cost programme.

The management restructure is now complete and will deliver £130 million of annualised benefit, with around £115 million realised in 2021-22 versus 2020-21. The £93 million voluntary redundancy charge will not repeat in 2021-22, giving a total tailwind of £208 million.

We will see a benefit of £35 million in non-people costs from the actions taken in 2020-21.

Following our agreement with the CWU from 1 April 2021, frontline staff received a pay award of 1% and a further hour of the shorter working week, linked to unit revision activity.

Including the frontline pay deal there is around a net £130 million tailwind on costs into 2021-22.

In relation to other costs:

£m Tailwind / (Headwind)	2021-22
CWU Pathway to Change agreement	100+
COVID-19 and International conveyance cost unwind	c. 100
Non-people cost programme remainder	c. 75
Transformation and investment related spend	c. (60)
Service and convenience investment	c. (90)
Other cost pressures including inflation	c. (50)

We very much hope to make progress on change following the deal with CWU and we hope to be able to reduce the costs of dealing with COVID-19 (protective equipment, the impact of social distancing, and elevated absence rates) as restrictions are removed in our operations, as absence rates reduce and as the frontline return – where appropriate – to sharing delivery vehicles. However, it is possible that some of these costs may remain for longer than we estimate, for example where additional vehicles are required for social distancing, or where it is established that certain protective equipment should be maintained as standard.

The non-people cost reduction programme will complete. We will deliver the commitment we made in June 2020 for savings in non-people costs (circa £200 million) to keep flat compared to 2019-20, excluding volume related costs, which were higher than anticipated given the strong growth in parcel volumes which were above our initial expectations for 2020-21.

There are also cost pressures. As the transformation investment peaks, the associated operating expenditure will increase. We will also invest in improved service and convenience. Given the volatility and significant growth in parcel volume due to the pandemic, we fell short at times last year of our usual high standards on quality. We are focused on delivering pre-COVID quality in a COVID-19 world as soon as practical. We will also improve convenience, by delivering on Sundays and accepting parcels into our network later in the day.

Depending on performance in 2021-22, managers remuneration may also increase by around £60 million year on year.

3. Sensitivities

The pivot we have seen towards parcels means that we expect to grow the top line in the medium term, but the short term will no doubt be volatile. Short term volume uncertainty may impact significantly on profitability for 2021-22.

Below is an illustration of sensitivities showing the short term (<12 months) marginal impacts of a 1% revenue movement in letters and certain parcel revenue streams on profitability, on a ceteris paribus basis i.e. assuming constant product and channel mix. Material revenue mix changes within parcels or letters, or price changes, could lead to changes in sensitivities. The incremental cost impact range illustrates that costs will vary depending on product, channel and weight mix. Illustrative incremental costs use 2020-21 prices and ignore seasonal differences and therefore should not be taken in isolation.

1% movement in 2020-21 revenue £m	Revenue impact	Incremental cost impact[2]	In-year contribution impact
Domestic Parcels excl PFW and export[1]	39	(5-15)	24-34
Total letters	35	(3-5)	30-32

1. Domestic parcels excl. Parcelforce Worldwide (PFW) and export includes parcels sent and delivered in the UK (both account and consumer), and import parcels. PFW and export parcels are excluded and are subject to separate gearing ratios, which are not disclosed.

2. Domestic operational (people and network) costs associated with marginal changes in revenue, assuming constant product size and mix, excluding sales commissions and other cost of sales.

4. Investment in Royal Mail

The investment in transformation of the UK operation has been delayed since the programme was first announced in May 2019. 2021-22 includes a material increase in capital expenditure as the build programmes for both parcel hubs proceeds, plus investment in automation and technology to support productivity, with currently planned capital expenditure well above £400 million for 2021-22.

Work is ongoing in a number of areas that may lead to a requirement to invest further in the core operational network. Incremental investment would only be pursued if business performance supported the investment outlay and the investment generated sufficient shareholder return.

GLS

1. Revenue and adjusted operating margin

In line with the Accelerate GLS strategy presented in March 2021, from a 2020-21 revenue base of £4,040 million, growth in 2021-22 is expected to be in the low single digit percent as COVID-19 tailwinds unwind, and adjusted operating margin is anticipated to be around 8%.

2. Investment in GLS

Capital expenditure in GLS is expected to increase in order to underpin the ongoing growth expected, with around £160 million (€180 million) expected in 2021-22, in line with its capital expenditure corridor of 3-4% of revenue.

OPERATING AND STRATEGIC REVIEW

ROYAL MAIL CEO REVIEW – SIMON THOMPSON

We're changing. And it's working.

Change. It can be daunting. But constantly changing to meet the needs of the customer is what all great companies do. Last year has stood out as one of remarkable change at Royal Mail. It has been challenging at times, but we are emerging stronger, leaner and have learnt that we can change at lightning pace when we are united by a common purpose. A worldwide pandemic. New ways of working. Designated as key workers. Tens of millions of COVID-19 test kits handled. Over 1.5 billion items of PPE delivered to schools, social care and healthcare providers. 30 million vaccination letters delivered. It has been quite a year.

Our people have been magnificent. On behalf of our customers and Royal Mail I would like to thank them for their Herculean effort and for everything they have done.

Our customers have been very supportive and at times very tolerant. At the beginning of the pandemic, we communicated to customers that service disruption was, despite our best efforts, likely. High levels of COVID-related absences including shielding, the introduction of social distancing in our operations, no shared vans, and the increase in parcel volumes means that at times our quality has not always been as we would have wished. We know the world has changed and the team is now focused on delivering pre-COVID-19 quality in a COVID-19 world as soon as we can.

Operating performance

This time last year we expected the UK business to be loss making. A lot has changed in a year. In 2020-21 Royal Mail revenue was £8,649 million, an increase of 12.0%, with parcel revenue growth more than offsetting the decline in letter revenue. Adjusted operating profit was £344 million (2019-20: £117 million) an increase of 194.0% year on year, and adjusted operating margin was 4.0%, up 250 basis points year on year.

Parcels

Parcel volumes grew strongly, particularly as people stayed at home and ordered online during the pandemic. Account parcel volumes grew by 48% and Tracked 24® / 48® and Tracked Returns® performed strongly with 79% growth. International parcel volumes grew in the first half of the year, driven by imports, but declined in the second half broadly as expected. This was due to reduced air freight capacity and increased conveyance costs, along with the transition to a new trade agreement with the European Union (EU) in January 2021, and the requirement for customs forms and/or taxes and duties to be paid for imports and exports to and from the EU. Despite the decline in volume, international revenue grew, as necessary price increases were required to cover higher conveyance costs and terminal dues.

Parcel revenue grew 38.7% year on year, with a positive price/mix as customers traded up to higher value tracked products. Consumer and small and medium-sized enterprise (SME) channels also strengthened throughout the year.

Letters

The impact of COVID-19 saw a significant reduction in letter volumes, with addressed letter volumes (excluding elections) 20% lower year on year. However, performance improved throughout the year as more business activity resumed; in the first quarter addressed letter volumes (excluding elections) fell by around a third, but improved to a 13% decline in the fourth quarter.

Business Mail, whilst also negatively impacted, was more resilient throughout the year. Advertising Mail saw volume reductions of almost two thirds during the first quarter of the year, recovering to a 23% decline in the fourth quarter. The Consumer and SME channels also saw volumes improve over the course of the year. Total letter revenue declined by 12.5% year on year.

Costs

Whilst the changes we have seen this year have driven year on year revenue growth, COVID-19 also introduced additional costs. The net cost of sorting more parcels, combined with the impact of reduced letter volumes was £327 million. Costs related to elevated absence levels, social distancing and protective equipment totalled £152 million. International conveyance costs were £69 million higher due to a reduction in airline cargo capacity.

As part of our agreement with CWU, we awarded CWU grade colleagues a 2.7% pay increase effective from April 2020, which was partially offset by a 2.1% productivity improvement in the year.

There was also a voluntary redundancy charge of £109 million, of which £93 million was related to the management restructure announced in June 2020. We have already delivered circa £90 million as part of our two-year non-people cost savings plan.

Owning trust at the doorstep: our competitive advantage

We have seen a big change in what our customers want: more things to and from people, 24/7, but still delivered by our postal workers, a relationship they continue to cherish. This is an exciting opportunity for Royal Mail and focusing on our customers is one of our key strategic priorities. We have always owned trust at the doorstep. It continues to be our competitive advantage, and we will never surrender this position.

We will continue to offer a range of sending options so that postage fits around our customers, not the other way around. We were pleased to sign a new long-term agreement with Post Office Limited in 2020. This means our customers will continue to benefit from being able to purchase a wide range of Royal Mail and Parcelforce Worldwide products through the Post Office's extensive branch network.

We are also introducing new convenient ways for people to send items. Over 1.6 million parcels have been collected from doorsteps since we launched our new Parcel Collect service in October 2020. As customers increasingly look for convenient and flexible solutions we suspect the opportunity for this service will continue to grow. Not everyone wants to travel to drop off their parcel. We have also now started Sunday parcel deliveries, and are experimenting with same day prescriptions deliveries, or 'instant pain relief' as we call it, by leveraging our hyper-local delivery capability combined with our trusted people. When you are not feeling great, do you really want to leave your home?

An increased focus on sustainability

When we have been speaking to our account customers, they have made it clear that the environmental impact of deliveries is a growing concern for their customers. In a year when the world was preoccupied with COVID-19, it would have been easy to take our foot off the pedal when it came to our environmental ambitions. But I am pleased to say the opposite has happened. Due to our 'feet on the street' delivery model, powered by more than 85,000 postwomen and men, Royal Mail already has the lowest reported[1] CO2e per parcel amongst major UK delivery companies. But this is not enough. We are continuing to trial and deploy new technology to reduce the environmental impact of our fleet, including telemetry, electric vans, dual fuel hydrogen vans and Bio-CNG trucks.

Network transformation and operational efficiency

Transforming our network to handle more parcels is a key part of our plan. It was important before, but the growth in parcels we have seen during the pandemic makes it even more so. We are making good progress on the construction of our first two parcel hubs. The new fully-automated parcel sorting system in the Midlands hub will have the capacity to sort over one million parcels a day when it is fully operational in 2023. Of equal importance, we are continuing to increase the number of parcels that are sorted through automation across our operation. The number of parcels successfully sorted at least once grew significantly from 356 million in 2019-20 to 652 million in 2020-21 – an 83% increase. However, our percentage of parcels sorted by machine was unchanged year on year by 33%. The industry benchmark is 90%.

1. Based on competitors' 2019 published reports

The findings of our network review, which we have been conducting jointly with CWU, support the need for greater automation in the existing Mail Centre estate, as well as the need for additional hub capacity. We are now working with CWU to undertake more detailed future modelling and planning over the coming months. Dedicated van deliveries are becoming a reality in our operations following successful trials. We are refining our approach as part of our ongoing delivery revision activity.

Industrial relations

In December 2020 we agreed a ground-breaking agreement with the CWU. I would like to take this opportunity to thank all parties who were involved, it was an enormous effort and an excellent outcome for all stakeholders.

The agreement with CWU gives us a platform for future growth, and the means to achieve productivity benefits of 3% plus this year. In 2021-22, more than £100 million in benefits are linked to effective execution and delivery of benefits associated with the agreement.

I am pleased to say that all parties are working very well together, and deployment of the agreement is firmly on track. Deployment of revisions in all delivery offices and processing sites are due to take place by the end of October 2021, with more than 300 already underway. We have also started rolling out 'scan-in, scan-out' technology in our processing sites. This is replacing handwritten manual 'sign-in, sign-out' sheets and will provide meaningful data to allow our leadership teams to make better informed decisions.

And most importantly, we are changing our relationships and mindset. This has allowed us to move faster to make changes that will benefit our customers, including the provision of new services such as Sunday deliveries, something we have probably all known for some time needed to happen. We need to keep up this momentum.

I would like to thank Terry Pullinger, the Deputy General Secretary (Postal) of the CWU, who is collaborating closely with me on a very regular basis to make sure we drive forward our joint change agenda. The team at CMA/Unite are also very proactive in supporting the change agenda.

Management restructure

We have had to take some really difficult decisions in the past year. Around 2,000 managerial roles have been removed as part of our management restructure. I would like to thank the colleagues who have left for their service to Royal Mail over many years. We have delivered on our commitment to make this change, which is on track to deliver annualised benefits of £130 million, with incremental benefits of £115 million in 2021-22.

This was an action that was not only about cost. It was also about simplifying our business. By removing management layers and committees we are already moving faster and starting to focus only on what matters.

Rebuilding trust with our people

Our people have a key role to play in delivering our strategic ambitions. Rebuilding their trust is our big unlock. As well as being on the Board for the last three years I spent one year as the Non-Executive Director for engagement with the workforce. I am continuing to spend a lot of time listening to our workforce at the front line of the business, and activating their insight. It is an invaluable opportunity to listen, learn and act.

Within weeks of me becoming CEO, we conducted a trust survey. It found that over 80% of our team feel proud to work for Royal Mail. However only 36% of our team felt valued and only 34% felt involved in decisions that impacted them. Based on a more recent survey, these key metrics are starting to improve, but we have a lot more to do.

We need to give our people the leadership they deserve, including freeing up our managers to lead their teams in a much more effective way. As part of a trial at our delivery office in Sale, our local leader is now empowered to decide what she feels she needs to do, rather than implement more than 200 policies we think should be adhered to. She is now spending around half of her time with her team and a third of her time with customers or focusing on customer-related issues. The business results are very encouraging. We can now see a way of reducing more than 200 policies to fewer than 20 whilst not increasing our risks. As the year moves on, I expect all of our delivery offices to be operating in a very new way.

April 2021 trading

Trading performance in the first month of 2021-22 remained strong. Revenue was up 24.1% and benefitted from a positive mix, with parcel volumes down 2% and addressed letter (excluding elections) volumes up 25%. As lockdown restrictions are further removed in the coming weeks we expect some volatility. With parcel volume declines and letter volume growth, April is an example of the unusual trends we can expect to see emerge during 2021-22.

The future

Looking ahead, we have much to do. We must remain laser focused on accelerating the pace of change so that we can be brilliant for our customers and put in place the building blocks to allow us to grow our market share. And we must do all of this in an increasingly efficient way. By doing so, we will ensure that we can serve the needs of all of our stakeholders.

We will only achieve this by having trusted relationships everywhere, trust is our big unlock.

We should deliver a 3% plus productivity benefit this year. In 2019 we said that Royal Mail would reach 5% adjusted operating profit margin in 2023-24. That would be at the low end of my expectation. And my early analysis suggests that we should get there sooner than 2024.

STRATEGY REVIEW: FOCUS ON CUSTOMER, TRUST, GROWTH

Our mission is to own trust at the doorstep.

We believe the trust in our people, our brand, and our nationwide hyper-local network is a platform for profitable growth.

In recent years we have focused on pivoting quickly from being a letters business, to a more parcels-focused one, reflecting the changing needs of our customers.

This year has accelerated the need to change quickly. Total letter volumes are down 25%. Parcel volumes are up 32%. Transforming our network and working practices to adapt to parcels was important before. It is vital now.

We are focused on transforming our network as quickly as possible to ensure we are operating efficiently, and profitably, to make the most of the opportunity we have right in front of us. Increasing our parcels automation and delivering the benefits associated with the agreement we reached with the CWU are key areas of focus over the coming year.

At the same time as improving our efficiency, we are becoming a more agile, customer-focused business. We are changing faster, and delivering more of what our customers need and want – such as Sunday deliveries, home collections of parcels through Parcel Collect, and trialling new services such as same day prescriptions, or as we call it 'instant pain relief'.

We will realise our mission and deliver sustainable growth by focusing on three key pillars: Customer, Trust and Growth. The three pillars are all underpinned by productivity improvements as we continue investing to deliver the transformation programme and the change we need.

Customer

All great companies put the customer first.

The first pillar of our strategy is therefore focused on improving and simplifying our customer offering through great quality of service every day and products that are easy to understand and simple to use. We will deliver more things, to and from people, 24/7. We will stay laser focused on delivering for our customers by:

- **Delivering pre-COVID-19 quality in a COVID-19 world:** Restoring quality is the number one priority to keep our high levels of customer trust. Throughout 2021-22 we will continue to invest in additional resource to improve service levels in an ever-changing and uncertain environment. We are also using data to zero in on root causes faster and increasing the spread of best practice at pace.
- **Removing all friction from our services and simplifying our product range:** We are simplifying our product range to an easy to understand 'good', 'better', 'best' structure. This will make it easier for customers to choose the products that perfectly meet their needs.
- **Increasing the proportion of our products that can be tracked:** Customers increasingly expect richer services for their deliveries including tracking visibility. We continue to accelerate the migration to barcoded services to enable us to offer tracking on more items. 2021-22 will be another positive step towards 100% of parcels carrying a barcode.
- **Leverage our environmental advantage:** Customers are increasingly looking for less environmentally impacting delivery options. Our 'feet on the street' delivery model, powered by more than 85,000 postwomen and men, means that Royal Mail already has the lowest reported CO2e per parcel amongst major UK delivery companies. But this is not enough. We will continue to trial and deploy new technology to reduce the environmental impact of our fleet, including rolling out more electric and alternative fuel vehicles across our fleet over the coming years.
- **Reimagining the stamp:** Letters continue to be an important part of our business, and a service that many customers rely on. We will continue to innovate to make sure that letters deliver what our customers need in an increasingly digital world. As part of our modernisation drive, we are currently piloting unique barcodes on stamps. The unique barcodes are poised to pave the way for innovative customer services which we plan to share later in the year.

Trust

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

- **Deliver a positive step change in our relationship with our people and unions:** In our recent Big Trust Survey Royal Mail achieved a trust score index of 62% against an external benchmark of 74%. The score had increased from 59% in February, but there is more to do. We have set ourselves an ambition to significantly increase this score. This will require a step change in our mindset and attitude towards each other. We are working with our trade unions on a number of initiatives to positively change our culture and rebuild trust across the company. We will change how we work to allow managers to spend significant time with their teams by freeing them up from less important tasks and reducing the number of policies they need to adhere to from more than 200 to fewer than 20.
- **Deliver the CWU agreement on time, all benefits realised:** Deployment of the ground-breaking agreement with the CWU is on track. This agreement gives us a platform for future growth, and the means to achieve productivity benefits of 3% plus in 2021-22, resulting in more than £100 million in benefits, linked to effective execution of the agreement.
- **Put in place the next generation of Royal Mail:** We will shortly be launching a Postal Apprenticeship programme across the UK. In light of growing volumes, we are converting more part-time roles to full- time, and agency staff into employed roles. At management level, talent and succession planning is a key focus for us this year. We are strengthening our development and performance management processes to develop our managers and ensure we have the leadership we need to deliver our transformation.
- **Enable direct conversations between all our people:** Building a genuine two-way conversation with our people is a key part of rebuilding trust. We have already put in place digital tools including a People App and Workplace by Facebook to ensure our people can access the information they need, share ideas and best practice and problem solve issues between teams. We have given all our people a voice; a voice we are already listening to and acting upon.

Growth

Going forward our goal is to grow our business, grow our share and grow the market. Our challenge is to win a greater share of business from more of our customers particularly in high-growth categories. We also need to transform our operations, at pace, to deliver more parcels and letters, more efficiently. We will:

- **Deliver 2024 capacity in 2021 and a step change in parcels automation:** Delivering greater operational efficiency and transforming our operation to handle more parcels is key to our growth. The growth in parcels over the past year means we are now handling the volumes we were predicting for 2023-24. We will increase the number of parcel sorting machines in our operation from 20 currently to around 30 by the end of 2021-22. We are challenging ourselves to reach at least 50% of parcels sorted automatically by the end of 2021-22 – up from 33% currently. We are also making good progress on the construction of our first two parcel hubs. Our overall ambition is to achieve the benchmark of 90% in 2023-24.
- **Deploying tools for the job to support growth:** During 2021-22, we will deploy new PDAs working closely with our frontline colleagues to ensure they provide the information and have the capabilities they need, and have placed an initial order of around 60,000 devices. We will introduce more reliable, less environmentally impacting larger vans in our fleet to accommodate growing parcel volumes.
- **Grow our international business:** We have developed and are executing a robust plan to grow our international portfolio, including; a simplified set of international services; greater visibility of where items are for sender and recipient; and easy and free returns.
- **Innovate, introducing new services that will grow the market:** Over the course of this year we will be expanding our Sunday delivery service, reflecting this growing customer need. We are also entering into same day prescriptions deliveries. We will expand and further promote our doorstep collection service, Parcel Collect, including estimated collection times and testing label-free options for customers who do not have a printer at home. We are also testing how drones can complement our core network for offshore or remote locations and are increasingly confident that this technology will make a positive contribution to service quality and operational economics.

GLS CEO REVIEW – MARTIN SEIDENBERG

We are committed to maximising GLS' potential and we are already executing our 'Accelerate GLS' growth strategy.

I was delighted to be appointed CEO of GLS in June 2020. Having joined the business in 2015 I have a deep understanding of our markets, strengths and opportunities.

2020-21 has been an extremely difficult year for everyone around the world. No one could have predicted the COVID-19 pandemic and the global impact it would have. I would like to personally thank all our people, whose commitment and hard work despite the circumstances has allowed us to keep delivering throughout Europe and North America.

Despite challenges throughout the year, our network remained open and we have been able to keep customers, local communities and countries connected. And while multiple extended lockdowns have resulted in volatile volumes which have tested our network, our flexible business model has once again proven its resilience. In particular we were able to react quickly at the start of the pandemic, scale up our network where needed and quickly and effectively implement protective measures within GLS.

GLS is a scalable, asset-light business with an extensive international physical footprint that allows us to serve our customers with our own network. This network gives us full control over the parcel journey at every stage ensuring that high-quality levels are not compromised and we remain a reliable partner to our customers. Our strong international footprint, together with our differing positions in each market, adds balance and diversity to our operations. Our entrepreneurial operating model, which includes local management teams who have a high degree of commercial independence, enables us to stay close to our customers and tailor our strategy to local market needs.

The pandemic has had a significant, sustainable impact on the parcel delivery market. E-commerce has surged and we expect this to continue to grow strongly with B2C and international being the main growth drivers. At the same time the market is changing and our customers' expectations are changing as they put greater emphasis on convenient and flexible digital services, including tracking and re-routing of deliveries.

Accelerating GLS

Historically the majority of parcels across GLS have been B2B, but more recently, and accelerated by the pandemic, we have seen a marked shift, with B2C volumes growing from 37% of the total in 2016-17 to 57% in 2020-21. We now need to leverage our flexible business model and extensive international network, and continue to grow and develop the business.

Our 'Accelerate GLS' growth strategy, which builds on our strengths and addresses the growth opportunities in our various markets has three key objectives: strengthen GLS' top position in the cross-border deferred parcel segment; strongly position GLS in the 2C parcel market, whilst securing its leading position in the 2B segment; and inspire the market.

Operating performance

During the year trends in our markets accelerated as a result of the pandemic and we saw significant growth in parcel volumes across our footprint. Implementation of cost containment measures at the start of the pandemic, together with increased volumes, pricing opportunities in certain markets, and our ability to adapt quickly with final mile optimisation and more efficiencies in line haul, enabled us to deliver volume, revenue and profit margin growth. Volumes were up 26% in 2020-21. Within that, domestic and export volume growth was 25% and 36% respectively, significantly higher than the historical organic growth rates over the three-year period ended 2019-20 of 5% and 11% respectively.

Revenue increased by 27.8% to £4,040 million (2019-20: £3,161 million). Revenue increased significantly in countries which already had a relatively high proportion of B2C volumes before the pandemic, including in Spain and Denmark and those in Eastern Europe.

Adjusted operating profit margin increased to 8.9% (2019-20: 6.6%) benefiting from scale effects, pricing initiatives in certain markets, cost containment and efficiency measures.

We believe that approximately 60% of the volume and revenue growth can be sustained post the pandemic, and around half of the adjusted operating profit improvement.

During the year, the impact of foreign exchange movements increased revenue by £81 million and operating costs by £74 million, resulting in an increase in operating profit of £7 million.

Market performance

We saw a material improvement in our focus countries of Spain, France and the US. Spain continued its positive trajectory with 59.6% revenue growth and good profit performance compared with a break-even result in the prior year. We effectively leveraged our leading B2C position in the Spanish market and further benefitted from yield management activities which resulted in margin improvement.

In France we remained fully operational during the initial lockdown period which enabled us to strengthen our market position and grow our customer base. As a result revenues grew by 23.5% and scale benefits resulted in a significant reduction in operating losses compared with the prior year. In addition, despite the challenging situation during the pandemic, we completed targeted investments to improve our capacity and optimise our network. The team in France is now focused on securing this positive momentum into the future.

US performance also improved and we delivered 25.2% organic revenue growth. Over the last two years to drive improvements we have focused on yield management activities, acquisition of new customers, streamlining back and head office functions, and achieving productivity improvements. The benefits of these initiatives are clearly evident in the US business's 2020-21 performance. We have also seen a strong increase in B2C volumes driven by a range of initiatives. We will continue to focus on enhancing the US business's product offering including freight capabilities similar to the Dicom business in Canada. The integration of Mountain Valley Express, a freight business we acquired in September 2019, is already delivering positive benefits.

In Canada, Dicom revenue was broadly flat with growth impacted by lower freight and B2B volumes. Nevertheless, adjusted operating margin improved as a result of initiatives focused on streamlining the cost base.

We continue to invest in growth opportunities. In 2020-21 capital expenditure increased 13.3% to £136 million (2019-20: £120 million).

April 2021 trading

April 2021 revenues grew 22.3% year on year. Volume growth until mid-April remained strong, with a subsequent slowdown principally due to the high volumes observed last year. During the course of 2021-22 we expect to see some volatility in volume growth rates as lockdown restrictions are lifted.

The future

To optimally position ourselves for future growth we expect capital expenditure will increase in 2021-22, including investment in new hubs to support our growth ambitions.

I am excited about the opportunities ahead of us. We are committed to maximising GLS' potential and we have already begun executing on our 'Accelerate GLS' strategic framework which has delivered benefits in 2020-21 and will unlock further growth opportunities in the future.

STRATEGY REVIEW: ACCELERATE GLS

Unlocking future growth

At the end of March 2021 we announced our Accelerate GLS strategy. Building on a proven business model, key strengths and a solid track record of revenue and profit growth, Accelerate GLS is designed to unlock GLS' potential and drive growth. Our key strategic ambitions are:

- **Connect Europe:** Strengthening GLS' top position in the cross-border deferred parcel segment. By 2024-25 we plan to outgrow the cross-border market growth rate of around 9%[1] and deliver 16% CAGR in volume terms from 2019-20. As a result, in the future around a quarter of GLS revenue will be generated in the cross-border segment.
- **Strengthen 2C parcel market position and lead in 2B:** Strongly position ourselves in the 2C parcel market and secure our leading position in the 2B segment. In recent years GLS has grown from a predominantly B2B player to delivering 57% of parcel volume in the B2C segment in 2020-21. As a result our operations are already fully B2C and B2B enabled, providing a strong platform for future growth. By 2024-25 we plan to outgrow the B2C market growth rate of around 10%[2] and deliver a 17% CAGR in volume terms from 2019-20.
- **Inspire the market:** Launch innovative digital and sustainable solutions that are centred around customer needs and provide the best 'delivery experience'. Innovation drives positive customer experiences and is essential if we are to enhance our competitive advantage, win in our growth markets and achieve our strategic ambitions.

Creating sustainable growth

To achieve each of our strategic ambitions, create sustainable growth and meet changing customer needs, we have developed and are executing clear strategic plans.

Connect Europe: We will strengthen our international capabilities by:

- **Upscaling our network:** We have already started to significantly upscale our network capacity and footprint. Three new hubs are in development and further investment in additional strategic hubs is being planned.
- **Strengthening our network:** We will serve more European cities with point-to-point direct lines which will further improve our pace of delivery and help support margin growth.
- **Expanding our international offering:** We will enhance our international products and services to provide an international shipping experience. We will also drive more international volume from non-Europe based shippers by offering dedicated services covering import, customs clearance and delivery.

Strengthen 2C parcel market position and lead in 2B: We will position GLS as the customers parcel shipper of choice by:

- **Investing in capacity and capabilities**. Across our international footprint we will invest in domestic network capacity and 2C capabilities.
- **Developing convenient 2C services and products.** We will expand our customer offering to include convenient services and products that enhance our customers' experience, including expanding our parcelshop network which provides a convenient pick-up and drop-off option.
- **Continuing to deliver a high-quality service.** Regardless of peaks in demand and volume volatility we will remain focused on customer satisfaction and providing a consistently high-quality service.

Inspire the market: We will deliver great customer experience by:

- **Developing digital solutions:** We will focus on developing new convenient, mainly app driven, solutions that make parcel delivery a fun experience. We are increasingly providing more flexible and convenient services including live-tracking and in-flight re-routing of parcels and also dedicated B2C evening delivery options. As the customer experience is key we are increasingly asking for their immediate feedback.
- **Providing sustainable solutions:** We are committed to providing sustainable solutions and we have already made some good progress. We have started our green flagship depot programme to ensure that all countries progress on electric vehicles, charging infrastructure, and city logistics concepts including inner-city carbon free delivery. Today, we already serve more than 60 inner cities with carbon free delivery methods, including e-bikes, e-vans and e-scooters. We will steadily increase our fleet of electric vehicles and city depots across Europe. Our EuropeanEcoHub in Essen, which is largely independent from external energy and water provision and features e-vans and electric bicycles for inner city deliveries, will serve as a blueprint for our next generation of facilities. In the Netherlands and Germany we have been very successful with the GLS ClimateProtect programme in which all CO2 emissions across the whole logistics value chain are compensated through certified projects.

As our customers continue to respond positively to these developments we will further develop and expand our sustainable business approach.

Given the benefits of being able to respond quickly to local market needs, each country within our network will tailor Accelerate GLS to ensure it serves local customer needs. Using the Accelerate GLS framework local management teams have developed clearly defined localised action plans. This 'bespoke strategic' approach differentiates GLS from its competitors and enables the business to respond quickly to evolving trends, capitalise on growth opportunities and enhance customers' experience.

Ambition

Accelerate GLS will enable us to deliver ambitious yet realistic financial results. The strategy has already delivered benefits contributing in part to our strong 2020-21 performance.

From FY2019-20 to FY2024-25, GLS expects to grow revenue at around 12% CAGR (from €3,614 million in FY2019-20), more than double operating profit to €500 million and generate €1 billion of free cash flow[3]. Capital expenditure over the period is expected to remain in the range of 3-4% of revenue.

Footnotes for STRATEGY REVIEW: ACCELERATE GLS section

1. Source: Market growth CAGR 2020 -2025 according to Forrester, Effigey (excl. UK).
2. Source: Market 2C growth CAGR 2020 -2025 according to Forrester, Effigey (excl. UK).
3. FY2020-21 to FY2024-25, including capital lease payments.

FINANCIAL REVIEW

GROUP CFO INTRODUCTION

I became Group Chief Financial Officer in January 2021, having held that role on an interim basis since May 2020. I have been with the Group for 27 years, and without a doubt the past 14 months have been unprecedented. The human cost of COVID-19 has been tragic, with the impact of the pandemic being felt across every part of our business. The response of our people has been tremendous, allowing us to cope with unprecedented volumes of parcels. This has ultimately resulted in a financial outcome far better than we originally anticipated and I would like to add my sincere thanks to everyone across the Group for all their efforts in very difficult circumstances.

In Royal Mail we originally anticipated that the additional costs from higher absence levels, social distancing and the rapid change in mix with more parcels and fewer letters would lead to the business making a material loss. However, the sustained growth in parcels and a partial recovery in letters in the second half meant the business delivered 12.0% top line growth, by far the strongest performance since IPO in 2013. Unfortunately, we were unable to make material progress with operational efficiency changes due to the pandemic, but the flexibility shown by our teams in responding positively to the very difficult circumstances was a major plus. Despite the additional costs associated with the pandemic, and restructuring charges, Royal Mail saw positive operating leverage with adjusted operating profit growing by 194.0% year on year and an adjusted operating profit margin of 4.0%.

In GLS, our challenge was to adapt a business that has historically predominantly delivered B2B parcels, to one capable of harnessing the strong growth in B2C, without diluting margin. Originally, we anticipated that the additional costs associated with B2C deliveries would put pressure on adjusted operating profit margin. However, the scale effects of strong parcel growth over the year, combined with pricing initiatives in certain markets, led to adjusted operating profit margin growing by 230 basis points on top line growth of 27.8%. We also saw an improved performance in our focus countries of Spain, France and the US.

As a result, Group revenue grew by 16.6%, with adjusted Group operating profit growing by £377 million to £702 million. On a reported basis Group operating profit was £611 million, the difference reflecting primarily the pension charge to cash difference adjustment, and also specific items.

In-year trading cash flow was £762 million (2019-20: £556 million) due to higher adjusted EBITDA offset by higher corporation tax paid and a smaller trading working capital inflow. Pre-IFRS 16, in-year trading cash flow would have been £156 million lower. Net debt was £457 million (2019-20: £1,132 million).

Reported results, Alternative Performance Measures (APMs) and reporting periods

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

The APMs used are explained at the end of this Financial Review in the section Alternative Performance Measures (APMs) and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

Group and Royal Mail results are for the 52-week period to 28 March 2021. The GLS financial performance is for the 12 months to 31 March 2021.

Group results

Summary reported results (£m)

	Reported 52 weeks March 2021	Reported 52 weeks March 2020
Revenue	12,638	10,840
Operating costs	(12,020)	(10,623)
Operating profit before specific items	618	217
Operating specific items	(7)	(162)
Operating profit	611	55
Non-operating specific items	36	89
Net finance costs	(38)	(50)
Net pension interest (non-operating specific item)	117	86
Profit before tax	726	180
Earnings per share (basic)	62.0p	16.1p

The Group delivered results well above initial expectations due to changing customer behaviour, the growth in online shopping during the pandemic, and our increased focus on the customer. Revenue increased by £1,798 million, largely due to higher parcel revenue in Royal Mail and GLS, which more than offset the decline in Royal Mail letters revenue. Operating costs increased by £1,397 million, driven by COVID-19, the cost of mix change towards more expensive to handle parcels, volume and the previously announced management restructure in Royal Mail. This resulted in an operating profit before specific items of £618 million, £401 million higher than the prior year. Operating specific items were a cost of £7 million and non-operating specific items a credit of £36 million. See Specific items and pension charge to cash difference adjustment for further information.

A management restructuring cost of £93 million has not been treated as a specific item, in line with market guidance issued on 22 May 2019, where we communicated that transformation costs (which include project costs and voluntary redundancy costs) would be included in operating profit. The aim of this change was to simplify the measures reported externally.

Profit before tax of £726 million comprises a £398 million profit in Royal Mail (2019-20: £nil million) and a £328 million profit in GLS (2019-20: £180 million profit). Basic earnings per share increased to 62.0 pence. A full reconciliation of reported to adjusted results is set out at the end of this Financial Review in Presentation of results and Alternative Performance Measures (APMs).

Summary segmental results (£m)

Reported	52 weeks March 2021	52 weeks March 2020	Change
Royal Mail	8,649	7,720	12.0%
GLS	4,040	3,161	27.8%
Intragroup revenue	(51)	(41)	24.4%
Group revenue	12,638	10,840	16.6%
Adjusted[1]			
Royal Mail	(8,305)	(7,603)	9.2%
GLS	(3,682)	(2,953)	24.7%
Intragroup costs	51	41	24.4%
Group operating costs	(11,936)	(10,515)	13.5%
Adjusted[1]			
Royal Mail	344	117	194.0%
GLS	358	208	72.1%
Group operating profit	702	325	116.0%
Operating profit margin	5.6%	*3.0%*	260 bps

Group revenue grew by 16.6% in the year. Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 72.2% in the year (2019-20: 62.9%).

Group operating costs increased by 13.5%.

Intragroup revenue and costs represent trading between Royal Mail and GLS, principally a result of Parcelforce Worldwide operating as GLS' partner in the UK.

Group operating profit margin was up 260 basis points, driven by improved profitability in both Royal Mail and GLS on the back of stronger than anticipated revenue growth.

The main factors impacting revenue and operating costs are described throughout this Financial review.

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks March 2021	52 weeks March 2020
Pension charge to cash difference adjustment (within people costs)	(84)	(108)
Operating specific items		
Regulatory fine	(1)	(51)

Legacy / other items	13	(92)
Amortisation of acquired intangible assets	(19)	(19)
Total operating specific items	(7)	(162)
Non-operating specific items		
Profit on disposal of property, plant and equipment	36	89
Net pension interest	117	86
Total non-operating specific items	153	175
Total specific items and pensions adjustment before tax	62	(95)
Total tax credit on specific items and pensions adjustment	37	60

The pension charge to cash difference adjustment comprises the difference between the IAS 19 income statement pension charge rate of 19.5% for the Defined Benefit Cash Balance Scheme (DBCBS) from 30 March 2020 and the actual cash payments agreed with the Trustee of 15.6%. The charge was £84 million in the year (2019-20: £108 million), £24 million lower than in 2019-20. The decrease in the adjustment is largely due to a reduction in the IAS 19 pension charge rate for the DBCBS from 20.8% in 2019-20, to 19.5% in 2020-21.

The regulatory fine in the prior year relates to a provision for a fine of £50 million and associated interest, following a Competition Appeal Tribunal judgment on 12 November 2019.

The legacy items largely relate to a £16 million credit (2019-20: £2 million charge) in respect of Industrial Diseases Claims after the reassessment of provisions following updated guidance published by the Institute and Faculty of Actuaries' Asbestos Working Party. The prior year amount largely relates to the impairment of the Parcelforce Worldwide business.

Amortisation of acquired intangible assets of £19 million (2019-20: £19 million) relates to acquisitions in GLS.

The profit on disposal of property, plant and equipment of £36 million (2019-20: £89 million profit) primarily relates to the sale of two London Development Portfolio plots (Plot A at the Nine Elms development site and Calthorpe Street at the Mount Pleasant development site). The prior year profit largely relates to the land sale of plots B and D and C at Nine Elms. Further detail is provided in the London Development Portfolio Section below.

Net pension interest credit of £117 million (2019-20: £86 million) is calculated by reference to the pension surplus at the start of the financial year. The increase in the year of £31 million is as a result of a higher pension surplus position at 29 March 2020 compared with 31 March 2019.

Net finance costs

Reported net finance costs of £38 million (2019-20: £50 million) largely comprised interest on bonds (including cross-currency swaps) of £24 million (2019-20: £17 million), interest on the bank syndicate loan facility of £3 million (2019-20: £nil), and interest on leases of £27 million (2019-20: £30 million). This is offset by interest income of £17 million (2019-20: £6 million). The bank syndicate loan facility was extended by one year to September 2025 with the option to extend for a further one year.

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	427	427	2024
€550 million bond	2.7%	468	468	2026
Bank syndicate loan facility	LIBOR+0.475%	925	-	2025
Total		**1,820**	**895**	

The blended interest rate on gross debt, including leases for 2020-21, is approximately 3%. The impact of retranslating the €500 million and €550 million bonds is accounted for in equity.

Taxation

(£m)	52 weeks March 2021 Royal Mail	GLS	Group	52 weeks March 2020 Royal Mail	GLS	Group
Reported						
Profit before tax	398	328	726	-	180	180
Tax (charge)/credit	(30)	(76)	(106)	31	(50)	(19)
Effective tax rate	7.5%	23.2%	14.6%	N/A	27.8%	10.6%
Adjusted						
Profit before tax	316	348	664	83	192	275
Tax charge	(62)	(81)	(143)	(26)	(53)	(79)
Effective tax rate	19.6%	23.3%	21.5%	31.3%	27.6%	28.7%

The Royal Mail adjusted effective tax rate of 19.6% (2019-20: 31.3%) is lower than the prior year mainly because 2019-20 included an increase in the uncertain tax provision in respect of patent box claims, the effect of which was amplified by lower profits. The effective tax rate for the current year is broadly in line with the UK statutory rate of 19%.

The GLS adjusted effective tax rate of 23.3% (2019-20: 27.6%) is lower than the prior year mainly due to the improved performance of GLS US and GLS France and the resulting reduction in the non-recognition of deferred tax assets on losses.

The Group reported effective tax rate is 14.6% (2019-20: 10.6%). This effective tax rate is impacted by the net pension interest credit, on which there is no tax charge, and profits made on operational property disposals which are offset by reinvestment relief.

Earnings per share (EPS)

Reported basic EPS was 62.0 pence (2019-20: 16.1 pence) and adjusted basic EPS was 52.1 pence (2019-20: 19.6 pence), reflecting the improved trading performance of the Group.

In-year trading cash flow

(£m)	52 weeks March 2021	52 weeks March 2020
Adjusted operating profit	702	325
Depreciation and amortisation	554	516
Adjusted EBITDA	1,256	841
Trading working capital movements	13	155
Share-based awards (LTIP and DSBP) charge adjustment	4	4
Gross capital expenditure	(346)	(342)
Net finance costs paid	(41)	(47)
Research and development expenditure credit	1	14
Corporation tax paid	(125)	(69)
In-year trading cash flow	762	556
Capital element of operating lease repayments[2]	(156)	(141)
Pre-IFRS 16 in-year trading cash flow	606	415
Attributable to Royal Mail	334	319
Attributable to GLS	272	96
Royal Mail Group	606	415

In-year trading cash inflow was £762 million, compared with £556 million in the prior year. This was mainly due to higher adjusted EBITDA offset by higher corporation tax paid and a smaller trading working capital inflow.

GLS in-year trading cash flow (pre-IFRS 16) was £272 million (2019-20: £96 million), or €301 million (2019-20: €112 million).

Trading working capital inflow of £13 million was £142 million lower than in the prior year which had benefitted from having only 11 monthly salary and VAT payments and the prior year saw an increase in the bonus accrual creditor compared to 2018-19. In Royal Mail, the net outflow was £39 million as higher revenue pushed up trade debtors which was partially offset by increased trade creditors and other payables. In GLS, the net inflow was £52 million as working capital inflows were driven by good control over trade receivables, including some positive effect from higher customer payments in the run up to Easter.

Corporation tax paid increased by £56 million, largely due to an increase in profits versus prior year.

The capital element of operating lease repayments of £156 million reflects the net impact on in-year trading cash flow as a result of adopting IFRS 16. Excluding the impact of this, in-year trading cash flow was £606 million.

Gross capital expenditure

(£m)	**52 weeks March 2021**	52 weeks March 2020
GLS total capital expenditure	**(136)**	(120)
Royal Mail transformation capital expenditure	**(62)**	(29)
Royal Mail maintenance capital expenditure	**(148)**	(193)
Royal Mail Group	**(346)**	(342)

Total gross capital expenditure was £346 million, of which GLS spend was £136 million. Royal Mail capital expenditure was £210m in total, of which £62m was transformational spend, including investment in parcel hubs.

Net debt

A reconciliation of net debt is set out below.

(£m)	**52 weeks March 2021**	52 weeks March 2020
Net (debt) brought forward at 30 March 2020 and 1 April 2019	**(1,132)**	(300)
Capitalisation of leases under IFRS 16	**-**	(1,062)
Free cash flow	**800**	653
In-year trading cash flow	**762**	556
Other working capital movements	**28**	7
Cash cost of operating specific items	**(4)**	(2)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**5**	12
Acquisition of business interests	**(4)**	(17)
Cash flows relating to London Development Portfolio	**13**	97
Purchase of own shares	**-**	(3)
New or increased lease obligations under IFRS 16 (non-cash)	**(173)**	(156)
Foreign currency exchange impact	**48**	(20)
Dividends paid to equity holders of the Parent Company	**-**	(244)
Net debt carried forward	**(457)**	(1,132)
Operating leases	**1,079**	1,086
Pre IFRS 16 Net cash / (debt)	**622**	(46)

Movements in GLS client cash are included within other working capital movements. The amount held at 28 March 2021 was £41 million (2019-20: £21 million). The cash cost of operating specific items was an outflow of £4 million consisting mainly of industrial diseases claims and National Insurance related to employee free share payments.

Acquisition of business interests of £4 million relates to deferred consideration paid following the acquisition of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses in the prior year.

The net cash flows relating to the London Development Portfolio were £13 million, consisting of receipts of £31 million for Mount Pleasant and £10 million for Nine Elms, offset by the cost of enabling works of £25 million at Mount Pleasant and £3 million at Nine Elms.

New or increased lease obligations under IFRS 16 of £173 million relates to additional lease commitments that were entered into during the year.

Approach to capital management

The Group had four key objectives for capital management during 2020-21 listed below. The Board monitors the Group's capital management policy to ensure that capital is allocated to support the Group's strategies to deliver sustainable shareholder value. Management proposes actions which reflect the Group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate.

Objectives	Enablers	2020-21 update
Meet the Group's obligations as they fall due.	Maintaining sufficient cash reserves and committed facilities to: - Meet all obligations, including pensions. - Manage future risks, including the principal risks.	At 28 March 2021, the Group had available resources of £2,457 million (2019-20: £1,874 million) made up of cash and cash equivalents of £1,532 million (2019-20: £1,619 million), current asset investments of £nil (2019-20: £30 million) and an undrawn committed bank syndicate loan facility of £925 million (2019-20: £225 million). Existing banking covenants have been waived until March 2022 and replaced with a basic liquidity covenant. At 28 March 2021, the Group met the loan covenants and other obligations for its bank syndicate loan facility and €500 million and €550 million bonds. The Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.
Support a progressive dividend policy.	Generate sufficient cash flow to cover the ordinary dividend. Maintain sufficient distributable reserves to sustain the Group's dividend policy.	The Group reported £762 million of in-year trading cash flow (2019-20: £556 million), sufficient to cover the one-off final dividend of 10.0 pence per share (2019-20: 7.5 pence). Capital managed by the Group, excluding the net assets of the pension scheme, is £2,416 million at 28 March 2021 (2019-20: £2,007 million). The Group had retained earnings of £4,802 million at 28 March 2021 (2019-20: £5,625 million). The Group considers it has a maximum level of distributable reserves of around £2 billion, which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend. The Board has reviewed the performance of the Group during the past year and concluded that it is appropriate to pay a one-off final dividend of 10 pence per share in respect of FY 2020-21, subject to approval at the 2021 AGM.

Reduce the cost of capital for the Group.	Target investment grade standard credit metrics i.e. no lower than BBB- under Standard & Poor's rating methodology.	During the year, the Group maintained a credit rating of BBB with Standard & Poor's but the outlook was revised from stable to negative as a result of their assessment of COVID-19 related challenges.
Retain sufficient flexibility to invest in the future of the business.	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating.	During the year, the Group made total gross capital investments of £346 million (2019-20: £342 million) and acquisition of business interests of £4 million (2019-20: £17 million) while retaining sufficient capital headroom.

Future approach to capital management

The Board has reviewed its approach to capital allocation and dividend. We have a clear capital allocation framework: invest in our business to support growth, maintain our investment grade rating, pay a sustainable dividend and retain flexibility for selective acquisitions. Given the high operational leverage in our business, we will continue to keep low levels of financial leverage. In the current risk environment, we believe running a Group net cash position on a pre-IFRS 16 basis is appropriate. We are confident - notwithstanding the ongoing uncertainty - that both our main businesses will independently generate cash sufficient for their own organic investment purposes, so whilst investment is expected to step up in the coming period, we do not anticipate the need for any cross subsidy. The Board will adopt a sustainable progressive divided policy and expects to propose a full year dividend for 2021-22 of 20 pence per share, to be paid one third as an interim, two thirds as a final dividend. The Board will review the Group's capital structure on a regular basis, taking into account the market environment, the cash flow generation of the Group and its capital allocation framework and will not retain excess capital which is unutilised under our capital allocation framework.

Pensions

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

Defined Benefit Cash Balance Scheme (DBCBS)

An IAS 19 deficit of £394 million (2019-20: £177 million) is shown on the balance sheet. The scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The DBCBS will be subject to triennial valuations from 2021.

An IAS 19 pension service charge of 19.5% (2019-20: 20.8%), equivalent to £360 million (2019-20: £388 million), has been charged to the income statement for the DBCBS scheme. The pension charge is greater than the cash contribution rate as the assumed rate of future increases in benefits (4.8%) is greater than the assumed discount rate (1.9%).

The Group has made contributions at 15.6% (2020-21: £285 million; 2019-20: £288 million) of DBCBS pensionable pay in respect of the scheme. Members contribute at 6.0%.

The IAS 19 pension service charge to cash difference adjustment for 2020-21 was £84 million (2019-20: £108 million). Pension interest for 2021-22, calculated on the assets and liabilities as at 28 March 2021, is estimated to be a charge of £9 million.

Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, current and future RMDCP members in the standard section will contribute at the highest contribution tier (employee: 6.0%; employer: 10.0%) unless they opt to contribute at a lower level. The contribution rate for members not in the standard section is employee: 5.0%; employer: 3.0%).

Royal Mail Pension Plan (RMPP)

The RMPP closed to future accrual in its previous form from 31 March 2018. The pre-withholding tax accounting surplus of the RMPP at 28 March 2021 was £3,666 million (29 March 2020: £5,550 million), comprising assets of £11,441 million (29 March 2020: £11,683 million) and liabilities of £7,775 million (29 March 2020: £6,133 million). The pre-withholding tax accounting surplus has decreased by £1,884 million (29 March 2020: £1,854 million increase) in the year, as gilt yields have increased in the year, decreasing the value of scheme assets whilst the decrease in the 'real' discount rate since the prior year (the difference between RPI and the discount rate based on corporate bond yields) has resulted in an increase in the valuation of scheme liabilities. After the withholding tax adjustment, the accounting surplus of the RMPP was £2,383 million at 28 March 2021 (29 March 2020: £3,608 million). This is an accounting adjustment with no cash benefit to the Group. For 2021-22, the pension interest will be a credit of £73 million.

The triennial valuation of the RMPP at 31 March 2018 was agreed on 19 July 2019. Based on this set of assumptions rolled forward, the RMPP actuarial surplus at 31 March 2021 was estimated to be around £163 million (31 March 2020: £575 million).

Royal Mail Senior Executives Pension Plan (RMSEPP)

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

Following the purchase of an additional insurance policy in September 2018 in respect of all remaining pensioners and deferred members, it was subsequently decided to proceed to buy out and wind up the Plan. As a result the purchase of the insurance policy was treated as a settlement in the 2018-19 Financial Statements. The difference between the IAS 19 surplus before and after the transaction resulted in £64 million being charged to the income statement as an operating specific item. The process to buy out and wind up the RMSEPP had previously been expected to complete in 2020-21; however, it was delayed by the need for further clarity over the approach to Guaranteed Minimum Pensions (GMP) equalisation. The Trustees currently expect this to complete in 2022. There is no charge in the current year.

All benefit payments due from the RMSEPP remain unchanged. The insurance policies held by the RMSEPP exactly match the value and timing of the benefits payable to individual members and the fair value of those policies are deemed to be the present value of the related obligations. Further details can be found in the paragraph entitled 'Royal Mail Senior Executives Pension Plan (RMSEPP)' in Note 6 to the Consolidated Financial Statements.

Based on the rolled forward assumptions used for the RMSEPP triennial valuation as at 31 March 2018 completed in the prior year, the RMSEPP actuarial surplus at 31 March 2021 was estimated to be £9 million (31 March 2020: £9 million). The pre-withholding tax accounting surplus at 28 March 2021 was £9 million (29 March 2020: £10 million).

In accordance with the Schedule of Contributions agreed as part of the 2018 triennial valuation, around £500,000 a year is to be paid for the period 1 April 2018 to 31 March 2025 in respect of death-in-service lump sum benefits and administration expenses.

Guaranteed Minimum Pensions (GMP)

Pension schemes are now under an obligation to address the issue of unequal GMP. The transfer of the RMPP's historic 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.

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

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

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

The Pension Schemes Act, which became law in February 2021, legislates for the creation of CDC pension schemes for the first time under UK law. Royal Mail aims to set up the first scheme of this kind in the UK.

Based on current expectations, it is anticipated that the CDC scheme will be accounted for as a defined contribution scheme. It is anticipated the DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS. The new arrangements will have fixed employer contributions of 13.6% and employee contributions of 6.0%.

During 2020-21, the Group contributed around £405 million, excluding Pension Salary Exchange (PSE), in respect of all UK pension schemes. In 2021-22 the Group expects to contribute around £400 million in respect of all UK pension schemes.

Financial risks and related hedging

The Group is exposed to commodity price and currency risk. The Group operates hedging policies which are stated in the Annual Report and Accounts.

The forecast diesel and jet commodity exposures in Royal Mail are set out below together with the sensitivity of 2021-22 operating profit to changes in commodity prices and fuel duty. As GLS relies on the use of subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs.

2021-22 exposure	Forecast total cost £m	Fuel duty/other costs (incl irrecoverable VAT) – not hedged 2021-22 £m	Underlying commodity exposure (incl irrecoverable VAT) 2021-22 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2021-22 operating profit of a further 10% increase in commodity price £m	Impact on 2021-22 operating profit of a further 10% increase in fuel duty/other cost £m
Diesel	178	118	60	74	15	2	12
Jet fuel	9	2	7	86	1	-	-
Total	**187**	**120**	**67**	**75**	**16**	**2**	**12**

Without hedging, diesel and jet fuel costs for 2021-22 would be around £7 million higher (based upon closing fuel prices at 28 March 2021).

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

The average exchange rate between Sterling and the Euro was £1:€1.12 (2019-20: £1:€1.14). This resulted in a £7 million increase in GLS' reported operating profit before tax in 2020-21. The impact of foreign exchange transactions in the UK was not material in 2020-21. The net impact on Group operating profit before tax was £7 million.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 28 March 2021, all the gross debt of £2,051 million was at fixed rates.

London Development Portfolio

1) Mount Pleasant

This development site includes the sale of 6.25 acres to develop circa 680 residential units. In 2017 an agreement was reached with Taylor Wimpey UK Ltd ('Taylor Wimpey') for the sale of the Calthorpe Street development site, subject to specific separation and enabling works for the site being completed. The sale was completed and the site handed over to Taylor Wimpey in March 2021, following the successful completion of the separation and enabling works. The combined proceeds for the Calthorpe Street site, and the adjacent Phoenix Place site (sold to

Taylor Wimpey in 2017-18) was £193.5 million (including £3.5 million non-cash consideration). For accounting purposes, £39.5 million of the proceeds were allocated to Phoenix Place and £154 million to Calthorpe Street. £115 million of the total combined cash proceeds for both sites have been received as at 28 March 2021 (with circa £31 million received in 2020-21). The remainder of the cash is due to be received through a stage payment in 2023-24 and a final payment in 2024-25.

The costs of the completed enabling works of circa £100 million were incurred over a three and a half year period (2017-18 to 2020-21). The costs incurred in 2020-21 were circa £25 million. All proceeds received up to 2020-21, in aggregate, cover Royal Mail's outgoings on the separation and enabling works. The profit on disposal of the Calthorpe Street site amounted to £29 million, recognised as a specific item in the income statement.

2) Nine Elms

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

- Plots B/D sale completed June 2019 for £101 million to Greystar Real Estate Partners, LLC.
- Plot C1 sale completed June 2019 for £22.2 million to Galliard Homes.
- Plot A sale completed December 2020.

We remain engaged in a disposal process for Plots E, F and G. Further investment will be required in relation to infrastructure for the remaining plots, subject to future sales.

3) Investment

In total we have invested £28 million in the year on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

Dividends

No interim dividend was paid for FY2020-21.

The Board has reviewed the performance of the Group during the past year and concluded that it is appropriate to pay a one-off final dividend of 10 pence per share in respect of FY2020-21, payable on 6 September 2021 to shareholders on the register at 30 July 2021, subject to approval at the 2021 AGM on 21 July 2021.

Footnotes for Financial Review – Group section

1. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the section entitled 'Specific items and pension charge to cash difference adjustment'.
2. The capital element of lease payments of £188 million (2019-20: £172 million) is made up of the capital element of operating lease payments of £156 million (2019-20: £141 million) and the capital element of finance lease payments of £32 million (2019-20: £31 million).

Royal Mail

Reported summary results (£m)

	Reported 52 weeks March 2021	Reported 52 weeks March 2020
Revenue	**8,649**	7,720
Operating costs	**(8,389)**	(7,711)
Operating profit before specific items	**260**	9
Operating specific items	**11**	(149)
Operating profit/(loss)	**271**	(140)
Operating profit/(loss) margin	***3.1%***	*(1.8%)*

Revenue was £929 million higher than the prior year, driven by strong parcels growth. The prior year benefitted from the European Parliamentary and UK general election mailings. Royal Mail has seen a substantial shift in revenue mix from letters to parcels, driven largely by COVID-19. As parcels revenues have continued to grow at a rate that has outpaced letter decline, the business has also benefitted this year from positive operational gearing.

Operating costs increased by £678 million, driven by increased people, distribution and conveyance costs. This is a result of the mix change from letters to parcels, the impact of the COVID-19 pandemic and management restructuring costs. This resulted in an operating profit before specific items of £260 million. Operating specific items of £11 million largely related to a £16 million release of the provision for industrial disease claims, offset by the employee free shares charge of £2 million.

Adjusted[1] trading results (£m)

	Adjusted 52 weeks March 2021	Adjusted 52 weeks March 2020	Change
Parcels	**5,131**	3,699	38.7%
Letters	**3,518**	4,021	(12.5%)
Revenue	**8,649**	7,720	12.0%

Operating costs	**(8,305)**	(7,603)	9.2%
Operating profit	**344**	117	194.0%
Operating profit margin	**4.0%**	1.5%	*250bps*
Parcels volumes (m units)			
Domestic	**1,496**	1,054	42%
International	**239**	258	(7%)
Total parcels	**1,735**	1,312	32%
Letters volumes (m units)			
Addressed letters	**7,727**	10,047	(23%)
Addressed letters (excluding election mailings)			*(20%)*
Unaddressed letters	**1,784**	2,603	(31%)
Total letters	**9,511**	12,650	(25%)

The pace of revenue growth in the second half of 2020-21 increased, with Royal Mail total revenues up 12.0% at the full year versus 4.9% in H1.

Parcels

Total parcel revenue was up 38.7% at the full year versus 33.2% in H1. This growth more than offset the letter revenue decline of 12.5% in the year.

Throughout the year there was a substantial shift in revenue mix. Parcels revenue represented 59% of total Royal Mail revenue (2019-20: 48%).

Parcel volumes grew 32% compared to 2% in the prior year. Account parcel volumes were up 48%, driven by increased e-commerce sales as retail spending moved online following a series of full and phased lockdowns in the UK. Account parcel volumes also include the COVID test kits delivered on behalf of the Government. Royal Mail Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 79%. During the year, we also launched our suite of In-flight Delivery Options, the number one ask from account sending customers.

Parcelforce Worldwide total volumes increased by 16%, due to increased volumes from B2C customers resulting from COVID-19, together with some new business wins.

The international parcels business experienced revenue growth in the year despite challenging trading conditions. Export revenues were higher than the prior year despite a fall in volumes. This was largely due to an increase in prices, driven by cost pressures in overseas delivery and a shortage in airline conveyance capacity, which increased the cost of exporting parcels. Import revenue was also higher despite lower volume due to fewer items from lower average unit revenue countries, in particular China, and exceptional Terminal Dues price rises.

The total parcel revenue increase reflects the impact of the COVID-19 pandemic on mix and volume growth. For account customers, higher average unit revenue (AUR) tracked products grew faster than their untracked equivalents as customers traded up to more premium products. Volumes in Consumer and SME channels also strengthened throughout the year.

Letters

Letter performance saw some recovery in H2 after the significant declines we experienced in H1. Total letter volumes declined by 25% over the year, an improvement compared with the 33% decline seen in H1. Addressed letter volumes excluding election mailings were down 20% for the full year. In addition to ongoing structural decline, letter volume decline has been accelerated by the impact of the pandemic, which has negatively impacted economic activity and ongoing business uncertainty.

The pandemic significantly impacted Advertising Mail and Meter volumes. Advertising Mail revenue of £407 million was down 33.6%, with a more robust performance in the second half as some business activity resumed and price rises in January 2021. Business Mail was also heavily impacted, although less so than Advertising Mail, and similarly had a more robust performance in the second half. Volumes in Consumer and SME channels also strengthened throughout the year.

Total letter revenue decreased by 12.5%.

Revenue and volume profiles, split between first half and second half, are provided below:

	52 weeks March 2021			52 weeks March 2020			Change (%)		
Parcel volumes (m units)	**H1**	**H2**	**Full Year**	H1	H2	Full Year	H1	H2	Full Year
Total Parcels	**806**	**929**	**1,735**	613	699	1,312	31%	33%	32%

	52 weeks March 2021			52 weeks March 2020			Change (%)		
Parcel revenue (£m)	**H1**	**H2**	**Full year**	H1	H2	Full year	H1	H2	Full year
Domestic parcels excl PFW and International export	**1,738**	**2,167**	**3,905**	1,234	1,428	2,662	41%	52%	47%
PFW Domestic & Import	**278**	**311**	**589**	244	260	504	14%	20%	17%
Export Parcels (International and PFW)	**283**	**354**	**637**	248	285	533	14%	24%	20%
Total Parcels	**2,299**	**2,832**	**5,131**	1,726	1,973	3,699	33%	44%	39%

	52 weeks March 2021			52 weeks March 2020			Change (%)		
Letter volumes (m units)	**H1**	**H2**	**Full year**	H1	H2	Full year	H1	H2	Full year
Advertising	**1,349**	**2,133**	**3,482**	2,535	2,618	5,153	(47%)	(19%)	(32%)
Business Mail	**2,010**	**2,232**	**4,242**	2,498	2,556	5,054	(20%)	(13%)	(16%)
Consumer & Small Business	**618**	**874**	**1,492**	788	974	1,762	(22%)	(10%)	(15%)
International Export Letters	**47**	**61**	**108**	57	71	128	(18%)	(14%)	(16%)
International Import Letters	**84**	**93**	**177**	92	107	199	(9%)	(13%)	(11%)
Other	**1**	**9**	**10**	186	168	354	(99%)	(95%)	(97%)
Total Letters	**4,109**	**5,402**	**9,511**	6,156	6,494	12,650	(33%)	(17%)	(25%)

	52 weeks March 2021			52 weeks March 2020			Change (%)		
Letter revenue (£m)	**H1**	**H2**	**Full year**	H1	H2	Full year	H1	H2	Full year
Advertising	**160**	**247**	**407**	306	307	613	(48%)	(20%)	(34%)
Business Mail	**644**	**762**	**1,406**	780	804	1,584	(17%)	(5%)	(11%)
Consumer & Small Business	**474**	**680**	**1,154**	533	653	1,186	(11%)	4%	(3%)
International Export Letters	**77**	**113**	**190**	81	109	190	(5%)	4%	-
International Import Letters	**38**	**45**	**83**	43	50	93	(12%)	(10%)	(11%)
Other	**136**	**142**	**278**	180	175	355	(24%)	(19%)	(22%)
Total Letters	**1,529**	**1,989**	**3,518**	1,923	2,098	4,021	(20%)	(5%)	(13%)

Adjusted operating costs

(£m)	Adjusted 52 weeks March 2021	Adjusted 52 weeks March 2020	Change
People costs	(5,619)	(5,234)	7.4%
People costs excluding voluntary redundancy	(5,510)	(5,206)	5.8%
Voluntary redundancy costs	(109)	(28)	289.3%
Non-people costs	(2,686)	(2,369)	13.4%
Distribution and conveyance costs	(1,054)	(867)	21.6%
Infrastructure costs	(825)	(793)	4.0%
Other operating costs	(807)	(709)	13.8%
Total	(8,305)	(7,603)	9.2%

Total adjusted operating costs increased by 9.2%.

Royal Mail adjusted people costs were 7.4% higher, primarily due to the growth in parcel volumes, higher sick absence and temporary labour costs, the cost of social distancing as a result of the COVID-19 pandemic, and the frontline pay award. Within people costs, we estimate the cost of mix change to be £253 million and costs as a result of the pandemic to be £87 million. Some of these cost pressures were offset through savings initiatives including the management restructure. Transformation costs of £149 million are included in people costs, comprising £40 million of project costs and £109 million of redundancy costs. This includes redundancy costs of £93 million for the management restructure announced in June 2020.

Workload increased by 7.3% as growth in parcel volumes more than offset letter volume decline. Core network hours increased by 5.1% as we invested in our network to cope with increased workload, higher sick absence and social distancing. Average absence levels increased to circa 8.5%. Reported year-on-year productivity improved by 2.1% but has been impacted by changes to the operation to support social distancing as well as heightened absence levels. It is not possible to quantify the impact of these on the productivity measure.

Non-people costs increased by 13.4%, reflecting the impact of higher volumes, the pandemic and inflationary cost pressures. We delivered circa £90 million of non-people cost savings in the year, as part of our two-year non-people cost savings plan. Also within non-people costs, we estimate the cost of mix change to be £74 million (mainly in distribution and conveyance) and the costs associated with the COVID-19 pandemic to be £65 million (mainly the purchase of protective equipment to safeguard our frontline employees and the cost of social distancing in vehicles). We have also faced cost pressures in international conveyance of £69 million, driven by the shortage in airline conveyance capacity as a result of COVID-19.

Distribution and conveyance costs increased by 21.6%, largely driven by higher domestic and international conveyance costs due to volume growth and the impact of the pandemic. Terminal dues were £17 million lower, driven by lower export volumes which were partially offset by contracted rate rises. Total diesel and jet fuel costs increased to £187 million (2019-20: £168 million), mainly as a result of volume-related network growth and inefficiencies driven by the impact of social distancing on our operations. We expect diesel and jet fuel costs to be around £187 million in 2021-22 as these impacts continue.

Infrastructure costs increased by 4.0%. Depreciation and amortisation costs were £19 million higher than the prior year, driven mainly by accelerated depreciation and amortisation following a review of our investment portfolio. Before these adjustments, underlying depreciation was broadly flat. Property costs were £7 million higher, driven largely by one-off costs associated with exiting some of our sites. IT costs were £6 million higher in the year, driven by the growth in tracked parcels volumes.

Other operating costs increased by 13.8%, driven by the purchase of protective equipment to safeguard frontline employees in response to the COVID-19 pandemic (circa £40 million). This year, we have purchased 21.6 million face masks, 47.1 million pairs of gloves, 3.7 million packets of wipes and 3.6 million bottles of hand sanitiser. Post Office Limited costs have increased by £54 million, driven by parcel volume growth. Transformation project costs of £45 million (2019-20: £56 million) are also included in other operating costs.

Adjusted operating profit

Adjusted operating profit was £344 million (2019-20: £117 million). Adjusted operating profit margin of 4.0% was up 250 basis points compared with 2019-20.

Footnotes for Financial Review – Royal Mail section

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

GLS[1]

Reported summary results (£m)

Summary results (£m)	Reported March 2021	Reported March 2020
Revenue	**4,040**	3,161
Operating costs	**(3,682)**	(2,953)
Operating profit before specific items	**358**	208
Operating specific items	**(18)**	(13)
Operating profit	**340**	195
Operating profit margin	**8.4%**	6.2%

GLS revenue grew by £879 million. Operating profit before specific items increased by £150 million. The operating specific items charge of £18 million was largely due to the amortisation of acquired intangible assets. The prior year charge largely related to the amortisation of acquired intangible assets, partially offset by a £5 million provision release. GLS operating profit was £145 million higher than in the prior year.

Adjusted[2] summary trading results (£m)

	Adjusted March 2021	Adjusted March 2020	Change
Revenue	**4,040**	3,161	27.8%
Operating costs	**(3,682)**	(2,953)	24.7%
Operating profit	**358**	208	72.1%
Operating profit margin	**8.9%**	6.6%	*230bps*
(€m)			
Revenue	**4,525**	3,614	25.2%
Operating costs	**(4,124)**	(3,376)	22.2%
Operating profit	**401**	238	68.5%
Volumes (m)	**838**	667	26%

Volumes were up 26% as GLS continued to benefit from increased B2C parcel deliveries as customers ordered more products online during the pandemic. B2C volume share increased by nine percentage points to 57%. GLS domestic and international volumes grew in all markets.

During the year, the impact of foreign exchange movements increased revenue by £81 million and operating costs by £74 million, resulting in an increase in operating profit of £7 million.

Revenue increased by 27.8%. Excluding acquisitions, revenue was up 27.0%, driven by growth in B2C and international volumes, including increased volume as a result of lockdown restrictions across GLS' geographic footprint. Revenue growth was achieved in all markets, with significant growth in those markets with a high pre-existing B2C exposure such as Spain, Eastern Europe and Denmark. GLS' European markets represented 90.8% of total revenue (2019-20: 90.0%), with the North American market contributing 9.2% (2019-20: 10.0%).

Germany

In Germany, the largest GLS market by revenue, turnover grew by 26.4%, driven by a combination of strong domestic and export volume growth and better pricing. Operating profit increased due to the benefit from higher revenues and scale effects in costs which resulted in improved margins.

Italy

GLS Italy revenue grew by 23.4%, driven by higher volumes, but with some pressure on pricing due to a decline in average parcel weights resulting from an increasing proportion of B2C volumes. Operating margin declined slightly due to price pressure, which was not fully compensated by lower unit costs.

Spain

GLS Spain performed well during the year, with revenue growth of 59.6%, driven by strong growth in B2C volumes and yield management activities. Operating profit improved significantly compared with breakeven in the prior year. The turnaround of the GLS Spain business is considered secured.

France

GLS France revenue grew by 23.5%, benefiting from higher volumes, including new customer acquisitions and better pricing. Operating losses were reduced significantly compared with the prior year. The results include some positive effects, particularly during the first half of the year, when GLS France remained fully operational during the initial lockdown period. Initiatives to try and 'lock in' the improvements visible during the year are being pursued.

North America

In the US, reported revenue grew by 36.8%. Excluding the impact of acquisitions and on a constant currency basis revenue growth was 25.2%. Financial performance continued to improve, benefiting from the contribution of the acquired MVE business and synergies from integration. Optimisation of the operational set-up to secure additional synergies and further develop the hybrid parcel/freight offering in the US are planned.

GLS Canada revenue was broadly flat, or an increase of 2.3% on a constant currency basis. GLS Canada, being a more heavily B2B and freight-focused business, was more significantly impacted by the COVID-19 pandemic than the pure parcel operations in most other GLS markets. Nevertheless, operating profit and margin improved compared with the prior year as a result of measures introduced to streamline the cost base in response to the crisis.

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

Revenue growth was achieved in all GLS' other developed European markets. In particular, there was good volume and revenue growth in Denmark and the Netherlands.

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

Other developing markets, where GLS has a high exposure to B2C, continued to grow strongly with overall revenue growth of 36.8% in the year.

Adjusted operating costs (£m)

(£m)	Adjusted March 2021	Adjusted March 2020	Change
People costs	**(851)**	(722)	17.9%
Non-people costs	**(2,831)**	(2,231)	26.9%
Distribution and conveyance costs	**(2,480)**	(1,960)	26.5%
Infrastructure costs	**(249)**	(198)	25.8%
Other operating costs	**(102)**	(73)	39.7%
Total	**(3,682)**	(2,953)	24.7%

Total adjusted operating costs increased by 24.7%, or 24.0% excluding acquisitions.

People costs increased by 17.9%, or 16.5% excluding acquisitions.

Non-people costs increased by 26.9%, or 26.4% excluding acquisitions. Distribution and conveyance costs grew broadly in line with volume, increasing by 26.5%. Infrastructure and other operating costs increased by 25.8% and 39.7% respectively, due to higher depreciation, increased repairs and maintenance costs, and costs for protective equipment.

Adjusted operating profit

Adjusted operating profit was £358 million, with favourable foreign exchange movements contributing £7 million. Adjusted operating profit margin of 8.9% was 230 basis points higher than the prior year.

Footnotes for Financial Review – GLS section

1. Both the reported and the adjusted results for the full year 2020-21 include 12 months of contribution from the acquisition of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses on 30 September 2019. The prior year includes only six months' contribution.
2. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the section entitled 'Specific items and pension charge to cash difference adjustment'.

Presentation of results and Alternative Performance Measures (APMs)

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

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

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

Reported to adjusted results

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

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operational performance of the Group. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after tax for the five years ended 28 March 2021 was £1,487 million compared with cumulative adjusted profit after tax of £1,914 million. Annual reported profit after tax showed a range of £161 million to £620 million. The principal cause of the difference and volatility is pension-related accounting.

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

Presentation of results

Consolidated reported and adjusted results

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

Group (£m)	Reported	Specific items and pension adjustment[1]	Adjusted	Reported	Specific items and pension adjustment[1]	Adjusted
			52 weeks March 2021			52 weeks March 2020
Revenue	12,638	-	12,638	10,840	-	10,840
Operating costs	(12,020)	(84)	(11,936)	(10,623)	(108)	(10,515)
People costs	(6,554)	(84)	(6,470)	(6,064)	(108)	(5,956)
People costs	(6,445)	(84)	(6,361)	(6,036)	(108)	(5,928)
Voluntary redundancy	(109)	-	(109)	(28)	-	(28)
Non-people costs	(5,466)	-	(5,466)	(4,559)	-	(4,559)
Distribution and conveyance costs	(3,483)	-	(3,483)	(2,786)	-	(2,786)
Infrastructure costs	(1,074)	-	(1,074)	(991)	-	(991)
Other operating costs	(909)	-	(909)	(782)	-	(782)
Operating profit before specific items	618	(84)	702	217	(108)	325
Operating specific items:						
Regulatory fine	(1)	(1)	-	(51)	(51)	-
Legacy / other items and impairments	13	13	-	(92)	(92)	-
Amortisation of intangible assets in acquisitions	(19)	(19)	-	(19)	(19)	-
Operating profit	611	(91)	702	55	(270)	325
Non-operating specific items:						
Profit on disposal of property, plant and equipment	36	36	-	89	89	-
Profit before interest and tax	647	(55)	702	144	(181)	325
Finance costs	(55)	-	(55)	(56)	-	(56)
Finance income	17	-	17	6	-	6

Net pension interest (non-operating specific item)	117	117	-	86	86	-
Profit before tax	726	62	664	180	(95)	275
Tax charge	(106)	37	(143)	(19)	60	(79)
Profit for the year	620	99	521	161	(35)	196
Earnings per share						
Basic	62.0p	9.9p	52.1p	16.1p	(3.5p)	19.6p
Diluted	61.8p	9.9p	51.9p	16.1p	(3.5p)	19.6p

Segmental reported results

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

				52 weeks March 2021				52 weeks March 2020
(£m)	Royal Mail	GLS	Intragroup eliminations	Group	Royal Mail	GLS	Intragroup eliminations	Group
Revenue	8,649	4,040	(51)	12,638	7,720	3,161	(41)	10,840
People costs	(5,703)	(851)	-	(6,554)	(5,342)	(722)	-	(6,064)
Non-people costs	(2,686)	(2,831)	51	(5,466)	(2,369)	(2,231)	41	(4,559)
Operating profit before specific items	260	358	-	618	9	208	-	217
Operating specific items[1]	11	(18)	-	(7)	(149)	(13)	-	(162)
Operating profit	271	340	-	611	(140)	195	-	55
Non-operating specific items[1]	38	(2)	-	36	88	1	-	89
Earnings / loss before interest and	309	338	-	647	(52)	196	-	144
Net finance costs	(28)	(10)	-	(38)	(34)	(16)	-	(50)
Net pension interest (non-operating specific item)	117	-	-	117	86	-	-	86
Profit before tax	398	328	-	726	-	180	-	180
Tax (charge) / credit	(30)	(76)	-	(106)	31	(50)	-	(19)
Profit for the year	368	252	-	620	31	130	-	161

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

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

Alternative Performance Measures (APMs)

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

Adjusted operating profit

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

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

Adjusted operating profit margin

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

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

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

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

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

(£m)	52 weeks March 2021	52 weeks March 2020
Reported operating profit before specific items	618	217
Depreciation and amortisation	554	516
EBITDA	1,172	733
Pension charge to cash difference adjustment	84	108
Adjusted EBITDA	1,256	841

Adjusted earnings per share

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

People costs

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

Pension charge to cash difference adjustment

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

For the DBCBS this represents the difference between the IAS 19 income statement pension charge rate of 19.5% (2019-20: 20.8%) and the actual cash payments of 15.6%.

Operating specific items

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

Regulatory fine

In light of the Competition Appeal Tribunal judgment of 12 November 2019, a provision was made in 2019-20 for a fine of £50 million and associated interest. In January 2020, Royal Mail requested permission to appeal the Competition Appeal Tribunal's judgment to the Court of Appeal (CoA) in respect of the Ofcom fine. On 30 March 2020, the CoA granted Royal Mail permission, and the hearing took place on 20-21 April 2021 and on 7 May 2021, the CoA dismissed the appeal. Royal Mail is considering its options, including an appeal to the Supreme Court. Please see the Principal Risks and Uncertainties section below for further details.

Employee Free Shares charge

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

Amortisation of intangible assets in acquisitions

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

Legacy/other items and impairments

These costs/credits relate either to unavoidable ongoing costs arising from historic events (such as the industrial diseases provision) or historic provisions not utilised. They also include any adjustments arising from asset impairment.

Non-operating specific items

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

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

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

Free cash flow

Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base. Free cash flow is also shown on a pre-IFRS 16 basis as it is used to support dividend cover analysis, taking into account all cashflows related to the operating businesses.

The following table reconciles free cash flow to the nearest IFRS measure 'net cash inflow before financing activities'.

(£m)	**Reported 52 weeks**	Reported 52 weeks

	March 2021	March 2020
Net cash inflow before financing activities	887	676
Adjustments for:		
Finance costs paid	(57)	(53)
(Sale)/purchase of financial asset investments	(30)	30
Free cash flow	800	653
Capital element of operating lease repayments	(156)	(141)
Pre-IFRS 16 free cash flow	644	512

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments. Other working capital movements include movements in GLS client cash held and in deferred revenue from stamps purchased in prior years. In-year trading cash flow is used primarily by Management to show cash being generated by operations less cash investment. In-year trading cash flow is also shown on a pre-IFRS 16 basis as it is used to support dividend cover analysis, taking into account all cashflows related to the operating businesses.

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

(£m)	Reported 52 weeks March 2021	Reported 52 weeks March 2020
Net cash inflow from operating activities	1,173	950
Adjustments for:		
Other working capital movements	(28)	(7)
Cash cost of operating specific items	4	2
Purchase of property, plant and equipment	(289)	(265)
Purchase of intangible assets	(57)	(77)
Net finance costs paid	(41)	(47)
In-year trading cash flow	762	556
Capital element of operating lease repayments	(156)	(141)
Pre-IFRS 16 in-year trading cash flow	606	415

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. It is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Details of the borrowing facilities in place and the amounts drawn can be found in the section titled 'Net finance costs'. Net debt is also shown on a pre-IFRS 16 basis as the banking covenants are calculated on a pre-IFRS 16 basis.

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

(£m)	At 28 March 2021	At 29 March 2020
Loans/bonds	(895)	(1,635)

Leases	**(1,156)**	(1,188)
Cash and cash equivalents	**1,532**	1,619
Investments	**-**	30
Client cash	**41**	21
Pension escrow (RMSEPP)	**21**	21
Net debt	**(457)**	(1,132)
Operating leases	**1,079**	1,086
Pre-IFRS 16 net cash / (debt)	**622**	(46)

Loans and bonds decreased by £740 million largely as a result of the repayment in June 2020 of £700 million drawn on the bank syndicate loan facility in March 2020, and £40 million favourable exchange rate movements on the value of bonds.

Cash and cash equivalents (including Investments) decreased by £117 million largely as a result of the repayment of the bank syndicate loan facility drawdown of £700 million offset by increased free cash inflow of £800 million (2019-20: £653 million inflow). No dividends were paid in 2020-21 (2019-20: £244 million).

Net debt excludes £191 million (2019-20: £180 million) related to the RMPP pension scheme of the total £212 million (2019-20: £201 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

Adjusted effective tax rate

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

PRINCIPAL RISKS AND UNCERTAINTIES

Detailed below are the principal risks we consider could threaten our business model, the execution of our strategy, and the preservation and creation of sustainable value for shareholders and other stakeholders. How we mitigate these risks is also explained below. These risks are ordered on a net risk basis which takes into account the magnitude of potential impact and the probability of occurrence.

Risk	Status	Actions to mitigate
1. Efficiency Royal Mail must become more efficient and flexible to compete effectively in the parcel and letter markets. The success of our strategy relies on the effective control of costs and delivery of efficiency and productivity benefits across all areas of the business. Failure to effectively control costs while at the same time delivering	We are working with CWU at a senior level on the implementation of the Pathway to Change Agreement and the operational change programme to drive productivity. While our network provides strong economics, particularly in the combined delivery of letters and small parcels, it is not currently optimised for the increased demand for later acceptance times and larger parcels.	We have a number of initiatives in place to drive efficiency benefits across our business including: – Transforming our business from a UK-focused letters business that delivers parcels to a parcels-led more balanced and diverse international business. Letters will remain an important part of the business. – Embedding a range of digitally enabled work tools to improve efficiency and productivity, including

high-quality services could result in a loss of customers, market share and revenue.	Our UK costs are increasing as we continue to make necessary investment in quality measures and protective equipment for our people. This makes it even more important that we increase our efficiency. The continuation of tighter COVID-19 restrictions, including changing standard ways of working to allow social distancing, has added costs and has impacted our processing and delivery operations. These arrangements may continue for some time. In turn, they may have an adverse impact on cost control and productivity. High severity, Stable, Fast speed	the deployment of our route optimisation tool which has improved visibility of changes to delivery routes. – Building dedicated parcel hubs in the UK and the ongoing roll-out of our automated parcel sorting machines into the rest of the estate with additional machines being installed. – Simplifying products and services. Our improved working relationship with the CWU will allow us to move faster and make changes that will deliver the benefits associated with the Pathway to Change Agreement.
2. Economic and political environment Macro-economic conditions (including Brexit and COVID-19) and/or the political environment across all our markets may adversely affect the Group's ability to maintain and grow revenue by reducing volumes or driving customers to adopt cheaper products or formats for sending letters and parcels.	The Board continues to monitor the economic, political and wider external environment in the UK and our other markets. Particular areas of focus include: – Economic downturn as a result of the pandemic and business sentiment, including e-substitution, which has negatively impacted letter volumes. – Parcel volumes, which to some extent are also impacted by economic conditions. Whilst any negative impact has been more than offset by the substantial increase in e-commerce across our markets for this financial year, and the significant shift towards B2C volumes in GLS, macro-economic and political issues continue to be challenging.	We have a multitude of mitigations across our business which include: – Embedded macro-economic risk assessments within our letters forecasting processes. – Regular review and update of a set of economic scenarios that have been constructed to inform a range of medium and long-term economic outcomes. – Maintaining a strong liquidity position, with good levels of cash and limited financial debt. – Implementing a rigorous cost programme to effectively manage cash and spending, including a management restructure and a

	During the year, there was a sharp economic downturn in our core markets. As in the UK, economic growth in the Eurozone slowed down sharply in the short term. The extent to which these trends will be sustained depends on underlying structural changes in consumer behaviour, and the evolution of the response to the pandemic in each country. The medium-term outlook, including the impact of COVID-19 and Brexit is highly uncertain. Governments are likely to raise taxes to pay for the economic impact that COVID-19 has had, which could increase our costs or impact revenue and volumes due to reduced consumer spending. High severity, Stable, Fast speed	detailed review of all non-people expenditure. – Accelerating the pace of change in the UK to deliver the requisite efficiency benefits and address changing needs due to the significant rise in parcel volumes. – Introducing new arrangements to ensure the movement of cross-border parcels. – Ongoing monitoring of political and policy changes and regular engagement with politicians and policy makers.
3. Major breach of information security, data protection regulation and/or cyber-attack Due to the nature of our business, we collect, process and store confidential business and personal information (including sensitive personal information). As a result, we are subject to a range of laws, regulations and contractual obligations around the governance and protection of various classes of data to protect our customers, employees, shareholders and suppliers. In common with all major organisations, we are the potential target of cyber-attacks that could	Given the evolving nature, sophistication and prevalence of these threats, including those presented by the current COVID-19 pandemic and increasing reliance on technology and data for operational and strategic purposes, this continues to be a principal risk. We also recognise that in a business with more than 160,000 people and large quantities of documentation, there is a prospect of human error in the protection of data. High severity, Stable, Fast speed	We are: - Continuing to invest in ensuring cyber resilience, enhancing our capabilities to integrate cybercontrols into our operational processes to protect our assets. - Continuing to communicate to our workforce and stress the importance of maintaining vigilance across the business, in relation to both cyber security and data privacy. We run regular and active campaigns reminding people of the correct behaviours and how to respond to threats such as phishing and, given the increase in home working during the pandemic, we have also heightened training and awareness to help our people work more securely from home.

threaten the confidentiality, integrity and availability of data and trigger material service and/or operational interruption. Also, a major breach of information security, data protection laws, regulations and/or cyber-attack could adversely impact our reputation, result in financial loss, regulatory action, business disruption and loss of stakeholder confidence.		– Encouraging an open and prompt culture of reporting so that if a mistake does happen, it is reported quickly, and the business can take the appropriate remedial action.
4. Customer expectations and our responsiveness to market changes Changes in customer needs, expectations and structural trends in our markets could impact the demand for our products and services. The acceleration of structural changes to the markets in which we operate over the last year (notably the shift to e-commerce and e-substitution) makes it essential that we evolve our business model and strategy to meet customer needs now and in the future and adapt to harness growth trends. Our success at growing new areas of business is dependent on identifying profitable and sustainable areas of growth and having in place appropriate structures to support transformation.	There has been a paradigm shift in online retail activity during the past year with a sharp increase in parcel volumes, at the same time as an initial sharp decline in addressed letter volumes (excluding elections). Advertising mail has recovered more rapidly following the initial hit to volumes. While business mail volumes were more resilient to the initial economic slump, they are taking longer to recover. Stamp traffic has performed well as social distancing boosted the use of greeting cards, and e-retail growth has driven volumes of large letters in fulfilment mail. Parcel volumes have been comparable to peak season continuously since March 2020, with Christmas itself being by far the biggest ever in terms of online shopping. International parcel volumes grew in the first half of the year but declined in the second half broadly as expected.	We have a number of programmes and initiatives across the business focused on customer expectations and our responsiveness to market changes, including: – Implementing changes to the way we operate both to protect the health and safety of our employees and customers during the COVID-19 pandemic and in response to changes in customer demand by delivering customer-facing enhancements, feature developments and digital access. – Continuing to implement productivity improvements and customer-focused enhancements in order to build on our trusted position in the community, meet customer needs, remain competitive and generate long-term growth to consolidate our position as the UK's premier parcel carrier. – Deploying a range of appropriate incentives to encourage customers to reconnect with using mail. – Delivering our Accelerate GLS strategy.

	B2C will remain a major area of growth going forward for GLS whilst continuing to serve our B2B customer base. High severity, Stable, Medium speed	– Growing new areas of business through innovation and expanding service offerings.
5. Competition Act investigation On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the UK by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million. In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision.	The Group robustly defended its conduct in written and oral representations made to Ofcom during the investigation and lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. This appeal was heard in June and July 2019 and in November 2019 the CAT upheld Ofcom's decision and the £50 million fine. As a result, Royal Mail has made a provision for the fine plus interest, which is now payable to Ofcom. In January 2020, Royal Mail requested permission to appeal the CAT's judgment to the Court of Appeal (CoA). This permission was granted on 30 March 2020, a hearing was held in April 2021 and on 7 May 2021 the CoA dismissed our appeal. We are disappointed by the CoA's judgment and are considering our options, including an appeal to the Supreme Court. High severity, Stable, Slow speed	Whistl's High Court claim is on hold until after the completion of the appeal process. We have in place policies, training and guidance around our obligations in addition to a team of competition lawyers advising on such matters.
6. Industrial action There is extensive trade union recognition across our UK workforce, with strong and active trade unions.	On 3 February 2021 the CWU voted in favour of the 2020 Pathway to Change Agreement which established a basis for an improved Royal Mail and CWU relationship and the operational change programme to drive productivity.	We are: – Continuing to engage with the CWU at a senior level, on the implementation of the Pathway to Change Agreement.

One or more material disagreements or disputes could result in widespread localised or national industrial action. This would cause material disruption to our UK business and likely result in an immediate and potentially ongoing significant loss of Group revenue. 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 and loss of customers.	Our 2020 management restructuring programme has put pressure on the relationship with Unite/CMA whose core membership are the frontline managers tasked with delivering the business transformation goals that form part of the Pathway to Change Agreement. Medium severity, Decreasing risk, Fast speed	– Continuing to engage with Unite/CMA to rebuild relationships following the conclusion of the management restructuring programme. – Continuing to build trust with our employees and to support them in the delivery of the business goals.
7. Capability – talent and strategic workforce planning Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise. The capability, experience and cohesion of senior management are integral to our transformation. Workforce planning could be adversely impacted by an ageing workforce, and a reduction in available workforce due to the impacts of demographic change, Brexit and increasing automation. In addition, we believe that good trust and engagement levels between all employees across the organisation are key foundations to deliver the business strategy – if they are not in place then it risks the successful performance of the business.	The transformation of our UK business, together with the shift in mail mix/profile as a result of COVID-19, will change the nature of some roles, requiring new and different skills. We need to be able to upskill and develop our existing workforce. We also need to attract and retain people with the right skills, capabilities and behaviours for our organisation. Trust and engagement levels across the business are currently not as high as we would like, and this is an urgent area of focus for us. Medium severity, Stable, Medium speed	Talent and strategic workforce planning is a key part of our overall focus as a Company and is addressed in multiple ways, including: – Undertaking regular senior management talent reviews and succession planning processes. – Introducing leadership development programmes to support the transformation agenda and specific initiatives and targets to accelerate diversity across our teams. – Proper and effective application of performance management. – Recruiting external hires with key skills where required. – Maintaining and implementing a workforce plan that is aligned with the strategy and emerging commercial outlook.

		– Monitoring and benchmarking the demographic profile of our workforce. – Undertaking regular trust and engagement surveys to identify areas to be addressed and take decisive actions to resolve.
8. Our UK regulatory framework The continuing structural decline in addressed letter volumes, and broader changes in the parcels market poses significant risks to the financial sustainability of the Universal Service Obligation. There is a further risk that Ofcom changes the current regulatory framework in a way which impacts our customer strategy or is commercially disadvantageous to Royal Mail.	Ofcom is undertaking a review of postal regulation. It published its User Needs Review in November 2020 and then issued a 'Call for Inputs' in March 2021. Ofcom plans to consult in Q3 2021-22 and introduce a new regulatory framework in 2022. Ofcom believe the current approach has worked well to date but in this period of significant change in postal markets, it is considering whether the regulatory framework remains fit for purpose or whether any changes are needed. It is considering financial sustainability and efficiency, letters and the universal service, the parcels market including consumer protections and its approach to Access and bulk mail, including whether the current scope of Access regulation remains appropriate or should be changed. Royal Mail's performance will be an important factor in the regulatory review. Medium severity, Increasing risk, Medium speed	We have a number of activities focusing on the future of the Universal Service Obligation, including: – Working with Ofcom, Government and the unions more broadly to ensure that the business is financially underpinned in a sustainable way, and future-proofed to reflect changing customer needs and preferences. – Engaging fully with Ofcom and other stakeholders during its review of postal regulation. We will submit a detailed, evidence-based submission in response to Ofcom's 'Call for Inputs'. This will set out clearly that we need a flexible regulatory framework that provides commercial flexibility, enabling Royal Mail to innovate and grow. Further, there is no need for Access regulation to be widened to include parcels. The parcels market in the UK is highly competitive and working well. – Developing a plan as part of our UK transformation to underpin the sustainability of the Universal Service Obligation. This will help us become even more efficient and better placed to respond to changing customer demands. – Executing a stretching self-help programme that involves significant investment in the Universal Service

		when our finances are under challenge.
9. Environmental and sustainability As our customers and stakeholders seek to adapt to climate change, demand is increasing for more sustainable products and services. The cost of operations could increase as a result of actions to mitigate and adapt to climate change, and/or regulatory changes, such as the introduction of Clean Air Zones, the future ban of petrol and diesel vehicles, and net zero emission and air quality targets for towns and cities. An increase in the frequency of extreme weather events may result in disruption to our operations and impact our ability to meet customer expectations, the Universal Service Obligation or other contractual requirements. We may also see price rises as a result of resource scarcity such as water shortages, increased insurance premiums and required investment to protect the business from extreme weather events and any associated repairs. We may also see price rises as a result of resource scarcity, such as water shortages, increased insurance premiums and required investment to protect the business from extreme weather events and any associated repairs. In common with all major organisations, there could also be a risk of reputational damage and/or loss in revenue if we do not meet stakeholder and customer expectations for action on	We recognise our responsibility to reduce our environmental impacts and consume fewer non-renewable resources. We have a requirement to maintain a large fleet of vehicles across Royal Mail and GLS. Growth in parcels is also driving up our energy demand. Medium severity, Increasing risk, Slow speed	We have clear market strategies and business plans to address risks and opportunities relating to the environment and sustainability, including: – Executing our environmental strategy which is targeting net zero by 2050 for our UK operations. – Continuing to invest and implement changes to improve the efficiency of our operations through zero and low-emission vehicles and the installation of efficient equipment across our property estate to reduce missions and improve air quality. – Investing in innovative technologies, such as telemetry, and driver training programmes, to reduce the amount of fuel we use and optimising our transport network, to ensure that it is as efficient as possible. – Strengthening the sustainability footprint in GLS with carbon-neutral delivery, roll-out of EcoHubs with renewable energy generation and implementation of sustainable solutions. – Engaging our people in our efforts to become more efficient and reduce our use of natural resources. – Reducing our energy and water consumption and reducing the amount of waste we generate.

environmental matters and climate change.		
10. Business continuity and crisis management We may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Group, its customers and its supply chain. This could also impact on the ability of Royal Mail to meet its Universal Service Obligations.	Since the onset of the COVID-19 pandemic, Governments worldwide have imposed restrictions on the movement of people and imposed necessary measures which have had, and continue to have, a significant effect on our UK and International businesses. The pandemic has been a robust test of our business continuity arrangements. Royal Mail has a responsibility to provide sustained and continued postal services under the Universal Service. Ofcom has acknowledged the impact of COVID-19 and recognised the pandemic as an emergency situation since March 2020, which has allowed some temporary relaxation of Universal Service requirements. Royal Mail staff are recognised by Government as key workers, essential to keeping the country connected during this time. Our priority continues to be the protection of our people, our society and our customers, whilst keeping mail and parcels moving. Medium severity, Stable, Fast speed	We have a number of mitigations across the Group, which include: – Maintaining a comprehensive business continuity and crisis management response across the Group and at a functional level. – Established response teams comprising of Executive Director and senior management leadership, who report regularly to the Board. In relation to COVID-19, we are: – Continuing to engage closely with the Government, public health authorities, Ofcom, and customers to implement necessary changes in response to Government, Public Health England (PHE) and World Health Organisation (WHO) advice. – Cascading regular communications to all employees to keep them informed of current developments. – Continuing with ongoing dialogue with key stakeholders and suppliers. – Continuing to respond by adapting operational processes and procedures to minimise disruption whilst keeping our people and customers safe.
11. Health, safety and wellbeing A health and safety incident or global health crisis could result in the serious	The health, safety and wellbeing of our people, customers and members	We have a number of programmes and initiatives across the Group to address this risk, which include:

injury, ill health or death of our people or members of the public. An incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and/or reputational damage. With significant and increasing numbers of subcontractors utilised across the business, there is a heightened exposure to health and safety incidents. Similarly, failure to manage the health and wellbeing of our people could also lead to reputational damage, loss of employee goodwill and financial losses through increased sickness absence, lower productivity, and failure to deliver the Universal Service Obligation, civil action or criminal prosecution.	of the public is of paramount importance. 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 people spend most of their time working outdoors, on foot or driving, where the environment is unpredictable and more difficult to control. Due to this wide reach and the number of people affected by the business' undertakings, the risk of serious harm to people cannot be totally mitigated. We acknowledge that every health and safety incident has a human impact. The COVID-19 pandemic continues to pose an increased risk to public health. The effectiveness of the controls and processes we operate to protect our workforce, who are key workers, is critically important. Low severity, Stable, Fast speed	– Providing appropriate policies, procedures, systems and tools, supported by training programmes, to engage our people in safety improvement. – Implementing a programme to manage and monitor our risks and ensure compliance with laws and regulations. – Continuing to streamline and simplify the various health and safety systems in place to enhance their effectiveness. – Monitoring compliance via an annual integrated audit programme. A professional and independent team also provides advice, support and guidance on the implementation of standards. – Providing a Group-wide annual risk update to all employees which is based on the outputs of a detailed risk assessment highlighting areas for improvement. – Operating extensive employee health and wellbeing programmes. We also enhanced our sick pay provision and updated our operating procedures in line with PHE and WHO instructions and guidance to limit contact between colleagues and customers during the pandemic. These arrangements have been communicated to employees through

		a dedicated, comprehensive multi-media communications campaign.
12. Pension arrangements 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.	We recognise that pension benefits are important. We will continue to provide sustainable and affordable pensions arrangements for our people. 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 Pension Schemes Bill, of which CDC is a part, received Royal Assent in February 2021 and CDC schemes are now allowed by law. However, detailed secondary legislation and tax changes will have to be introduced by Government before our scheme can be established, and it will also require authorisation from The Pensions Regulator before it can begin accepting contributions. Low severity, Stable, Medium speed	We have a dedicated team working to establish the CDC pension scheme. We continue to work with the CWU and Government to introduce the necessary legislative and regulatory changes so that we can introduce our proposed CDC pension scheme as soon as possible.

VIABILITY STATEMENT

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

Assessment of viability

While the Directors have no reason to believe that the Group will not be viable over the longer term, they consider the three financial years to March 2024 (the Viability Period) to be an appropriate planning time horizon to assess the Group's viability and to determine the probability and impact of our principal risks. This time period matches our business planning cycle.

Process, key factors and assumptions

The Group's viability is assessed as part of our regular strategy and budget reviews, financial forecasting and ongoing risk management.

The key factors affecting the Directors' viability assessment included:
– Marketplace trends and dynamics.
– The Royal Mail and GLS strategies to deliver long-term sustainable growth.
– The Group's principal risks and the robust measures in place to mitigate those risks.

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

– A rebound in GDP growth of 9% in 2021-22 following the gradual lifting of lockdown restrictions and no further lockdowns announced in 2021-22.

– Modest growth in letter revenues following the significant decline in 2020-21 as advertising and business mail recovers.
– Our ability to strengthen GLS' top position in the cross-border deferred parcel segment, strongly position the business in the 2C parcel market while continuing to secure its leading position in the 2B segment.
– People costs reflect an extensive set of operational initiatives with a phased implementation.
– Flat parcel growth as lockdown restrictions are relaxed.
– COVID-19 related one-off charges of circa £120 million are included within the plan.

Scenario modelling

The key assumptions within the projections were stress tested by modelling the severe but plausible downside scenarios detailed below and taking into account those of the Group's principal risks that could have a financial impact over the Viability Period. The scenarios were evaluated in aggregate and were tested to determine whether the Group would be able to sustain its operations over the Viability Period.

The scenarios took into account the levels of committed capital and expenditure. Consideration was also given to the large fixed cost base required to deliver the Universal Service Obligation in its current form. The Group has a €500m bond that matures in July 2024, which is outside of the three-year viability assessment period. It is assumed in the modelling for viability assessment purposes that this would be refinanced. In the very unlikely event that this is not possible, then other options could be considered to ensure this obligation is met, including using capital generated through the business plan period, reducing investment, or reviewing dividend payments.

The scenarios also took into account the actions currently undertaken by the Group to manage and mitigate its principal risks. A number of short-term cost and cash saving actions available to the Group were also considered including:
– Reducing variable hours and cost of sales in response to lower revenue.
– Reducing discretionary pay.
– Reducing one-off projects.

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

Scenarios	Principal risks
Deteriorating economic and market conditions which could result in letters volume decline greater than the projected range.	Economic and political environment Customer expectations and our responsiveness to market changes Business continuity and crisis management
Potential impact of lower international and cross-border volume partly related to Brexit.	Economic and political environment
Increased competition in the UK parcels sector including changes in consumer expectations and/or market disruption.	Customer expectations and our responsiveness to market changes
Potential impact of industrial action or incurring costs to avoid it.	Industrial action Efficiency

	Customer expectations and our responsiveness to market changes
Delays in relation to the Royal Mail transformation plan.	Efficiency
Review of the regulatory framework is expected to be concluded in 2022. There is a risk that changes may impact our customer strategy or are commercially disadvantageous to Royal Mail.	Our UK regulatory framework

Going Concern Statement

The consolidated Financial Statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial Review. The Board reviewed the Group's projections for the next 12 months and after due consideration, considered it appropriate to continue to adopt the going concern basis of accounting.

Viability Statement

Based on the results of their analysis, including a number of severe but plausible scenarios assessed in aggregate, the Directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn or undrawn facility over the three financial years to March 2024.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

For the 52 weeks ended 28 March 2021 and 52 weeks ended 29 March 2020

	Notes	Reported 52 weeks 2021 £m	Reported 52 weeks 2020 £m
Continuing operations			
Revenue		**12,638**	10,840
Operating costs[1]		**(12,020)**	(10,623)
People costs		(6,554)	(6,064)
Distribution and conveyance costs		(3,483)	(2,786)
Infrastructure costs		(1,074)	(991)
Other operating costs		(909)	(782)
Operating profit before specific items[2]		**618**	217
Operating specific items			
Regulatory fine	8	**(1)**	(51)
Legacy/other items and impairments		**13**	(92)
Amortisation of intangible assets in acquisitions		**(19)**	(19)
Operating profit		**611**	55
Profit on disposal of property, plant and equipment (non-operating specific item)[2]		**36**	89
Profit before interest and tax		**647**	144
Finance costs		**(55)**	(56)
Finance income		**17**	6
Net pension interest (non-operating specific item)[2]	6	**117**	86
Profit before tax		**726**	180
Tax charge	3	**(106)**	(19)
Profit for the year		**620**	161
Earnings per share			
Basic	4	**62.0p**	16.1p
Diluted	4	**61.8p**	16.1p

1 Operating costs are stated before operating specific items which Include: the regulatory fine, legacy/other Items, impairments and amortisation of intangible assets in acquisitions.

2 For further details on Alternative Performance Measures (APMs) used, see the Financial Review.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 28 March 2021 and 52 weeks ended 29 March 2020

	Notes	Reported 52 weeks 2021 £m	Reported 52 weeks 2020 £m
Profit for the year		**620**	161
Other comprehensive (expense)/income for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**(1,448)**	1,122
Withholding tax receivable/(payable) on distribution of RMPP and RMSEPP surplus	6	660	(648)
Remeasurement (losses)/gains of the defined benefit surplus in RMPP and RMSEPP	6(c)	(1,998)	1,773
Remeasurement losses of the defined benefit deficit in DBCBS	6(d)	(136)	(3)
Deferred tax associated with DBCBS	3	26	–
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**(23)**	3
Exchange differences on translation of foreign operations (GLS)		(45)	20
Net gain/(loss) on hedge of a net investment (€500 million bond)		20	(15)
Net gain/(loss) on hedge of a net investment (Euro-denominated lease payables)		2	(2)
Designated cash flow hedges		**30**	(49)
Gains/(losses) on cash flow hedges deferred into equity		11	(46)
Losses/(gains) on cash flow hedges released from equity to income		23	(1)
Loss on cross-currency swap cash flow hedge deferred into equity		(2)	(21)
Loss on cross-currency swap cash flow hedge released from equity to income – interest payable		8	3
(Loss)/gain on cost of hedging deferred into equity		(2)	6
Gain on cost of hedging released from equity to income – interest payable		(1)	(1)
Tax on above items	3	(7)	11
Total other comprehensive (expense)/income for the year		**(1,441)**	1,076
Total comprehensive (expense)/income for the year		**(821)**	1,237

Consolidated Balance Sheet

At 28 March 2021 and 29 March 2020

	Notes	Reported at 28 March 2021 £m	Reported at 29 March 2020 £m
Non-current assets			
Property, plant and equipment		3,007	3,120
Goodwill		378	390
Intangible assets		468	558
Investments in associates		5	5
Financial assets			
Pension escrow investments		212	201
Derivatives		5	–
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	6	2,389	3,614
Other receivables		100	12
Deferred tax assets	3	153	110
		6,717	8,010
Assets held for sale		26	25
Current assets			
Inventories		18	19
Trade and other receivables		1,640	1,282
Income tax receivable		9	6
Financial assets			
Investments		–	30
Derivatives		2	5
Cash and cash equivalents		1,573	1,640
		3,242	2,982
Total assets		9,985	11,017
Current liabilities			
Trade and other payables		(2,377)	(2,041)
Financial liabilities			
Interest-bearing loans and borrowings		–	(700)
Lease liabilities	7	(197)	(201)
Derivatives		(12)	(35)
Income tax payable		(15)	(5)
Provisions	8	(124)	(113)
		(2,725)	(3,095)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		(895)	(935)
Lease liabilities	7	(959)	(987)

	Notes	Reported at 28 March 2021 £m	Reported at 29 March 2020 £m
Derivatives		**(36)**	(32)
DBCBS retirement benefit deficit	6	**(394)**	(177)
Provisions	8	**(105)**	(112)
Other payables		**(18)**	(4)
Deferred tax liabilities	3	**(48)**	(54)
		(2,455)	(2,301)
Total liabilities		**(5,180)**	(5,396)
Net assets		**4,805**	5,621
Equity			
Share capital		**10**	10
Retained earnings		**4,802**	5,625
Other reserves		**(7)**	(14)
Total equity		**4,805**	5,621

The Financial Statements were approved and authorised for issue by the Board of Directors on 19 May 2021 and were signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

For the 52 weeks ended 28 March 2021 and 52 weeks ended 29 March 2020

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 31 March 2019	10	4,576	27	6	4,619
IFRS 16 transition adjustment	–	1	–	–	1
Reported at 1 April 2019 on transition to IFRS 16	10	4,577	27	6	4,620
Profit for the year	–	161	–	–	161
Other comprehensive income/(expense) for the year	–	1,122	3	(49)	1,076
Total comprehensive income/(expense) for the year	–	1,283	3	(49)	1,237
Transactions with owners of the Company, recognised directly in equity					
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	–	–	–	(1)	(1)
Dividend paid to equity holders of the Parent Company	–	(244)	–	–	(244)
Share-based payments					
Employee Free Shares issue	–	7	–	–	7
Long-Term Incentive Plan (LTIP)	–	2	–	–	2
Deferred Share Bonus Plan (DSBP)	–	2	–	–	2
Purchase of own shares[1]	–	(3)	–	–	(3)
Deferred tax on share-based payments	–	1	–	–	1
Reported at 29 March 2020	**10**	**5,625**	**30**	**(44)**	**5,621**
Profit for the year	**–**	**620**	**–**	**–**	**620**
Other comprehensive (expense)/income for the year	**–**	**(1,448)**	**(23)**	**30**	**(1,441)**
Total comprehensive (expense)/income for the year	**–**	**(828)**	**(23)**	**30**	**(821)**
Transactions with owners of the Company, recognised directly in equity					
Share-based payments					
Employee Free Shares issue	**–**	**1**	**–**	**–**	**1**
Long-Term Incentive Plan (LTIP)	**–**	**1**	**–**	**–**	**1**
Deferred Share Bonus Plan (DSBP)	**–**	**3**	**–**	**–**	**3**
Deferred tax on share-based payments	**–**	**1**	**–**	**–**	**1**
Settlement of DSBP	**–**	**(1)**	**–**	**–**	**(1)**
Reported at 28 March 2021	**10**	**4,802**	**7**	**(14)**	**4,805**

1 Shares required for employee share schemes.

Consolidated Statement of Cash Flows

For the 52 weeks ended 28 March 2021 and 52 weeks ended 29 March 2020

	Notes	**Reported 52 weeks 2021 £m**	Reported 52 weeks 2020 £m
Cash flow from operating activities			
Profit before tax		**726**	180
Adjustment for:			
Net pension interest	6	**(117)**	(86)
Net finance costs		**38**	50
Profit on disposal of property, plant and equipment		**(36)**	(89)
Regulatory fine		**1**	51
Legacy/other items and impairments		**(13)**	92
Amortisation of intangible assets in acquisitions		**19**	19
Operating profit before specific items[1]		**618**	217
Adjustment for:			
Depreciation and amortisation		**554**	516
EBITDA before specific items[1]		**1,172**	733
Working capital movements		**41**	162
Increase in inventories		–	(1)
(Increase)/decrease in receivables		(376)	13
Increase in payables		375	126
Net decrease in derivative assets		16	19
Increase in provisions (non-specific items)		26	5
Pension charge to cash difference adjustment		**84**	108
Share-based awards (LTIP and DSBP) charge		**4**	4
Cash cost of operating specific items		**(4)**	(2)
Cash inflow from operations		**1,297**	1,005
Income tax paid		**(125)**	(69)
Research and development expenditure credit		**1**	14
Net cash inflow from operating activities		**1,173**	950
Cash flow from investing activities			
Finance income received		**16**	6
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**5**	12
London Development Portfolio net proceeds (non-operating specific item)		**13**	97
Purchase of property, plant and equipment[2]		**(289)**	(265)
Acquisition of business interests, net of cash acquired		**–**	(15)
Purchase of intangible assets (software)[2]		**(57)**	(77)
Payment of deferred consideration in respect of prior years' acquisitions		**(4)**	(2)
Sale/(purchase) of financial asset investments		**30**	(30)

Net cash outflow from investing activities		**(286)**	(274)
Net cash inflow before financing activities		**887**	676
Cash flow from financing activities			
Finance costs paid		**(57)**	(53)
Purchase of own shares		**–**	(3)
Payment of capital element of obligations under lease contracts		**(188)**	(172)
Cash received on sale and leasebacks		**1**	6
Proceeds from loans and borrowings		**–**	1,189
Repayment of loans and borrowings		**(700)**	(1)
Dividends paid to equity holders of the Parent Company	5	**–**	(244)
Net cash (outflow)/inflow from financing activities		**(944)**	722
Net (decrease)/increase in cash and cash equivalents		**(57)**	1,398
Effect of foreign currency exchange rates on cash and cash equivalents		**(10)**	6
Cash and cash equivalents at the beginning of the year		**1,640**	236
Cash and cash equivalents at the end of the year		**1,573**	1,640

1 For further details on APMs used, see the Financial Review.

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

Notes to the Consolidated Financial Statements

1. Basis of preparation

General information

Royal Mail plc (the Company) is incorporated in the United Kingdom (UK). The Consolidated Financial Statements are produced in accordance with applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs) and prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis of preparation and accounting

The Consolidated Financial Statements of the Company for the 52 weeks ended 28 March 2021 (2019-20: 52 weeks ended 29 March 2020) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings.

The Consolidated Financial Statements are presented in Sterling (£) as that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest whole £million except where otherwise indicated. The Consolidated Financial Statements have been prepared on an historic cost basis, except for pension assets and derivative financial instruments which are measured at fair value.

The Group's financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are prepared for the 52 weeks ended 28 March 2021 (2019-20: 52 weeks ended 29 March 2020). GLS' reporting year-end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year-end date of the last Sunday in March, a full year of GLS results is consolidated into the Group.

The financial information set out in this document does not constitute the Group's statutory Financial Statements for the reporting years ended 28 March 2021 or 29 March 2020 but is derived from those Financial Statements. Statutory Financial Statements for the reporting year ended 29 March 2020 have been delivered to the Registrar of Companies. The statutory Financial Statements for the reporting year ended 28 March 2021 were approved by the Board of Directors on 19 May 2021 along with this Financial Report but will be delivered to the Registrar of Companies in due course. The auditor has reported on those statutory Financial Statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Presentation of results and accounting policies

As stated above, the Consolidated Financial Statements and associated Notes have been prepared in accordance with applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs) and prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, i.e. on a 'reported' basis. In some instances, Alternative Performance Measures (APMs) are used by the Group to provide 'adjusted' results. This is because Management is of the view that these APMs provide a more meaningful basis on which to analyse business performance and are consistent with the way that financial performance is measured by Management and reported to the Board. Details of the APMs used by the Group are provided In the Financial Review.

Going concern

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

The Directors have reviewed both the current business projections and a severe but plausible downside scenario and assessed these against cash and cash equivalents of £1,532 million at 28 March 2021 and the undrawn bank syndicate loan facility of £925 million. The downside scenario included a consideration of deteriorating economic and market conditions, increased competition in the UK parcels sector and a slower pace of transformation in the UK business.

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

reducing variable hours and cost of sales; reducing discretionary pay; reducing internal investment; and reducing one-off projects.

The severe but plausible downside case indicates that the Group would not need to draw on the bank syndicate loan facility in order to maintain sufficient liquidity and would not breach any of its covenants.

The Directors are of the view that there are sufficient cash and committed undrawn facilities in place ('headroom') to meet obligations over the period to May 2022. In the event of a severe but plausible downside, prepared in line with the viability scenarios included within this Report, cash/liquidity headroom is expected to remain above £2 billion.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the Financial Statements and therefore have prepared the Financial Statements on a going concern basis.

The Group's Viability Statement can be found above, immediately before the Consolidated Financial Statements.

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiary undertakings. The Financial Statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intragroup balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Transfer prices between business segments are set at arm's length/fair value on the basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the Consolidated Financial Statements include the results for the part of the reporting year during which the Group held control.

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these Financial Statements are consistent with those in the Annual Report and Financial Statements for the year ended 29 March 2020, along with the adoption of new and amended accounting standards with effect from 30 March 2020 as detailed below:

New and amended accounting standards adopted in 2020-21

Interest Rate Benchmark Reform – Phase 1 (amendments to IFRS 9, IAS 39 and IFRS 7)

The Group has adopted Phase 1 of the Interest Rate Benchmark Reform with effect from 30 March 2020. This is a first reaction to the potential effects the LIBOR reform could have on financial reporting. The amendments do not have an effect on the Group as it does not hold any hedges of interest rates, nor does it have any financial assets or liabilities that reference LIBOR. The bank syndicate loan facility is undrawn at year end and therefore is unaffected by the amendment in the current year. In 2021-22 the bank syndicate loan facility will be amended to calculate interest payable on drawn loans using appropriate replacement interest rates.

Amendments to References to Conceptual Framework in IFRS

The revised Framework is more comprehensive, with the aim to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. The Group has applied the amendments from 30 March 2020. The amendments do not have a material impact on the financial performance or position of the Group.

Definition of Material (amendments to IAS 1 and IAS 8)

The new amendment clarifies the definition of material to align the conceptual framework with the standards. The Group does not consider the amendment to change the level of disclosures made in the Financial Statements.

Definition of a Business (amendments to IFRS 3)

The new amendment aims to provide clarity as to whether an entity acquires a business or a group of assets. The Group has applied the amendment from 30 March 2020. As the Group has not made any acquisitions since this date, the amendment has not had an impact on the Group.

Accounting standards issued but not yet applied

The following new and amended accounting standards are relevant to the Group and are in issue but were not effective at the balance sheet date:

IFRS 16 (Amended) - COVID-19 – Related Rent Concessions

Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

IAS 37 (Amended) – Onerous Contracts – Cost of Fulfilling a Contract

Annual improvements to IFRS Standards 2018-2020

IAS 16 (Amended) – Property, Plant and Equipment: Proceeds Before Intended Use

IFRS 3 (Amended) – Reference to Conceptual Framework

IAS 1 (Amended) – Classification of Liabilities as Current or Non-current

IFRS 17 – Insurance Contracts

The Directors do not expect that the adoption of the amendments, interpretations and annual improvements listed above (which the Group does not expect to early adopt) will have a material impact on the financial performance or position of the Group in future periods.

Sources of estimation uncertainty

The preparation of Consolidated Financial Statements necessarily requires Management to make certain estimates and judgements that can have a significant impact on the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where there is thought to be a significant risk of a material adjustment to the Consolidated Financial Statements within the next financial year as a result of the estimation uncertainty are disclosed below.

Key sources of estimation uncertainty

Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP and DBCBS are included within Note 6.

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Group applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. For the main classes of assets:

- Equities listed on recognised stock exchanges are valued at the closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves.
- Pooled investment vehicles are valued using published prices or the latest information from investment managers, which includes any necessary fair value adjustments.
- Properties are valued on the basis of open market value as at the year-end date, in accordance with RICS Valuations Standards. As a result of the current situation with regards the COVID-19 pandemic, property valuations have the potential to change rapidly as market conditions fluctuate. The Group has been advised by its valuers that enough market evidence exists on which to base opinions of value however it is highlighted that these valuations are only appropriate at the year-end date.

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

Non-exchange traded derivatives are valued as follows:

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

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

The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 6.

Deferred revenue

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

The majority of this balance is made up of stamps sold to the general public. Management utilise a number of different data sources to calculate the estimated deferred revenue liability given that stamps can be held and used for varying time periods.

At 28 March 2021 the Group recognised £218 million (2019-20: £185 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. In 2020-21 stamp sales increased as a consequence of COVID-19 which has led to increased stamp holdings versus the previous year. The primary sources of data used to derive this estimate are as follows:

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

Average stamp holding days has remained broadly consistent year-on-year at 40 days (2019-20: 43 days).

Other estimates

Provisions – industrial diseases

The Group has a potential liability for industrial diseases claims relating to individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981.

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available at the year-end date, which incorporates independent expert actuarial advice.

The Institute and Faculty of Actuaries (UK Asbestos Working Party (AWP)), on whose modelling actuaries rely for their calculations for asbestos-related ill-health claims, issued revised guidance in February 2021, based on one of several different models it maintains. This new guidance indicates a significant reduction in future liabilities for such claims.

It has been widely acknowledged in business that this guidance is the best information available and should be acted upon for recognising asbestos-related claims reserves. The final publication from the AWP is imminent and is expected to confirm the forecast reduction in liabilities in line with their February 2021 guidance.

In view of the above factors, Management has applied a consistent approach to that of previous years and recognised the provision at 28 March 2021 between the medium and high estimates provided by the actuarial consultant. This has resulted in a release of £16 million of the provision balance, recognised in the income statement as an operating specific item.

This full year 2020-21 position will be reassessed at the half year ended 26 September 2021, by which time the full AWP report is expected to have been published.

A 50 basis points decrease to the 1.24% discount rate used at 28 March 2021 would result in a £5 million increase in the overall provision. Any income statement movements arising from a change in accounting estimate are disclosed as an operating specific item. The carrying value of this provision is included within Note 8.

2. Segment information

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

A key measure of segment performance is operating profit before specific items. This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see the APMs section in the Financial Review). This is consistent with how financial performance is measured internally and reported to the CODM.

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

52 weeks 2021	Adjusted				Specific items, and pension adjustment in people costs		Reported
Continuing operations	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[1] £m	Group £m	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Revenue	8,649	4,040	(51)	12,638	–	–	12,638
People costs	(5,619)	(851)	–	(6,470)	(84)	–	(6,554)
Non-people costs	(2,686)	(2,831)	51	(5,466)	–	–	(5,466)
Operating profit before specific items	344	358	–	702	(84)	–	618
Operating specific items							
Regulatory fine	–	–	–	–	(1)	–	(1)
Legacy/other items	–	–	–	–	13	–	13
Amortisation of intangible assets in acquisitions	–	–	–	–	(1)	(18)	(19)
Operating profit	344	358	–	702	(73)	(18)	611
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	38	(2)	36
Profit before interest and tax	344	358	–	702	(35)	(20)	647
Finance costs	(49)	(13)	7	(55)	–	–	(55)
Finance income	21	3	(7)	17	–	–	17
Net pension interest (non-operating specific item)	–	–	–	–	117	–	117

Profit before tax	**316**	**348**	**–**	**664**	**82**	**(20)**	**726**

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

52 weeks 2020	Adjusted				Specific items, and pension adjustment in people costs		Reported
Continuing operations	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[1] £m	Group £m	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Revenue	7,720	3,161	(41)	10,840	–	–	10,840
People costs	(5,234)	(722)	–	(5,956)	(108)	–	(6,064)
Non-people costs	(2,369)	(2,231)	41	(4,559)	–	–	(4,559)
Operating profit before specific items	117	208	–	325	(108)	–	217
Operating specific items							
Regulatory fine	–	–	–	–	(51)	–	(51)
Legacy/other items and impairments	–	–	–	–	(97)	5	(92)
Amortisation of intangible assets in acquisitions	–	–	–	–	(1)	(18)	(19)
Operating profit	117	208	–	325	(257)	(13)	55
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	88	1	89
Profit before interest and tax	117	208	–	325	(169)	(12)	144
Finance costs	(49)	(18)	11	(56)	–	–	(56)
Finance income	15	2	(11)	6	–	–	6
Net pension interest (non-operating specific item)	–	–	–	–	86	–	86
Profit before tax	83	192	–	275	(83)	(12)	180

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

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

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

52 weeks 2021	**Royal Mail (UK operations) £m**	**GLS (Non-UK operations) £m**	**Total £m**
Depreciation	**(308)**	**(124)**	**(432)**
Amortisation of intangible assets (mainly software)	**(107)**	**(15)**	**(122)**
Non-current assets	**2,596**	**1,362**	**3,958**

52 weeks 2020	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Total £m
Depreciation	(306)	(106)	(412)
Amortisation of intangible assets (mainly software)	(90)	(14)	(104)

Non-current assets	2,695	1,390	4,085

3. Taxation

	52 weeks 2021 £m	52 weeks 2020 £m
Tax charged in the income statement		
Current income tax:		
Current UK income tax charge	**(48)**	(5)
Foreign tax	**(82)**	(55)
Current income tax charge	**(130)**	(60)
Amounts (under)/over-provided in previous years	**(4)**	5
Total current income tax charge	**(134)**	(55)
Deferred income tax:		
Effect of change in tax rates	**–**	6
Relating to origination and reversal of temporary differences	**25**	35
Amounts over/(under)-provided in previous years	**3**	(5)
Total deferred income tax credit	**28**	36
Tax charge in the consolidated income statement	**(106)**	(19)

Tax credited/(charged) to other comprehensive income		
Deferred tax:		
Tax credit in relation to remeasurement gains of the defined benefit pension schemes	**26**	–
Tax (charge)/credit on revaluation of cash flow hedges	**(7)**	11
Total deferred income tax credit	**19**	11
Total tax credit in the consolidated statement of other comprehensive income	**19**	11

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

	52 weeks 2021 £m	52 weeks 2020 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**1**	1
Total deferred income tax credit recognised directly in equity	**1**	1

Reconciliation of the total tax charge

A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 28 March 2021 and 52 weeks ended 29 March 2020 is shown below.

	52 weeks 2021 £m	52 weeks 2020 £m
Profit before tax	726	180
At UK statutory rate of corporation tax of 19% (2019-20: 19%)	(138)	(34)
Effect of different tax rates on non-UK profits and losses	(12)	(5)
Tax under-provided in previous years	(1)	–
Non-deductible expenses	(6)	(4)
Tax reliefs and incentives	4	3
Uncertain tax positions	(2)	(16)
Tax effect of property disposals	26	21
Tax effect of closure of RMPP to future accrual	(2)	(2)
Net pension interest credit	23	17
Regulatory fine	–	(10)
Net decrease in tax charge resulting from non-recognition of certain deferred tax assets and liabilities	1	6
Share-based payments – deferred tax-only adjustments	1	(1)
Effect of change in tax rates	–	6
Tax charge in the consolidated income statement	(106)	(19)

Deferred tax

Deferred tax by balance sheet category 52 weeks 2021	At 30 March 2020 £m	Credited/ (charged) to income statement £m	Credited/ (charged) to other comprehensive income £m	Credited directly in equity £m	Credited/ (charged) to foreign exchange reserve £m	Jurisdictional right of offset £m	At 28 March 2021 £m
Liabilities							
Accelerated capital allowances	(8)	1	–	–	–	–	(7)
Intangible assets	(54)	2	–	–	2	–	(50)
	(62)	3	–	–	2	–	(57)
Jurisdictional right of offset	8	–	–	–	–	1	9
Deferred tax liabilities	(54)	3	–	–	2	1	(48)
Assets							
Deferred capital allowances	14	19	–	–	–	–	33
Pensions temporary differences	33	16	26	–	–	–	75
Provisions and other	25	8	–	–	(1)	–	32
Employee share schemes	–	2	–	1	–	–	3
Losses available for offset against future taxable income	34	(19)	–	–	–	–	15
R&D expenditure credit	2	(1)	–	–	–	–	1
Hedging derivative temporary differences	10	–	(7)	–	–	–	3
	118	25	19	1	(1)	–	162
Jurisdictional right of offset	(8)	–	–	–	–	(1)	(9)
Deferred tax assets	110	25	19	1	(1)	(1)	153
Net deferred tax asset	56	28	19	1	1	–	105

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

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

Deferred tax – balance sheet presentation	At 28 March 2021 £m	At 29 March 2020 £m
Liabilities		
GLS group	**(48)**	(54)
Deferred tax liabilities	**(48)**	(54)
Assets		
GLS group	**10**	8
Net UK position	**143**	102
Deferred tax assets	**153**	110
Net deferred tax asset	**105**	56

The deferred tax position shows an increased overall asset in the reporting year to 28 March 2021. This is primarily due to the increase in accounting deficit of the DBCBS pension scheme.

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

At 28 March 2021, the Group had unrecognised tax losses and temporary differences of £263 million (2019-20: £278 million) with a tax value of £73 million (2019-20: £80 million). Unrecognised deferred tax in relation to tax losses comprises £70 million (2019-20: £73 million) relating to losses of £236 million (2019-20: £249 million) in GLS that are available for offset against future profits if generated in the relevant GLS companies, and £1 million (2019-20: £1 million) in relation to £6 million (2019-20: £7 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprise £2 million (2019-20: £6 million) relating to GLS other temporary differences of £21 million (2019-20: £22 million). The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £186 million (2019-20: £187 million) of capital losses, the tax effect of which is £35 million (2019-20: £35 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £383 million (2019-20: £388 million) of gains for which rollover relief has been claimed, the tax effect of which is £73 million (2019-20: £74 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate
The UK Government has announced that the corporation tax rate will rise to 25% from April 2023. This announcement had not been substantively enacted at the balance sheet date and therefore the effect of this planned change has not been reflected in the deferred tax balances. The impact of this change in rate, based on the current balance sheet position, would have led to an increase in the net deferred tax asset of £45 million, with a £10 million deferred tax credit recognised through other comprehensive income and £35 million recognised through the income statement.

4. Earnings per share

	52 weeks 2021			52 weeks 2020		
	Reported	Specific items and pension adjustment[1]	Adjusted	Reported	Specific items and pension adjustment[1]	Adjusted
Profit for the year (£million)	620	99	521	161	(35)	196
Weighted average number of shares issued (million)	999	n/a	999	999	n/a	999
Basic earnings per share (pence)	62.0	n/a	52.1	16.1	n/a	19.6
Diluted earnings per share (pence)	61.8	n/a	51.9	16.1	n/a	19.6

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

The diluted earnings per share for the year ended 28 March 2021 is based on a weighted average number of shares of 1,003,489,831 (2019-20: 1,001,079,845) to take account of the potential issue of 2,020,587 (2019-20: 658,250) ordinary shares resulting from the Deferred Share Bonus Plans and 2,042,060 (2019-20: 1,451,301) ordinary shares resulting from the Long Term Incentive Plans.

The 572,816 (2019-20: 1,029,706) shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

5. Dividends

Dividends on ordinary shares	**52 weeks 2021 Pence per share**	52 weeks 2020 Pence per share	**52 weeks 2021 £m**	52 weeks 2020 £m
Final dividends paid	**–**	17.0	**–**	169
Interim dividends paid	**–**	7.5	**–**	75
Total dividends paid	**–**	24.5	**–**	244

The Board has reviewed the performance of the Group during the 2020-21 reporting year and concluded that it is appropriate to pay a one-off final dividend of 10p per share, payable on 6 September 2021 to shareholders on the register at 30 July 2021, subject to approval at the 2021 AGM (2019-20: no final dividend).

6. Retirement benefit plans

Summary pension information

	52 weeks 2021 £m	52 weeks 2020 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(369)**	(397)
UK defined contribution plan	**(111)**	(97)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(194)**	(178)
Total UK ongoing pension service costs	**(674)**	(672)
GLS pension costs accounted for on a defined contribution basis	**(9)**	(7)
Total Group ongoing pension service costs	**(683)**	(679)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions[3]	**(285)**	(288)
Defined contribution plans' employer contributions	**(120)**	(104)
UK defined benefit and defined contribution plans' PSE employer contributions	**(194)**	(178)
Total Group cash flows relating to ongoing pension service costs	**(599)**	(570)
Royal Mail Senior Executives Pension Plan (RMSEPP) death in service and administration expenses	**–**	(1)
Pension charge to cash difference adjustment	**(84)**	(108)

	At 28 March 2021 '000	At 29 March 2020 '000
UK pension plans – active members		
UK defined benefit plan	**75**	79
UK defined contribution plan	**53**	54
Total	**128**	133

1 These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 19.5% (2019-20: 20.8%) of the increase in the defined benefit obligation due to members earning one more years' worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high-quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the Royal Mail Pension Plan (RMPP) of £9 million (2019-20: £9 million) and the Defined Benefit Cash Balance Scheme (DBCBS) of £5 million (2019-20: £4 million) continue to be included within the Group's ongoing UK pension service costs.

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

3 The employer contribution cash flow rate of 15.6% forms part of the payroll expense and is paid in respect of the DBCBS (2019-20 15.6%). These contribution rates are set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS, the first full valuation for this will be performed as at 31 March 2021.

In the period, the Group operated the following plans:

UK Defined Contribution plan

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

Ongoing UK defined contribution plan costs have increased from £169 million in 2019-20 (including £72 million PSE costs) to £199 million (including £88 million PSE costs). This is due to an increase in the average employer's contribution rate from 8.6% in 2019-20 to 9.3% in 2020-21.

UK defined benefit plans

Royal Mail Pension Plan (RMPP)[4]

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

	Section A	Section B	Section C
Joining date for members (or beneficiaries of members)	Before 1 December 1971	On or after 1 December 1971 and before 1 April 1987 or for members of Section A who chose to receive Section B benefits.	On or after 1 April 1987 and before 1 April 2008
Terms	Pension of 1/80th of pensionable salary plus a tax-free lump sum of 3/80ths of pensionable salary for each year of pensionable service, until 31 March 2018.		Pension of 1/60th of pensionable salary for each year of pensionable service, until 31 March 2018. Members wishing to take a tax free lump sum on retirement do so in exchange for a reduced pension.

4 Any references to the RMPP relate to the scheme's defined pension liabilities built up to 31 March 2018. From 1 April 2018 members began building up DBCBS benefits.

Governance and management

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the RMPP. There are currently eight Trustee Directors that sit on the Trustee Board. There is a vacancy for an employer-nominated Trustee Director. The Trustee Board is supported by an executive team of pension management professionals. They provide day-to-day Plan management, advise the Trustee Board on its responsibilities and ensure that decisions are fully implemented.

The Trustee Board is responsible for:

Monitoring the covenant of the participating employers	To help protect benefits, the Trustee Board monitors the financial strength of the participating employers
Investing contributions	The Trustee Board invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members.
Keeping members informed	The Trustee Board sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.
Acting in the best interests of all RMPP beneficiaries	The Trustee Board must pay all benefits as they fall due under the Trust Deed and Rules

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement. These contributions are not considered to be Plan assets as the Trustee does not have control over the assets. This balance is included within non-current financial assets.

Defined Benefit Cash Balance Scheme (DBCBS)
The DBCBS has been in place since 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established.

DBCBS members build up a guaranteed lump sum benefit of 19.5% of their pensionable pay each year. Although there are no guaranteed increases to this lump sum the aim is to provide above inflation increases, and the Trustee invests the scheme assets accordingly. If the value of the DBCBS assets were to fall below the value of the members' guaranteed lump sum benefits, then no increases would be awarded until asset values had recovered as the Group has a legal obligation to prevent a decrease in the lump sum amount. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the first increase granted in March 2020, Management is of the view that there is a constructive obligation to provide an increase to the lump sum. The increase awarded for the current year was CPI plus 1.2%. Future liabilities of the scheme have been calculated assuming increases of CPI plus 2%, although the nature of the scheme means that actual increases could be lower or higher than this amount.

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

Royal Mail Senior Executives Pension Plan (RMSEPP)
This scheme for executives closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. The last triennial valuation was performed in 2018. In accordance with the Schedule of Contributions signed on 25 March 2019, around £500,000 has been paid in 2020-21 and is due to be paid per annum until 31 March 2025.

In September 2018 an insurance policy was purchased in respect of all remaining pensioners and deferred members, following which it was decided to proceed to buy out and wind up the Plan. The wind-up of RMSEPP had previously been expected to complete in 2020-21, however it was delayed by the need for further clarity over the approach to GMP equalisation. The Trustees now expect this to complete in 2022.

All benefit payments due from the RMSEPP remain unchanged. The insurance policies held by the RMSEPP exactly match the value and timing of the benefits payable to individual members and the fair value is deemed to be the present value of the related obligations. The total value of the buy-in annuity policies in place is £364 million (29 March 2020: £296 million) and is included as a pension asset and a pension liability at 28 March 2021[5].

Unfunded pension
A liability of £2 million (2019-20: £2 million) has been recognised for future payment of pension benefits to a past Director.

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

The results of the most recent triennial valuations are shown below.

	RMPP	DBCBS
Date of valuation	31 March 2018 (agreed on 19 July 2019)	The first full valuation will be performed as at 31 March 2021 (the valuation will be completed in 2021-22).
Valuation	Based on this set of assumptions rolled forward, the actuarial surplus at 31 March 2021 was estimated to be around £163 million (31 March 2020: £575 million).	A draft funding position has been calculated based on the assumption that the funding surplus is equal to the amount held in respect of the risk reserve. Under this method, the DBCBS actuarial surplus was estimated to be around £29 million at 31 March 2021 (31 March 2020: £18 million).

5 In accordance with IAS 19.

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 28 March 2021 £m	At 29 March 2020 £m	**At 31 March 2021 £m**	At 31 March 2020 £m	**At 28 March 2021 £m**	At 29 March 2020 £m	**At 31 March 2021 £m**	At 31 March 2020 £m
Fair value of plans' assets (6(b) below)[6]	**1,192**	730	**1,182**	735	**11,814**	11,989	**11,566**	11,700
Present value of plans' liabilities	**(1,586)**	(907)	**(1,153)**	(717)	**(8,139)**	(6,429)	**(11,394)**	(11,116)
(Deficit)/surplus in plans (pre withholding tax payable)[7]	**(394)**	(177)	**29**	18	**3,675**	5,560	**172**	584
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,286)**	(1,946)	**n/a**	n/a
(Deficit)/surplus in plans[8]	**(394)**	(177)	**29**	18	**2,389**	3,614	**172**	584

6 The difference between accounting and actuarial funding asset fair values on 28 and 31 March 2021 arises from the different year-end dates used for the valuation of the assets, and in both years due to the valuation of the RMSEPP buy-in assets under both methods.

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

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

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

Having taken legal advice with regard to the rights of the Group under the Trust deeds and rules, the Directors believe there is an obligation to recognise a pension surplus on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis is a useful measure of the scheme's funding position. However, the Directors are required to account for the plans based on the Group's legal right to benefit from a surplus, using long-term accounting assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus in the RMPP and RMSEPP, under IAS 19 and IFRIC 14, it must recognise the economic benefit it considers to arise from either a reduction to its future contributions or a refund of the surplus. This is a technical adjustment made on an accounting basis. There is no cash benefit from the surplus. Under the terms of the DBCBS scheme, any surplus would be repaid into the Trust and therefore under IAS 19 the Directors believe that they would not be able to recognise an accounting surplus even if one arose.

This surplus is presented on the balance sheet net of a withholding tax adjustment of £1,283 million (at 29 March 2020: £1,942 million), which represents the tax that would be withheld on the surplus amount. Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

Included in the IAS 19 figures in the table above is a RMSEPP surplus at 28 March 2021 of £9 million (at 29 March 2020: £10 million surplus) (pre-withholding tax payable). As the RMSEPP is also closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 and, as such, is shown on the balance sheet net of a withholding tax adjustment of £3 million (at 29 March 2020: £4 million), which represents the tax that would be withheld on the surplus amount.

In 2021-22 the Group expects to contribute around £400 million in respect of all UK pension schemes (2019-20: around £400 million).

Guaranteed Minimum Pensions (GMP)

Pension schemes are now under an obligation to address the issue of unequal GMP. 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 not be material.

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

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

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

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

	At 28 March 2021	At 29 March 2020
Retail Price Index (RPI) – RMPP/RMSEPP	**3.2%**	2.5%
Retail Price Index (RPI) – DBCBS	**3.3%**	2.6%
Consumer Price Index (CPI) – RMPP/RMSEPP	**2.9%**	1.7%
Consumer Price Index (CPI) – DBCBS	**2.8%**	1.8%
Discount rate – RMPP/RMSEPP[9]		
– nominal	**2.0%**	2.2%
– real (nominal less RPI)	**(1.2%)**	(0.3%)
Discount rate – DBCBS[10]		
– nominal	**1.9%**	2.2%
– real (nominal less RPI)	**(1.4%)**	(0.4%)
Rate of increase in pensionable salaries[11]	**RPI – 0.1%**	RPI–0.1%
Rate of increase for deferred pensions - RMPP	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[11]	**RPI – 0.1%**	RPI–0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases – RMSEPP all other members[11]	**RPI – 0.1%**	RPI–0.1%
Rate of pension increases – DBCBS benefits	**CPI+2.0%**	CPI+2.0%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	**28/26 years**	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**30/28 years**	30/28 years

9 The discount rate reflects the average duration of the RMPP benefits of around 25 years (2019-20: 27 years).

10 The discount rate reflects the average duration of the DBCBS benefits of 14.5 years (2019-20: 15 years). The pension service cost applicable from 30 March 2020 is based on 29 March 2020 assumptions.

11 The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after April 1987) and RMSEPP 'all other members', is capped at 5.0%, 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% for male pensioners (2019-20: 118%) and 116% for female pensioners (2019-20: 116%)). Future improvements are based on the CMI 2017 core projections (smoothing factor 8.0 (2019-20: 8.0)) with a long-term trend of 1.5% per annum (2019-20: 1.5%). These assumptions were adopted following a mortality study undertaken as part of the March 18 actuarial valuation. No adjustments have been made to mortality assumptions at year end to reflect the potential effects of COVID-19 as the actual Plan experience is not yet available and it is too soon to make a judgement on the impact of the pandemic on future mortality improvements. For RMPP and RMSEPP, the mortality experience analysis will be carried out later in the year as part of the 31 March 2021 formal valuation.

Sensitivity analysis for RMPP and DBCBS liabilities

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

	At 28 March 2021		At 29 March 2020	
Key assumption change	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m
Additional one year of life expectancy	–	320	–	230
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% per annum	25	190	13	155
Decrease in discount rate of 0.1% per annum	25	190	13	155
Increase in CPI assumption (assuming RPI remains constant) of 0.1% per annum	25	45	13	30
Increase in constructive obligation of 0.1% per annum	25	–	13	–

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. The discount rate and RPI sensitivities are calculated using the mean term of the relevant section to derive the impact of a 0.1% change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 29 March 2020 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2021. This approach is unchanged from the prior year, although any change in mean terms will impact the sensitivities. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

b) RMPP, RMSEPP and DBCBS assets

		At 28 March 2021			At 29 March 2020		
		Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities							
UK		2	21	23	–	21	21
Overseas		43	31	74	21	33	54
Bonds							
Fixed interest	– UK	303	20	323	292	18	310
	– Overseas	231	113	344	137	82	219
Pooled investments							
Absolute return		–	412	412	–	496	496
Equity		121	–	121	–	86	86
Private equity		–	208	208	–	163	163
Fixed interest		347	146	493	–	402	402
Private debt		–	463	463	–	455	455
Property		–	54	54	–	59	59
Liability-driven investments[12]		9,247	(16)	9,231	9,104	234	9,338
Property (UK)		–	459	459	–	343	343
Cash and cash equivalents		444	–	444	468	–	468
Other		(3)	–	(3)	3	–	3
Derivatives		(1)	(3)	(4)	–	6	6
RMSEPP buy-in annuity policies		–	364	364	–	296	296
Total plans' assets		10,734	2,272	13,006	10,025	2,694	12,719

12 This portfolio comprises gilt and swap contracts that is designed to hedge the majority of the interest rate and inflation risk associated with the Plans' obligations. At 28 March 2021 it included £9,068 million (29 March 2020: £9,332 million) of index-linked gilts, £454 million (29 March 2020: £201 million) of bonds, £157 million (29 March 2020: £353 million) in short-term money market funds and £27 million (29 March 2020: £95 million negative investment) of cash and similar instruments, offset by negative fair value investments of £457 million (29 March 2020: £587 million) of repurchase agreements and £18 million (29 March 2020: £134 million positive investment) of swaps.

There were no open equity futures or options derivatives within this portfolio at 28 March 2021 (29 March 2020: £nil). £9.1 billion (29 March 2020: £8.8 billion) of HM Government bonds are primarily included in the liability-driven investments balance above. The plans' assets do not include property or other assets used by the Group or shares of Royal Mail plc at 28 March 2021 (29 March 2020: £nil).

Risk exposure and investment strategy

The Group's defined benefit schemes face similar risks to other UK defined benefit schemes. Some of the key financial risks and mitigating actions are set out in the table below.

Investment market movements	The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options), from time to time to reduce risks whilst maintaining expected investment returns. In addition to property and cash, the RMSEPP holds two buy-in annuity policies totalling £364 million at 28 March 2021 (29 March 2020: £296 million) to match its liabilities.
Interest rates and inflation changes	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. It has done this predominantly through investment in index-linked gilts and derivatives. The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than the RMPP. In the pension schemes, many of the inflation linked increases that apply are restricted to a maximum increase of 5% in any year. The pension schemes' rules therefore give some protection from the risk of significantly high levels of inflation.
Equity exposure	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. The TRS has a negative market value as at 28 March 2021 of £2 million (29 March 2020: positive £9 million) included in the derivative values above. The TRS economically offsets £60 million of the Plan's global equity market exposure at 28 March 2021 (29 March 2020: £62 million).
Changes in life expectancy	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.
Changes in corporate and Government bond yields	A fall in yields on AA rated corporate bonds, used to set the IAS 19 discount rates, will lead to an increase in the IAS 19 liabilities. The 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. The scheme is hedged against gilt movements to limit the impact on funding (and therefore cash) but, to the extent that gilts move differently to corporate bonds, the accounting liability is more exposed.
Change in estimates (IAS 8)	On 25 November 2020, the UK Government and UK Statistics Authority published a formal response on the future of RPI, confirming that RPI will be aligned with CPIH from February 2030. CPIH is calculated as CPI plus owner occupiers' housing costs. As a result, the Group has adjusted the RPI/CPI gap assumption for the RMPP/RMSEPP and DBCBS schemes. The single equivalent RPI/CPI gap assumption as at the end of March 2021 now reflects an RPI/CPI gap of 1% per annum to 2030 and 0% per annum thereafter. For RMPP/RMSEPP this results in a single equivalent RPI/CPI gap of 0.3% per annum (29 March 2020: 0.8% per annum). This leads to an approximate £200 million increase in the defined benefit

obligation for the RMPP and an approximate £25 million increase in the defined benefit obligation for RMSEPP at 28 March 2021.

For the DBCBS, the RPI/CPI gap has been set at 0.5% per annum (29 March 2020: 0.8%). The DBCBS gap is higher than that of the RMPP/RMSEPP to reflect the shorter duration or this scheme, meaning more of the liability relates to pre-2030 increases. The impact of the reduction in the gap from the prior year is approximately a £70 million increase in the defined benefit obligation at 28 March 2021.

The discount rate setting methodology, used by the Group's actuary, has been revised in the current year, in particular, the method used to decide which individual bonds are included in the model that is used to set the assumption. The impact as at 28 March 2021 is an increase in the discount rate of 10 basis points for all schemes. This results in a £190 million decrease in the defined benefit obligation for the RMPP, a £7 million decrease in the defined benefit obligation for the RMSEPP and a £25 million decrease in the defined benefit obligation at 28 March 2021.

Further details on key sources of estimation uncertainty relating to pension assets can be found in Note 1, including details on how the assets have been valued.

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

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Retirement benefit surplus (before withholding tax payable) at 30 March 2020 and 1 April 2019	**11,989**	10,803	**(6,429)**	(7,097)	**5,560**	3,706
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(9)**	(9)	**–**	–	**(9)**	(9)
Pension interest income/(cost)[13]	**262**	258	**(140)**	(169)	**122**	89
Total included in profit before tax	**253**	249	**(140)**	(169)	**113**	80
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial (loss)/gain arising from:						
Financial assumptions	**–**	–	**(1,748)**	751	**(1,748)**	751
Demographic assumptions	**–**	–	**–**	(17)	**–**	(17)
Experience assumptions	**–**	–	**97**	19	**97**	19
Return on plans' assets (excluding interest income)	**(347)**	1,020	**–**	–	**(347)**	1,020
Total remeasurement (losses)/gains of the defined benefit surplus	**(347)**	1,020	**(1,651)**	753	**(1,998)**	1,773
Other						
Employer contributions	**–**	1	**–**	–	**–**	1
Benefits paid	**(81)**	(84)	**81**	84	**–**	–
Total other movements	**(81)**	(83)	**81**	84	**–**	1
Retirement benefit surplus (before withholding tax payable) at 28 March 2021 and 29 March 2020	**11,814**	11,989	**(8,139)**	(6,429)	**3,675**	5,560
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,286)**	(1,946)

Retirement benefit surplus (net of withholding tax payable) at 28 March 2021 and 29 March 2020	**n/a**	n/a	**n/a**	n/a	**2,389**	3,614

13 Pension interest income results from applying the plans' discount rate at 29 March 2020 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 29 March 2020 to the plans' liabilities at that date.

d) Movement in DBCBS assets, liabilities and net position

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

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Retirement benefit at 30 March 2020 and 1 April 2019	**730**	402	**(907)**	(474)	**(177)**	(72)
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	**(5)**	(4)	**(455)**	(485)	**(460)**	(489)
Pension interest income/(cost)[14]	**20**	13	**(25)**	(16)	**(5)**	(3)
Total included in profit before tax	**15**	9	**(480)**	(501)	**(465)**	(492)
Amounts included in other comprehensive income – remeasurement losses						
Actuarial (loss)/gain arising from:						
Financial assumptions	**–**	–	**(271)**	49	**(271)**	49
Experience assumptions	**–**	–	**32**	(1)	**32**	(1)
Return on plan assets	**103**	(51)	**–**	–	**103**	(51)
Total remeasurement gains/(losses) of the defined benefit deficit	**103**	(51)	**(239)**	48	**(136)**	(3)
Other						
Employer contributions[15]	**384**	390	**–**	–	**384**	390
Employee contributions	**4**	4	**(4)**	(4)	**–**	–
Benefits paid	**(44)**	(24)	**44**	24	**–**	–
Total other movements	**344**	370	**40**	20	**384**	390
Retirement benefit deficit at 28 March 2021 and 29 March 2020	**1,192**	730	**(1,586)**	(907)	**(394)**	(177)

14 Pension interest income results from applying the plans' discount rate at 29 March 2020 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 29 March 2020 to the plans' liabilities at that date.

15 Includes PSE contributions of £106 million (2019-20: £106 million).

7. Leases

The Group primarily leases office buildings and letter and parcel processing facilities. At 28 March 2021 the Group held approximately 1,039 land and building leases (2019-20: 1,110). The Group also has leases for some of its vehicle fleet and plant and equipment used in operations. Leases are negotiated on an individual basis and may include extension or termination options.

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

Lease liabilities	At 28 March 2021 Present value of lease payments £m	At 29 March 2020 Present value of lease payments £m
Current liabilities		
Lease liabilities due within one year	**(197)**	(201)
Non-current liabilities		
Lease liabilities due between one and five years	**(560)**	(575)
Lease liabilities due beyond five years	**(399)**	(412)

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

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
At 28 March 2021					
Cost	**1,193**	**188**	**519**	**5**	**1,905**
of which additions	**73**	**3**	**31**	**1**	**108**
Accumulated depreciation	**(258)**	**(137)**	**(296)**	**(3)**	**(694)**
Deprecation charge	**(136)**	**(22)**	**(52)**	**(2)**	**(212)**
Total	**935**	**51**	**223**	**2**	**1,211**

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

Leases in the income statement

Leases are recognised in the income statement as detailed below:

	52 weeks 2021 £m	52 weeks 2020 £m
Other operating income		
Sublease income	5	3
Material expenses		
Expenses from short-term/low-value leases	(42)	(44)
Depreciation		
Depreciation of right of use assets	(212)	(209)
Net finance costs		
Interest expense on lease liabilities	(27)	(30)

The Group enters into sale and leaseback transactions for plant and machinery and vehicles. Cash received from these transactions in the year was £1 million (2019-20: £6 million).

8. Provisions

	Charged as specific items			Charged in operating costs				
	Industrial diseases £m	Regulatory fine £m	Other £m	Voluntary redundancy £m	Property decommissioning £m	Litigation claims £m	Other £m	Total £m
At 30 March 2020	(85)	(51)	(8)	(12)	(14)	(40)	(15)	(225)
Released/(charged)	16	(1)	(1)	(109)	(8)	(41)	(6)	(150)
Reclassifications	–	–	–	–	(3)	7	–	4
Utilised	1	–	2	107	2	27	2	141
Forex adjustment	–	–	–	–	–	–	2	2
Unwinding of discount	(1)	–	–	–	–	–	–	(1)
At 28 March 2021	(69)	(52)	(7)	(14)	(23)	(47)	(17)	(229)
Disclosed as:								
Current	(6)	(52)	(1)	(14)	(3)	(44)	(4)	(124)
Non-current	(63)	–	(6)	–	(20)	(3)	(13)	(105)
At 28 March 2021	(69)	(52)	(7)	(14)	(23)	(47)	(17)	(229)
Disclosed as:								
Current	(5)	(51)	(1)	(12)	(3)	(38)	(3)	(113)
Non-current	(80)	–	(7)	–	(11)	(2)	(12)	(112)
At 29 March 2020	(85)	(51)	(8)	(12)	(14)	(40)	(15)	(225)

Specific items provisions

The Group has a potential liability for industrial diseases claims relating to individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision is derived using estimates and ranges calculated by its actuarial adviser, based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process for ensuring that only valid claims are accepted.

The Institute and Faculty of Actuaries (UK Asbestos Working Party), on whose modelling actuaries rely for their calculations for asbestos-related ill-health claims, issued revised guidance in February 2021, based on one of several different models it maintains. This new guidance indicates a significant reduction in future liabilities for such claims. Management has considered this guidance and, based on the view by business that this is the best information available, released £16 million of the provision balance, recognised as an operating specific item in the income statement.

In January 2020, Royal Mail requested permission to appeal the Competition Appeal Tribunal's judgment to the Court of Appeal (CoA) in respect of the Ofcom fine. On 30 March 2020, the CoA granted Royal Mail permission and the hearing took place on 20 and 21 April 2021. On 7 May 2021 the CoA dismissed the appeal. Royal Mail is considering its options, including an appeal to the Supreme Court. A further £1 million interest has been provided in the year in respect of the original fine, recognised as an operating specific item in the income statement.

Operating costs provisions

On 25 June 2020 Royal Mail announced a management restructure, subject to consultation with Unite/CMA, with the expectation of a reduction of circa 2,000 roles out of a total population of circa 9,700 roles in 2020-21. Following that announcement, a provision was recognised for £140 million at the half year ended 27 September 2020, representing voluntary redundancy compensation and associated costs. Subsequent extensive work to shape the new organisational design resulted in a revised provision of £93 million. This project, along with other ad-hoc projects, resulted in an overall charge of £109 million for voluntary redundancy costs for the full year.

Property decommissioning obligations represent an estimate of the costs of removing fixtures and fittings and restoring the leased property to its original condition.

Provisions for litigation claims, based on best estimates as advised by external legal experts, mainly comprise outstanding liabilities in relation to road traffic accident and personal injury claims.

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

	At 28 March 2021					At 29 March 2020				
	Expected period of settlement					Expected period of settlement				
	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m
Specific items										
Industrial disease claims	(6)	(3)	(9)	(51)	(69)	(5)	(3)	(9)	(68)	(85)
Employee Free Shares – NI	(1)	–	–	–	(1)	–	–	–	–	–
Legacy property costs	–	–	–	(6)	(6)	–	–	(1)	(6)	(7)
Regulatory fine	(52)	–	–	–	(52)	(51)	–	–	–	(51)
Other	–	–	–	–	–	(1)	–	–	–	(1)
Total	(59)	(3)	(9)	(57)	(128)	(57)	(3)	(10)	(74)	(144)
Operating costs										
Voluntary redundancy	(14)	–	–	–	(14)	(12)	–	–	–	(12)
Property decommissioning obligations	(3)	(6)	(8)	(6)	(23)	(3)	(2)	(5)	(4)	(14)
Litigation claims	(44)	(2)	(1)	–	(47)	(38)	(2)	–	–	(40)
LTIP – NI	–	(2)	–	–	(2)	–	(1)	–	–	(1)
Employee benefits	(2)	(2)	(1)	(5)	(10)	(2)	(1)	(7)	–	(10)
Other	(2)	(2)	(1)	–	(5)	(1)	–	(3)	–	(4)
Total	(65)	(14)	(11)	(11)	(101)	(56)	(6)	(15)	(4)	(81)

9. Contingent liabilities

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position (see regulatory fine in Note 8). Whistl's High Court claim is on hold until after the completion of any further appeal process. Royal Mail believes Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal', 'forecasts' or 'estimates' or similar expressions or negatives thereof.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on its behalf are expressly qualified in their entirety by the factors referred to above. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Group does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.