

Royal Mail plc

Connecting Customers, Companies and Countries

Annual Report and Financial Statements
2020-21



Group Financial Highlights

Revenue¹

£12,638m

2019-20: £10,840m

Adjusted basic earnings per share²

52.1p

2019-20: 19.6p

Reported operating profit¹

£611m

2019-20: £55m

Dividend

10p

2019-20: 7.5p

Adjusted operating profit²

£702m

2019-20: £325m

Net debt²

£457m

2019-20: £1,132m

1. Reported result. Reported results are prepared in accordance with International Financial Reporting Standards (IFRS).

2. Alternative performance measure. Alternative performance measures (APMs) are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 75 to 81.

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Introduction

2020-21 has been an unprecedented year. The COVID-19 pandemic has magnified our purpose and the unique and important role the Group has in connecting customers, companies and countries.

The past year has also amplified market trends and endorsed our strategy of pivoting the Group to become a parcels-led, more balanced and diverse international business.

More than ever we need to adapt. In particular, we need to enhance our customer offering to ensure that at all times we provide convenient, reliable, value-for-money services. And we must do so in an environmentally responsible way. This is the right thing to do and, as our customers demand more sustainable deliveries, it will also create a competitive advantage.

As outlined in this Annual Report, we have made good progress in many areas. However, we need to do more.

We must accelerate the pace of change, leverage our strengths to deliver sustainable growth, operate more effectively and at all times focus on our customers. This approach will enable us to capture the growth opportunities in our markets and create long-term value for all our stakeholders.

Who We Are

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

Our purpose

To connect customers, companies and countries.

Our values

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

Royal Mail

Be positive – about what we can achieve.

Be brilliant – for our customers.

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

GLS

Reliability

Security

Transparency

Flexibility

Sustainability

Our ambition

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

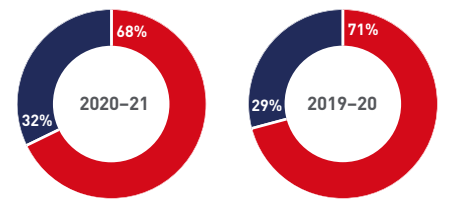
Our business

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

Where we operate

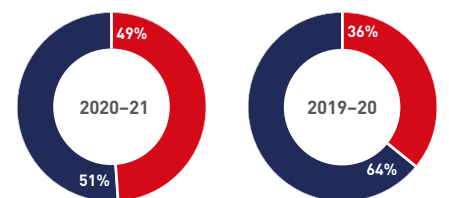
Royal Mail operates throughout the UK, and offers letter and parcel delivery services internationally. GLS has a growing international footprint which currently includes around 40 countries and nation states.

Group revenue split (before intragroup eliminations)



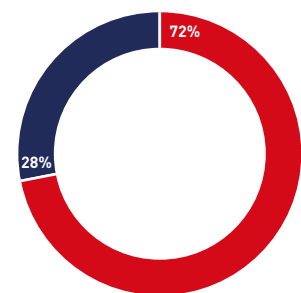
Royal Mail	£8,649m	Royal Mail	£7,720m
GLS	£4,040m	GLS	£3,161m

Group adjusted operating profit split¹



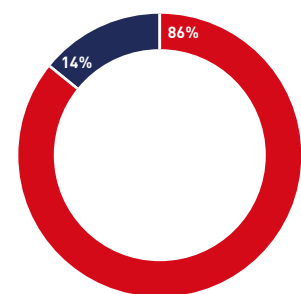
Royal Mail	£344m	Royal Mail	£117m
GLS	£358m	GLS	£208m

Group revenue split (parcels and letters)



Parcels	£9,120	72%
Letters	£3,518	28%

Number of employees (Royal Mail and GLS)



Royal Mail	c.137,300 ²	86%
GLS	c.21,300	14%

Royal Mail

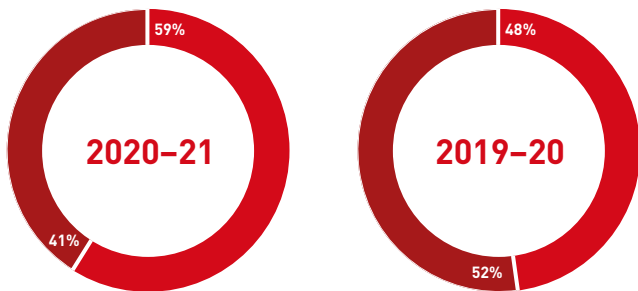


Collects, sorts and delivers letters and parcels.

As the UK's sole designated Universal Service Provider³ Royal Mail delivers a 'one-price-goes-anywhere' service on a range of letters and parcels to over 31 million addresses across the UK, six days a week.

Parcelforce Worldwide is a leading provider of express parcel delivery services.

Parcels and letters revenue



Parcels	£5,131m	Parcels	£3,699 m
Letters	£3,518m	Letters	£4,021m

Other information

Mail Centres	Local Connect Network (Customer Service Points and Post Offices)	Vehicles
37	c.11,100	c.50,800

GLS

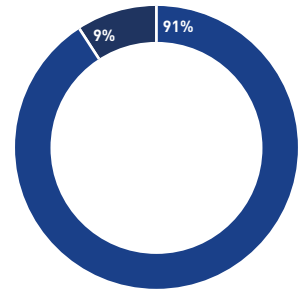


Collects, sorts and delivers parcels.

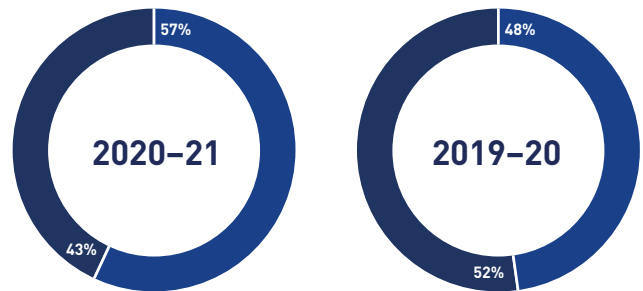
One of the largest ground-based providers of deferred parcel delivery services in Europe with a growing presence in North America.

GLS revenue by region

Europe	91%
North America	9%



Business-to-consumer (B2C)/Business-to-business (B2B) volume split



B2C	57%	B2C	48%
B2B	43%	B2B	52%

Other information

Network hubs ⁴	Parcelshops	Depots (including agencies) ⁴
71	c.25,000	c.1,500

1. Alternative performance measure. Alternative performance measures (APMs) are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 75 to 81.

2. Royal Mail headcount includes Property and Facilities Solutions Limited, Pensions Trustees and Intersoft and eCourier.

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

4. Excludes Italian franchises.

Chair's Statement



Keith Williams
Non-Executive Chair

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 profit¹ 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 52.1p (2019-20: 19.6p).

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 flow² over the five years to 2024-25. For further information about Royal Mail and GLS' strategic developments see pages 16 to 23.

1. Alternative performance measure. Alternative performance measures (APMs) are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 75 to 81.

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

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. Further information about our approach to responsible business and climate-change risks is included on pages 28 to 41.

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 10p 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.

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 dividend policy and expects to propose a full year dividend for 2021-22 of 20p per share, to be paid one third (6.7p per share) as an interim, two thirds (13.3p 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 change

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. More detail on outlook can be found on pages 57 to 59.

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

Keith Williams
Non-Executive Chair
19 May 2021

Chief Executive Officers' Reviews

To ensure greater focus and more effective execution, two executive management teams oversee the operational and financial performance of Royal Mail and GLS. In this section Simon Thompson, CEO Royal Mail, and Martin Seidenberg, CEO GLS, cover the performance of their respective businesses during the year and key developments.

Postage that fits around our customers



Parcel Collect

As part of our commitment to provide a great customer experience and a convenient service, in October 2020 Royal Mail launched Parcel Collect, a parcel pick-up service which is available across the UK. This new service collects directly from the customer's door, or their nominated safe place, and customers pay for it online or via the Royal Mail app. Since its launch Parcel Collect has processed over 1.6 million items.

CEO Royal Mail Review



Simon Thompson
Royal Mail CEO

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**We're changing.
And it is working.**

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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 profit¹ was £344 million (2019-20: £117 million) an increase of 194.0% year on year, and adjusted operating margin¹ 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.

1. Alternative performance measure. Alternative performance measures (APMs) are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 75 to 81.

Operational developments

Becoming key workers

Throughout the pandemic, Royal Mail has been a key partner for the Government's COVID-19 testing programme. Tens of millions of COVID-19 test kits have been delivered and collected across the country and collections at priority postboxes have been increased to make it easier for customers to return COVID-19 tests. Since April 2020 the business has also distributed over 1.5 billion items of PPE to schools, social care and healthcare providers.

Responding to customer needs

In response to increased demand during the pandemic, Royal Mail has launched a Sunday parcel delivery service on behalf of its major retail customers. This development paves the way for seven-days-a-week parcel deliveries for more customers in the future as the service is progressively expanded over the coming year.

Improving operational efficiency

Construction of Royal Mail's second parcel hub is underway. Scheduled for launch in 2023, this state-of-the-art, 840,000 square foot Midlands-based facility will have capacity to process over one million parcels per day, making it the largest Royal Mail parcel hub in the UK.



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 (see pages 16 to 19). 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 reported¹ 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. For further information see pages 37 and 38.

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

1. Based on competitors' 2019 published reports.

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%. Further information about how we will accelerate the automation in our network can be found on page 20.

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 the 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 the 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.

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 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.

Simon Thompson
CEO Royal Mail
19 May 2021

CEO GLS Review



Martin Seidenberg
CEO GLS

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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. Further information about our strategy and key developments during the year is included on page 16 and pages 21 to 23.

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).

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.

Martin Seidenberg
CEO GLS
19 May 2021

Operational developments

Expanding our international capabilities

GLS has expanded its international ShopReturnService into a further 12 countries. Now available in 19 countries, customers who have tailored their online offering to different destinations can use the GLS returns portal and ParcelShop network to offer their recipients efficient, cross-border return shipments.

Responding to customer needs

GLS quickly responded to the pandemic and developed contactless delivery solutions to ensure the safety of its drivers and parcel recipients. In Poland, Spain and the Netherlands PIN codes sent to recipients in advance of delivery replaced the requirement for signatures.



Market Environment

For some years a number of trends have been driving structural change within our letters and parcel markets. The COVID-19 pandemic has augmented and accelerated these trends. Specifically, letter volume has declined significantly while parcel volume has increased.

	Shift to digital	Savvy customers
<p>Royal Mail parcels</p> <p>59.3%</p> <p>of Royal Mail revenue</p>	<p>COVID-19 has been a catalyst for significant e-commerce growth, with retailers rapidly investing in online platforms and technology-enabled supply chains.</p> <p>Fast facts¹ UK e-commerce sales are estimated to have grown 45.5% and now account for 26% of all retail sales.</p>	<p>Value and price-conscious shoppers are expending more time and effort to find the best bargains online. Cost of shipping and returns are key considerations.</p> <p>The online shopping cart abandonment rate rose to 90% (2019: 87%), with abandonment frequency also increasing.</p>
<p>Royal Mail letters</p> <p>40.7%</p> <p>of Royal Mail revenue</p>	<p>UK letter volume decline accelerated during the pandemic as many businesses switched to digital forms of advertising and customer communications.</p> <p>Fast facts UK addressed letter volumes (excluding elections) fell more than 20% and have fallen 53% since 2010^{2,3}.</p>	<p>As marketing budgets come under intense scrutiny, attention has turned to short term perceived return on investment rather than long term brand building and marketing effectiveness.</p> <p>Consumers crave real, tangible and 'human' interaction, with two in five people reporting suffering 'digital burnout'. 48% say they often delete emails without opening them¹.</p>
<p>International</p> <p>9.5%</p> <p>of Royal Mail revenue from international (excluding Parcelforce Worldwide)</p>	<p>Data and technology are being leveraged to ease the increased logistical and customs procedures due to COVID-19 and Brexit.</p> <p>Fast facts¹ 38% of UK online shoppers made cross-border purchases, with 35% making such purchases via smartphone.</p>	<p>UK consumers are very price sensitive when shopping cross-border, with low product prices the top reason for choosing an online retailer.</p> <p>48% of UK cross-border online shoppers have abandoned their online shopping baskets due to high shipping and postage costs.</p>
<p>European parcels</p> <p>29.0%</p> <p>of Group revenue</p>	<p>E-commerce has accelerated across all European markets as a result of government enforced stay-at-home measures, including in markets with previously low online retail penetration.</p> <p>Fast facts¹ In Europe digital adoption has grown from 81% to 95% of consumers during the COVID-19 crisis.</p>	<p>Across Europe, the pandemic has accelerated the consumer flight to low-cost products whilst simultaneously increasing demand for more premium offerings.</p> <p>On average, consumers across Europe expect to wait three to five days for delivery. Willingness to pay extra for a faster delivery time declined during the pandemic.</p>

1. Information provided relates to calendar year 2020.

2. In 2018-19, Royal Mail changed its volume reporting definitions to reduce survey usage where real data exists, which was available from 2015-16. Prior to 2015-16, volume growth rates have been used to construct the volume data going back in time.

3. Information provided relates to FY2020-21.

In response, our strategy is focused on building a parcels-led, more balanced and diverse international business. We are also adapting our offering to meet growing customer demand for trusted, convenient and sustainable value-for-money services.

Convenience	Trust	Sustainability
<p>Frequency of purchase and speed of delivery are the main reasons for delivery service subscription. Uptake of paid-delivery services accelerated during the lockdown periods.</p>	<p>During the pandemic, consumer demand for transparency, including online order journey tracking via apps and proof of delivery, has increased.</p>	<p>People of all ages are now seeking more sustainable products and services.</p>
<p>44% of UK consumers subscribed to a paid-delivery service (2019: 34%).</p>	<p>74% of online shoppers are more confident when ordering online with tracking (2019: 67%).</p>	<p>An increasing number UK retailers have made sustainable packaging pledges on the back of e-commerce growth.</p>
<p>As advertisers followed brands online digital forms of advertising have increased and now represent 70% of the UK market.</p>	<p>Physical mail has been a particularly effective channel during the pandemic, driving consumers online to interact and transact with senders. It is viewed by the public as the right choice for critical communications.</p>	<p>Increasingly consumers are supporting brands perceived to be taking positive environmental action.</p>
<p>In the UK direct mail remains the third largest advertising medium¹.</p>	<p>85% of people paid as much or more attention to mail during lockdown. Two thirds of consumers said the UK Government's COVID-19 mailing campaign had a direct impact on their behaviour¹.</p>	<p>Paper packaging and mail formats are becoming more sustainable, with 71% of wood and 83% of pulp certified as coming from sustainable forest sources¹.</p>
<p>Retailers and marketplaces are opening fulfilment centres closer to their international customers to shorten supply chains, reduce delivery times and costs.</p>	<p>Transparency of delivery and customs charges has become even more important to UK cross-border shoppers, particularly since Brexit, with seamless delivery duty paid solutions becoming increasingly important.</p>	<p>Cross-border online shoppers increasingly expect information about the sustainability of the products they are purchasing and have changed their online shopping behaviour due to sustainability issues.</p>
<p>87% of UK cross-border online purchases are delivered to the home or workplace.</p>	<p>62% of UK cross-border online shoppers rate clear information on delivery charges as extremely important.</p>	<p>73% of UK cross-border shoppers want their deliveries to be carbon-neutral.</p>
<p>Large online marketplaces are establishing their own delivery operations, getting closer to customers and reducing delivery lead times.</p>	<p>During the pandemic, an increasing number of brands have invested in direct-to-consumer websites, giving online shoppers confidence that they are buying authentic products and enabling brands to forge stronger relationships with their customers.</p>	<p>Carriers are investing in zero-emissions vehicles and building out their parcel locker and urban delivery networks to reduce the environmental impact of deliveries.</p>
<p>The demand for e-commerce warehouses in Europe has significantly increased and vacancy rates have reached a record low of 5%.</p>	<p>A consistent delivery experience that lives up to customer promises can drive retailer and brand loyalty. Overall European e-commerce sales have grown by 26.3%.</p>	<p>A growing number of European cities are mandating the use of electric vehicles in urban areas as emissions regulations become more stringent.</p>

Our Business Model

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

Our core activities

Our key resources

How we create value

We deliver parcels and letters across our extensive networks and add value by leveraging our key resources to provide a high-quality, value-for-money service.

Shaped by our changing markets

Changing market conditions are impacting our business, including a significant decline in letters and increased e-commerce driving up B2C parcels. (See pages 12 and 13).

In response we are intensifying our effort to build a parcels-led, more balanced and diverse international business. We are also adapting our service offering to ensure that we offer customers what they want.

Our extensive networks

With an unparalleled network in terms of scale and shape, Royal Mail has the capability to deliver to every address across the UK and is the UK's sole designated Universal Service Provider.

GLS is one of the largest ground-based deferred parcel operators in Europe. It has a growing presence in North America and a wide network of partners across the world.

Our people

Our employees play a key role in helping us achieve our strategic priorities. Their engagement and commitment are crucial to our success.

Our well-recognised brands

Royal Mail ranked in the top 10 at YouGov's Best Brands 2020.

GLS is a highly respected brand and is recognised in the majority of its European markets.

Our strong technology infrastructure

Around 90% of our Royal Mail letters business is automated compared to 33% of the business' parcel operation. We have plans to increase parcel automation levels to at least 50% by the end of 2021-22.

GLS' automated operations contribute to the efficient and fast processing of parcels.

In response to customer demand for convenient and reliable delivery services we provide a range of convenient delivery, tracking and redirection options.

Provide a high-quality, value-for-money service that meets customers' needs.



We provide the products and services our customers need and want.

We aim to operate as efficiently as possible by optimising our infrastructure and motivating our workforce.

We invest in technology and launch innovative new services to enhance our customer experience and harness market trends. See pages 8 and 11.

Value delivered

Operate in a responsible and sustainable way



Maintaining trust is fundamental to our success.

Our purpose demonstrates the importance we place on our stakeholder relationships and our impact on wider society. We engage with our stakeholders and factor their issues and concerns into our decision making. See pages 24 to 27.

Our CR strategy supports the creation of sustainable stakeholder value. It also protects our trusted position in society.

Royal Mail CR strategy objectives include:

- Delivering economic and social benefit to the communities we serve.
- Managing the environmental impacts of our business and operations.
- Operating with integrity.

GLS' sustainability mission, ThinkResponsible, underpins GLS' activities and encompasses:

- ThinkGreen, business practices that help conserve resources.
- ThinkSocial, activities that benefit employees and society at large.
- ThinkFuture, alternative fuel technologies and urban logistics.
- ThinkQuality, reliability, punctuality, transparency and performance standards.

See pages 28 to 41.

Building a more balanced and diverse parcels-led, international business



Our strategy is focused on:

Royal Mail

- Improve and simplify our customer offering through great quality of service and easy to understand and simple to use products.
- Rebuild trust through a positive step change in the relationships with our people and our unions.
- Grow our business, our share and the market through greater capacity and new innovative products and services.

GLS

- Strengthen GLS' top position in the cross-border deferred parcel segment.
- Strongly position GLS in the 2C parcel market, whilst securing its leading position in the 2B segment.
- Implement innovative digital and sustainable solutions that are centred around customer needs.

For further information see pages 16 to 23.

Our customers

We play a crucial role in connecting customers, companies and countries.

31m

UK addresses

250,000

European clients

Our people

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

1 in 172

People employed by Royal Mail in the UK¹

Our shareholders

We generate returns for investors.

10p per share

Final dividend recommended for the year ended 28 March 2021

Our suppliers and business partners

We provide employment across our supply chain.

71,525

Jobs indirectly supported by Royal Mail in the wider economy¹

Our communities and society

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

Climate-neutral

parcel delivery available in Germany and Netherlands

£11.7bn

Gross value added by Royal Mail (direct and indirect contribution)¹

1. The Centre for Economics and Business Research (CEBR) research, conducted for Royal Mail in 2021, comprising direct and indirect contributions.

Our Strategy

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

Royal Mail

Objectives

- **Improve and simplify our customer offering through great quality of service and easy to understand and simple to use products.**
- **Rebuild trust through a positive step change in our relationships with our people and our unions.**
- **Grow our business, our share and the market through greater capacity and new innovative products and services.**

 **Customer**

 **Trust**

 **Growth**

KPIs (see pages 44 and 45)

- Group operating profit
- Group revenue
- Royal Mail costs
- First Class Retail Quality of Service
- Reduction in Lost Time Accident Frequency Rate

Principal risks (see pages 48 to 53)

- 1 2 3 4 5 6
- 7 8 9 10 11 12

GLS

Objectives

- **Strengthen GLS' top position in the cross-border deferred parcel segment.**
- **Strongly position GLS in the 2C parcel market, whilst securing its leading position in the 2B segment.**
- **Implement innovative digital and sustainable solutions that are centred around customer needs.**

 **Connect Europe**

 **Strengthen 2C parcel market position and lead in 2B**

 **Inspire the market**

KPIs (see pages 44 and 45)

- Group operating profit
- Group revenue

Principal risks (see pages 48 to 53)

- 2 3 4 7 9 10 11

Focus on customer trust and growth



Becoming more efficient

Royal Mail is installing more fully-automated parcel sorting machines to meet growing demand for parcel delivery and speed up the processing of parcels in its mail centres. We will increase the number of parcel sorting machines in our operation from 20 currently to around 30 by the end of 2021-22. With each machine able to process around 180,000 parcels per day and up to 10,000 parcels per hour, this cutting-edge technology will expand Royal Mail's parcel processing capacity.

Focus on customer trust and 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.



Offering innovative customer services

Partnering with DronePrep, Skyparts and what3words, Royal Mail is the first nationwide UK parcel carrier to deliver a parcel for recipients via an unmanned aerial vehicle. Following this delivery to the Isle of Mull in December 2020, we will be consulting with the islanders about how drones could be used to support deliveries to their community. This process will also help identify opportunities to support postmen and postwomen in delivering to other very remote parts of the UK.

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 has 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



Building trust

In April 2021, Simon Thompson and Terry Pullinger, Deputy General Secretary of the CWU, hosted a joint Facebook Live Q&A session. During the event, which had 17,500 viewers, Royal Mail employees and CWU members raised questions covering a range of issues including working environment improvements, what the business is doing to look after colleagues' mental health and the initiatives underway to improve staff equipment.

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.

 **Developing more convenient and innovative products and services**

As part of a pilot in March 2021, Royal Mail added unique barcodes to a limited number of Second Class stamps creating the first ever UK barcoded stamps.

Key findings from this programme will be used to inform the future development of more convenient and innovative products and services in line with our commitment to constantly evolve our offering to meet customers’ ever-changing needs.



Accelerate GLS



Expanding our international reach

During 2020-21, to support delivery of its growth strategy, we further expanded GLS' geographic network. Several new locations were opened across Europe, including a new distribution hub in Essen, and capacity at existing hubs was also increased. In particular, sorting capacity at the Budapest distribution hub has increased by 50% and the facility is now able to sort around 30,000 parcels per hour including all international parcels coming from Slovenia, Romania, Bulgaria and Serbia.

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

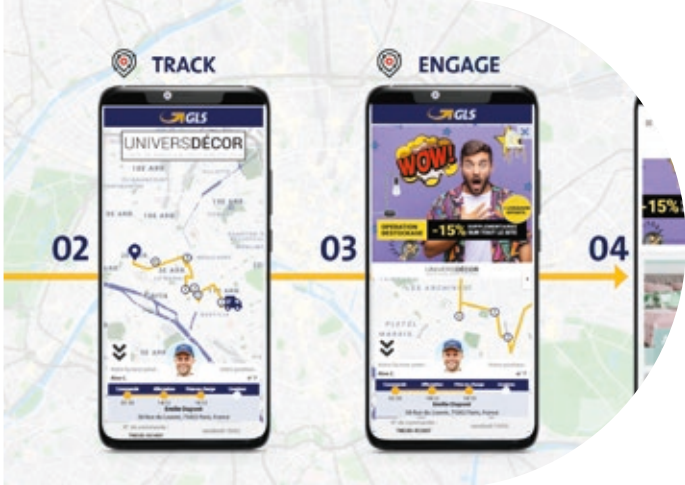
To achieve each of our strategic ambitions, create sustainable growth and meet changing customer needs, we have developed and are executing clear strategic plans.

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.

2C 2B Providing customer-centric innovative solutions

Customers are at the heart of our Accelerate GLS strategy and we are continually developing new services to better suit their needs. In April 2021 GLS France became the first player in the sector to offer customers in France Track & Engage[®]. This innovative digital marketing tool allows retailers to engage with their customers during delivery. Using the tracking interface retailers can set up customised marketing campaigns that are visible to the customer every time they click the tracking link to check the status of their delivery. This effective low-cost marketing solution helps build brand loyalty and offers a new brand experience.



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 flow³. Capital expenditure over the period is expected to remain in the range of 3-4% of revenue.

2C
2B



Embedding sustainability in our day-to-day operations

To achieve our long-term objective of 100% emission-free deliveries, GLS is increasing its electric vehicle fleet, scaling up its green infrastructure by building green distribution hubs powered by photovoltaic systems, and installing E-charging stations. GLS Germany and GLS Netherlands already offer customers 100% climate-neutral shipping via reduction measures and compensation through certified projects.



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.

Our Stakeholders

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

Colleagues Our workforce who underpin the delivery of our strategy.	Customers People who rely on and buy the service we provide.	Shareholders Shareholders, including our employees and institutions who provide capital to run our business.	Unions Organisations that represent the interests of our workforce.
Their key issues			
Health, safety and wellbeing. Fair, diverse and inclusive working environment. Attractive pay and rewards. Development opportunities.	High-quality, value-for-money, convenient service.	Long-term sustainable value. Strategy and execution. Strong environment, social and governance performance.	Protection of workers' interests.
How we engage across the Group			
Regular town hall meetings, team briefings and conference calls. People Panel and Employee Voice Forum. Ambassador programme to enhance colleagues' understanding of our strategy. Various internal communication channels including intranet and extranet, WhatsApp, Facebook Workplace, a weekly TV programme, People app and a quarterly magazine. Pulse surveys and Trust Survey. See page 31.	Frontline workers have direct access to our customers. Regular customer surveys. See page 30. Monitor net promoter score. Management and resolution of complaints.	Active investor relations (IR) programme. See page 94. Quarterly performance updates. Investor perception study. See page 94.	Executive team meets with union representatives. Elected union representatives work with management on a daily basis across our UK business. In GLS we engage with our Works Councils.
How we engage at Board level			
Engagement programme led by Designated Non-Executive Director for engagement with the workforce, who provides regular updates to the Board. Attendance at Employee Voice Forums. Regular updates from the CR Committee including in relation to culture, health and safety and whistleblowing reports. Trust Survey feedback and key actions required considered and discussed.	Regular Board updates on quality of service.	Chair and Executive Directors participate in one-on-one shareholder meetings. Annual General Meeting (AGM). Remuneration Committee Chair shareholder update. Participation in IR programme. Regular Board updates on investor landscape from corporate brokers and IR Director.	Group CFO and CEO Royal Mail meet regularly with senior union leaders. In his previous role of Executive Chair, Keith Williams met with senior union leaders.
Outcomes			
<ul style="list-style-type: none"> – Rebuilding trust is a strategic priority. See page 19. – Agreement with CWU on operational change, pay and job security. See page 26. 	<ul style="list-style-type: none"> – Customer-centricity is a strategic priority. See pages 16 to 23. – New and enhanced products and services that meet customers' needs. See pages 18 to 20 and pages 22 and 23. 	<ul style="list-style-type: none"> – 2020-21 final dividend payment and future dividend policy, which takes account of the 2021 investor perception survey feedback. See page 27. – GLS March 2021 strategy day which provided further information about the business, as requested by investors. – Additional ESG-related measure, focused on environment commitments, included in Royal Mail incentive plans. See page 111. 	<ul style="list-style-type: none"> – Agreement with CWU. See page 26.

Regulators	Governments	Suppliers	Local communities
Bodies that oversee our provision of the Universal Service.	Administrations that levy taxes and determine legislation that affects our business.	Our commercial partners who support our business.	The people who our activities may impact – socially, economically and environmentally.
Their key issues			
Effective delivery of our Universal Service Provider obligations. Delivery of annual Quality of Service targets.	Provision of employment. Tax income.	Fair commercial terms. Long-term relationships.	Positive social and economic impact. Sustainable business operations.
How we engage across the Group			
Executive team meets regularly with Ofcom. Dedicated Ofcom team engages with Ofcom and participates in regular meetings.	Executive team meets with key politicians and civil servants, including the Postal Affairs and Pensions Minister. Public affairs engagement programme. Regular updates and briefings.	Regular commercial dialogue.	Execute a structured and focused community investment strategy in the UK. GLS supports numerous regional and national charitable initiatives. See page 40.
How we engage at Board level			
CEO Royal Mail provides updates to the Board on engagement with Ofcom. The Board also receives regular updates from dedicated Ofcom team.	Regular Board updates on matters of relevance including updates on pension legislation. As appropriate, members of Public Affairs team attend Board meetings and participate in discussions. CR Committee receives updates on ESG-related consultations and policies.	Contracts considered critical in terms of risk profile approved by Board prior to award. Audit and Risk (AR) and CR Committee Chairs provide regular updates to Board on supplier engagement. Procurement team members attend CR Committee meetings to update on supplier management and relationships. AR Committee considers reports on payment practices for relevant businesses.	Directors' induction programme includes site visits. CR Committee provides regular Board updates including in relation to the Group's environmental strategy.
Outcomes			
<ul style="list-style-type: none"> – Annual regulatory Quality of Service targets. See page 30. – Contribute to relevant consultations and the development of regulations that meet stakeholders' needs. 	<ul style="list-style-type: none"> – £11.7 billion of gross value added by Royal Mail (direct and indirect contribution)¹. – Delivered and collected COVID-19 test kits for the NHS and social care frontline staff. – Delivered PPE to surgeries and social care providers and vaccination letters to households across the UK. – Ensured the effective movement of cross-border parcels post-Brexit. – Pensions Schemes Act passed, which will enable our Collective Defined Contribution Pension Scheme. 	<ul style="list-style-type: none"> – 71,525 jobs indirectly supported by Royal Mail in the wider economy¹. – Promote responsible business practices through supply chain compliance. See page 41. <p><small>1. CEBR research, conducted for Royal Mail in May 2021, comprising direct and indirect contributions.</small></p>	<ul style="list-style-type: none"> – Provide 1 in 172 jobs in the UK¹. – £7.2 million community investment in 2020-21. See page 40. – Provide carbon-neutral shipping. See page 39.

Section 172 Statement

The Board recognises that the long-term success of the Group is dependent on effective stakeholder engagement. The Board factors issues and concerns arising through our stakeholder engagement into its discussions and, as part of its decision-making process, assesses the potential long-term impact of decisions made on each stakeholder group.

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

In relation to the decisions taken during the year ended 28 March 2021, and up until 19 May 2021, the Board of Directors of Royal Mail plc consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172 of the Companies Act 2006.

Examples of principal decisions made by our Board during the year, and the stakeholder issues and section 172 matters considered as part of the decision-making process, are set out on this page and on the following page. We define 'principal decisions' as decisions which are material or strategic to the Group, and/or significant to any of our stakeholders.

Royal Mail and GLS strategies

During the year the Board reviewed and approved strategic plans to drive the ongoing transformation of Royal Mail and accelerate GLS' growth. The Board considered both strategies and considered them to be in the best long-term interests of the Group and its stakeholders including:

- Customers sit at the heart of both plans which focus on providing trusted, convenient, reliable and quality services that meet their needs.
- The Royal Mail strategic plan prioritises building and maintaining trust with employees. This is critically important to ensure that our people feel valued and engaged in the business. It will also support the Royal Mail transformation programme and help accelerate the pace of change.
- Sustainability is embedded in both plans which will help drive the Group's ambitions to reduce its impact on the environment and the communities we work within. This approach also responds to customers' demands for more sustainable deliveries.
- Both strategies focus on driving growth over the medium to long term by capitalising on Royal Mail and GLS' respective strengths and the growth in the parcels market.

Agreement with unions

Between May 2019 and December 2020 Royal Mail was in negotiations about a dispute with the CWU. Throughout the negotiations the Board was provided with updates on the progress of the talks including updates from Keith Williams who, in his then role of Executive Chairman, engaged directly with the CWU's General Secretary. The Board regularly considered, together with Royal Mail senior management, how the dispute could be resolved.

In December 2020 Royal Mail and the CWU reached an agreement covering strategy, the future direction of Royal Mail, operational change, pay and job security. The Board considered and approved the terms of the agreement determining that it was in the best interests of the Group in the long term. In particular the agreement:

- Supported the Royal Mail transformation programme which is focused on creating sustainable value for all stakeholders.
- Allowed change to be delivered more quickly across Royal Mail. This will result in the creation of a more efficient business better able to serve changing customer needs.
- Provided job security and job opportunities for Royal Mail's employees.
- Avoided strike action which would impact employees, customers, suppliers and the communities Royal Mail serves. Prolonged strike action would also have potentially damaging long-term consequences for the Group.



Payment of final dividend and development of new dividend policy

In June 2020, at the time of our FY2019-20 results update, we announced that we did not intend to pay any dividend in respect of 2020-21 and that our ambition was to recommence dividend payments in 2021-22, supported by GLS.

During the second half of 2020-21 revenue trends in Royal Mail became more robust than anticipated. In March 2021 the Board reviewed the performance of the Group during the year and, as announced on 30 March 2021, concluded that it was appropriate to recommend the payment of a one-off final dividend of 10p per share in respect of 2020-21. At the same time, we announced that the Board expected to announce a new dividend policy for the Group with the FY2020-21 results.

As part of the decision-making process about the payment and level of the dividend (in addition to the considerations required in order for a dividend to be paid lawfully) and the development of the new dividend policy, the Board considered stakeholders' views and priorities over the medium to long term including:

- The interests of the Group's shareholders and in particular engagement with investors which provided insight into their expectations about the resumption of the dividend earlier than planned due to the Group's improved financial performance. Feedback from investors provided as part of a perception survey undertaken in April 2021 also informed the dividend policy.
- The need to create sustainable value over the medium to long term for all stakeholders including shareholders, customers, employees and suppliers. In particular, notwithstanding the ongoing uncertainty, the Board considered the ability of Royal Mail and GLS to independently generate sufficient cash to invest in their respective growth strategies and initiatives to manage the Group's environmental impact.
- Given the uncertainty, the importance of retaining a prudent capital structure, maintaining the Group's balance sheet strength, its investment grade credit rating and low levels of financial leverage.

Transformation of Royal Mail

In November 2020 the Board considered and approved a second phase of investment in a new parcel hub in the Midlands which is scheduled for launch in 2023. Located in Daventry, the new hub will have capacity to process over one million items per day and will be the largest Royal Mail parcel hub in the UK. In considering this continued investment at a time when the Group was focused on reducing capital expenditure and cancelling some projects and deferring others, the Board determined that the investment in the Midlands hub was in the best long-term interests of the Group taking into account the following:

- The construction of the facility supports the Group's strategy to deliver long-term sustainable value for all stakeholders by operating more efficiently and becoming an international parcels-led business that also delivers letters in the UK.
- Parcel automation equipment to be installed in the new hub will enable the business to respond to changing market dynamics, including handling larger parcels more effectively, and better serve customer needs.
- The new facility will help secure long-term job opportunities with Royal Mail and support employment across the local supply chain and community.
- The hub's location at the heart of the UK's motorway and rail network, and its proximity to online retailers' warehousing and fulfilment centres, will enable later acceptance times into the network and quicker delivery of items, in particular next day delivery, and support the retail industry. The site's rail connectivity will also enable an increased number of items to be delivered in a more efficient and sustainable way.
- Energy efficient heating, ventilation and LED lighting installations within the facility ensure high sustainability standards and the building's design, which maximises the amount of natural light, will improve employee wellbeing and save energy.



Corporate Responsibility Review

Our CR strategy supports the delivery of our business strategy and the creation of sustainable stakeholder value. It also protects our trusted position in society.

The objectives of our Royal Mail CR strategy are:

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



The GLS sustainability mission ThinkResponsible is a key pillar of the activities of the GLS Group. It encompasses the pillars of:

- ThinkGreen, business practices that help conserve resources.
- ThinkSocial, activities that benefit employees, business partners and society at large.
- ThinkFuture, activities in the area of alternative fuel technologies and urban logistics.
- ThinkQuality, reliability, punctuality, transparency and performance standards at the heart of day-to-day endeavours.



Determining materiality

Our CR strategies and reporting are tailored to address our stakeholders' issues and concerns. We proactively engage with them to understand their perspectives about our business and the social and economic value we create in the communities in which we operate. Information about our stakeholders and our engagement channels is set out on pages 24 and 25.

In addition, we undertake a materiality assessment across our Royal Mail business every two years. Through one-to-one interviews, surveys and an external stakeholder panel we identify the issues our stakeholders view as being most important. Our most recent assessment was conducted during 2020 and a full description of the process and outcomes are contained in our CR Report which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

This assessment identified the following issues as being most important to both Royal Mail and our stakeholders:

- Climate change and emissions reduction.
- Engagement and culture.
- Labour standards and human rights.
- Customer service.
- Health, safety and wellbeing.
- Diversity and inclusion.
- Community impacts.

GLS publishes a GRI-based Sustainability Report every two years and a brief update in between. The latest report is available at www.gls-group.eu/GROUP/en/our-responsibility. GLS also conducts a materiality analysis specific to its business involving key stakeholders from each country it operates in. The most recent analysis identified data protection, health and safety (with a focus on safe driving), and customer service as key material issues.

Governance and risk management

The CR Committee oversees all environmental and social matters including the approval of our CR strategy and regular monitoring of our CR activities. The Board also receives regular updates on our CR strategy and activity. See pages 106 and 107 for further information about the CR Committee's activities during 2020-21.

We assess the risks and opportunities arising from social and environmental issues relevant to our business at least once a year and use our risk management framework to determine the criticality of risks. Further information about our approach to risk management can be found on pages 46 to 53.

Reporting standards

We are committed to being as open and transparent as possible about our business.

Our CR reporting meets:

- The disclosure requirements of the Global Reporting Initiative Standards.
- The requirements of the EU's Non-Financial Reporting Directive.
- Our obligations as a signatory to the United Nations Global Compact.

We engage PricewaterhouseCoopers (PwC) to verify reported non-financial performance indicators and related assertions. This assurance includes environmental indicators as well as those indicators used to monitor culture, such as health and safety, diversity and breaches to our Business Standards. Assurance is performed in accordance with the ISAE 3000/3410 standard. The assurance statement will be published in our 2020-21 CR Report which will be published in June 2021.

Our performance

We are independently rated as a leading responsible business by the most prestigious international benchmarks for sustainability. Our performance is highlighted below.



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



Ranked in 92nd percentile of companies. Constituent of both FTSE4Good UK and Europe.



Rated as AA (leader).



Scored B rating, ahead of industry average of C.

Customers

Both the Royal Mail and GLS business strategies are focused on creating more agile customer-focused businesses. Our aim is to provide a high-quality, value-for-money service that meets our customers' needs.

Understanding and supporting our customers' needs

Royal Mail and GLS have continued to play important roles in the response to the COVID-19 pandemic (see pages 7 and 10) with our people working hard to deliver as comprehensive a service as safely as possible. At all times, the health and wellbeing of our people, our customers and our communities has remained our top priority.

Royal Mail was proud to be selected by the UK Government as the logistics supplier for the National Testing Programme in the UK. To date, we have handled tens of millions of COVID-19 test kits. We have also delivered over 1.5 billion items of PPE to schools, social care and healthcare providers.

The delivery of parcels and letters keeps countries and communities connected and businesses operating. Our new Parcel Collect service, which launched in October, has been important in supporting those customers that have been unable to, or have found it difficult to leave their homes. See page 6 for more information.

Supporting small and medium-sized enterprises (SME)

Our products and services play a vital role in supporting economic growth. By offering delivery services to all parts of the UK and internationally, SMEs are able to compete with larger businesses and offer consumers greater choice. In August 2020, Royal Mail launched a new Instagram account to support our SME customer base which includes more than 26,000 businesses and marketplace sellers. This service aims to provide inspiration, support and advice for growing businesses as well as showcasing relevant Royal Mail products and services such as the Royal Mail app, Click & Drop, and guides and insights into shipping, market trends and marketplaces.

Putting our customers first

In an increasingly competitive market, we aim to make our services simple and flexible, to meet the changing needs of our customers, and provide a high level of customer service.

Improving customer experience is extremely important to us, as such we undertake regular research with both our business and consumer customers. We measure Royal Mail customer satisfaction by interviewing around 400 business contract customers, and 3,000 consumers per month. In addition to the monthly business and consumer satisfaction interviews, we receive feedback from around 50,000 recipients per month via a link in the confirmation of delivery emails.

Although some customers experience may have been impacted due to the pandemic over the last year, 84% of our business customers said that "Royal Mail are easy to do business with", and 81% of consumer customers agreed that Royal Mail's services are "easy to use".

We track our Net Promoter Score (NPS) through our interviews and feedback mechanisms. This measure provides information about the likelihood of recommending our brand, with a score above zero classed as good. At the end of 2020-21 our NPS for business senders was 33%, and 36% for consumers. For consumer recipients our NPS was 40%.

We take complaints very seriously. We aim to resolve customer issues and identify any underlying causes. This year, as a result of the pandemic, we have faced numerous operational challenges as we handled unprecedented parcel volumes. Complaints received by Royal Mail during 2020-21 totalled 615,892, an 8.5% increase compared with the prior year. Complaints received included new issues such as social distancing and the change to doorstep delivery policy. Improving standards across our operations continues to be a key priority.

Quality of service

At the beginning of the pandemic we communicated to customers that despite our best efforts, our service was likely to be disrupted. We prioritised the health and safety of our people and customers and we modified our operations. However, the introduction of necessary social distancing measures, combined with increased COVID-19 related staff absences and unprecedented parcel volumes, inevitably had a detrimental impact on performance. Ofcom has recognised that the COVID-19 pandemic qualified as an 'emergency situation' and, in such circumstances we are not required to sustain the Universal Service without interruptions, suspension or restriction.

As a result of these exceptional challenges, Royal Mail delivered 74.7% of First Class mail the next working day (and 92% of First Class mail was delivered within two days of being posted). We delivered 93.7% of Second Class mail within three working days for the financial year 2020-21.

Royal Mail's service levels are improving as COVID-19 related absence levels begin to stabilise and as we continue to take action to improve Quality of Service.¹ As of the last week of April 2021 we were delivering more than 88% of First Class mail the next working day, and more than 97% of Second Class mail within three working days. We remain resolutely focused on delivering pre-COVID-19 quality in a COVID-19 world as soon as we can.

During the year GLS continued to be recognised for its high level of customer service. In Hungary, a survey undertaken by the independent Economic Research institute GKI Digital, confirmed GLS as favourite parcel provider in Hungary with a satisfaction score of 9.3 (out of 10). In 2020 GLS Poland won the Customer Friendly Company award based on the findings of an independent survey which evaluated customers' experiences. The business won the same award in 2019.

Providing value for money

In January 2021 we increased the price of our Letter First and Second Class stamps to 85p and 66p respectively. These changes were necessary to help ensure the sustainability of the 'one-price-goes-anywhere' Universal Service. Recognising that many companies and households are finding it hard in the current economic climate, we considered these pricing changes very carefully. Royal Mail's stamps are still amongst the best value in Europe compared to other postal operators where the average is £1.09.

1. Due to the COVID-19 pandemic the survey to assess quality of service was temporarily paused for the first two periods of 2020-21. The above performance covers the period 1 June 2020 to 28 March 2021.

People

Our people play a pivotal role in achieving our strategic priorities and we rely on them to represent the Group among our customers and communities.

We are committed to providing our people with a safe and healthy working environment. Throughout the year this has been an increased area of focus for us. Fostering a fair, rewarding and safety-focused values-based culture is key to our success and we continue to promote strong labour standards and work closely with our unions to achieve changes to our business.

Trust, culture and engagement

Our ambition is to build a trusting, inclusive and customer-focused culture. Our values – 'Be positive, be brilliant, be part of it' – represent the way we do things at Royal Mail and help shape our engagement strategy.

Culture and engagement are standing items on the agenda for the CR Committee. The Committee reviews outcomes of engagement and inclusion sessions and Employee Voice Forums, as well as monitoring whistleblowing, and bullying and harassment complaints.

As key workers, our people have played a vital role for the nation this past year, keeping the nation connected and supporting our communities. Building on a renewed sense of purpose, a culture of engagement has been a key focus; from local initiatives to our national 'Transformation Story' our ambition has been to keep the conversations going throughout this most challenging year.

In February 2021, we launched a new approach to surveying our people. We moved away from our previous annual employee survey and introduced regular pulse surveys throughout the year to help create a culture of feedback and increase the employee voice.

The pulse surveys, which are designed to provide insight against our key business priorities, began in February 2021 with our first Trust Survey. The survey asked our people for their views on working for Royal Mail. This gave us great insight into the levels of trust across the business and has subsequently driven change where it matters most to our people.

Based on the responses to the survey, Royal Mail achieved a trust score index of 59%, against an external benchmark of 74%. The survey told us that our people have great pride in working for Royal Mail and they recognise that the business has an important social purpose. However, it also told us that we have more to do to make our people feel valued and more involved in the decisions that affect them.

Supported by our Trade Union partners we launched 'The Big Trust Survey' in April 2021. Over 66,000 colleagues took part, almost 50%. We saw a +3 improvement in our Trust Index to 62. In terms of engagement, we achieved a score of 67%, which is the UK benchmark, a first for us.

As a result of the survey, one of Royal Mail's strategic objectives is to rebuild colleagues' trust and we have set ourselves an ambition to significantly increase our current trust score. Action planning at local level with the support and involvement of our Trade Union partners will continue to increase momentum and support our culture change activity.

GLS regularly conducts employee surveys across a number of its countries. GLS Poland runs an annual engagement survey as part of its 'Great Place to Work' certification. This year, GLS Denmark conducted a survey to evaluate the wellbeing of employees after the year of pandemic and restrictions.

Following a review of our people strategy we launched our Transformation Programme in July 2020. Ensuring our people were engaged with our transformation plan was crucial to ensure its success.

Creating a compelling narrative was fundamental to this approach and with input from hundreds of colleagues from across the company and country we created our 'Transformation Story'. Through each phase of activity we sought to excite, engage and enable, creating understanding of our strategy and the part our people play in supporting the changes required. Navigating the challenges of the pandemic meant that we needed to utilise a blend of face-to-face and digital platforms to communicate with our people.

Key to our approach was developing our leadership behaviours towards positive reinforcement of Transformation, cultivating trust-based relationships and driving real cultural change in the way we do things. The programme has included development of circa 1,500 managers, training them to be ambassadors and agents of connection to facilitate sessions to over 1,600 sites, and offering around 120,000 colleagues the opportunity to have their voice heard.



To connect our employees with the Board, we have held several Employee Voice Forums (EVF) to allow for an intimate and open discussion covering various topics that are aligned to our strategy. Unfortunately, COVID-19 prevented us from holding face-to-face sessions with our frontline colleagues but we have remained determined to hear from our people and arranged virtual EVFs.

In March 2021, we expanded our online collaboration tool, Workplace by Facebook, previously only used by managers, to our entire UK workforce. Workplace gives everyone at Royal Mail a voice, and creates opportunities to share ideas, solve problems and have conversations. This important dialogue will help us improve Royal Mail for our people and our customers.

Working with our unions

In the UK we recognise two unions: the CWU and Unite/CMA. Around 89% of our operational and administrative-grade employees are members of the CWU and approximately 65% of our managers are members of Unite/CMA. In the UK around 99% of employees are covered by our agreements with these two unions. We work closely with our unions with the aim of maintaining a productive and positive relationship and our agreements with them are designed to support industrial stability. This year the key focus of our relationship with our unions has been to ensure colleague safety while delivering customer services.

At the same time, we have worked with our unions to secure the financial position of the Group and create foundations for future success. The work we have undertaken with Unite has been largely in relation to the restructuring of our UK management team which has impacted overall headcount and resulted in new roles for colleagues who remain. Our agreement with the CWU covers operational change, pay and job security and provides a real opportunity to accelerate our transformation plans working in partnership with our unions at every site.

Rewarding people fairly

We offer employees a competitive salary, paid holiday and a good pension. Around 97% of our employees are on permanent contracts. In 2020-21, UK postmen and women earned 35% more than the UK National Living Wage (NLW) following an agreement to increase basic pay by 2.7%. This rate has increased by a further 1% from April 2021 along with an agreement to reduce the working week by one hour. In 2020, UK postmen and women earned 26% more than the voluntary Real Living Wage set by the Living Wage Foundation.

Royal Mail recruits workers through agency arrangements to provide additional support with increases in volume or unexpected high levels of sickness. During 2020-21, Royal Mail had an even greater requirement for temporary staff with 33,000 additional workers to cover the uplift in volume due to both the impact of COVID-19 and our traditional seasonal peak. All temporary workers receive the National Living Wage, with the majority receiving above the Real Living Wage. We have also transferred a number of workers onto longer-term fixed term contracts with rates equivalent to their permanent colleagues.

Investing in our future

We aim to provide the tools, knowledge and resources for people to fulfil their career ambitions and offer learning and development opportunities to colleagues at all levels of our organisation. This approach also supports the delivery of our business strategy.

In 2020-21, we invested £6.8 million in training, equating to approximately 19,000 training days compared with £7.4 million in 2019-20. The level of investment reported is less than the previous year as all classroom training was paused for three months due to the COVID-19 pandemic. To prevent any further disruption we moved all managerial development courses from classroom to virtual classroom training.

This year we launched a new learning platform, 'The Fridge'. This innovative digital tool aims to support career development and help our people build and enhance their skills and capabilities by providing access to tailored content whenever and wherever they are. In addition, we will shortly be launching a Postal Apprenticeship programme across the UK.

GLS also provides a range of learning and professional development opportunities for its employees. For example, at GLS Belgium, employees attend several face-to-face operational training courses and, depending on their role, some employees will also use online learning tools. To ensure that employees feel fully supported and able to integrate with their colleagues, GLS' businesses in Denmark and the Netherlands offer language courses to employees who are not native speakers.

Diversity and inclusion

We believe that diversity involves more than just a workforce with representation from a wide variety of groups. It also involves giving every one of those groups a voice and valuing the contributions from all of our people. We strive to create a welcoming, inclusive, fair and respectful working environment. We continue to develop and evolve our diversity and inclusion strategies to create an inclusive workforce, seeking contribution from a diverse workforce.

We are committed to supporting disabled applicants and colleagues at all stages of the employee cycle.

We provide training, career development and promotion opportunities. Operations Managers complete Disability and Reasonable Adjustments training to ensure that they are confident and effective in supporting colleagues with disabilities. We provide support and training as required

Royal Mail is proud to be part of the UK's Disability Confident scheme and achieve Disability Confident Employer status.

Group gender diversity profile as at 28 March 2021

	Royal Mail		GLS		Total	
	Female	Male	Female	Male	Female	Male
Board ¹	0	2	0	1	4	5
Senior management ²	595	1,308	34	217	629	1,525
Management	1,399	4,923				
Admin	1,465	990	2,995	3,329	5,859	9,242
Operational	23,754	102,675	3,386	11,345	27,140	114,020
Total ^{3,4}	27,213	109,898	6,415	14,892	33,628	124,790

1. The Board as at 1 April 2021. Royal Mail Board numbers include both Royal Mail and Royal Mail Group employees. Total also includes Board members not classified as employees.
2. For our Corporate Responsibility reporting, we define senior managers as persons graded in bands 1-9, being employees responsible for planning, directing or controlling the activities of the Company, or a strategically significant part of it. It does not include those members of the Royal Mail plc Board who would otherwise classify as employees within bands 1-9. This definition of senior management is used each year, ensuring alignment with our people management systems and consistent comparison on data year-on-year.
3. In total, five employees have no declared gender within the Royal Mail reporting system. These employees would add an additional four employees to total operations, and one additional admin. The total headcount for Royal Mail is therefore 137,116, and overall headcount for the Group 158,423.
4. Number excludes those members of the Board who are not also employees. It also excludes Pensions Trustees and Intersoft and eCourier.

for colleagues with existing disabilities or for those who have become disabled during their employment.

The Board is responsible for defining the direction of our diversity and inclusivity strategy focusing on how we implement our diversity and inclusion agenda across our businesses and our customer and supplier relationships. The Royal Mail Executive Board oversees our diversity and inclusion programme and is responsible for driving culture change across the business.

This year Royal Mail held its inaugural Board sponsored employee network celebration event, to recognise the hard work of all our colleagues and to highlight their commitment to ensuring that we have a truly inclusive workplace culture. In 2020-21, we also celebrated festivals and events from around the world to raise awareness throughout the year. These included International Women's Day, International Day for the Elimination of Racial Discrimination, Black History Month and International Day of Persons with Disabilities.

We recognise that Royal Mail's employee and customer base is diverse, but this diversity is not fully represented at senior leadership level. To address this, we have a number of initiatives, including a Youth Board underway. Colleagues aged 16-30 make up the membership with the objective to enable the voice of younger colleagues to be heard and to allow them to contribute directly to the future direction of the business.

GLS is currently developing its Diversity and Inclusion Programme. Its aim is to become a more diverse company by promoting gender equality and ensuring an inclusive and welcoming environment with equal treatment and the same development opportunities for all employees.

Gender diversity

As at 1 April 2021, the proportion of women on the Board was 44% and women made up 29%² of senior managers across the Group. Further information about our gender diversity profile is detailed in the table above.

In 2021, Royal Mail was named one of The Times Top 50 Employers for Women. Royal Mail have been listed every year since 2014 when we were first included. We continue to deploy a range of initiatives to support female colleagues' career development and increase the number of women in management roles.

Gender pay gap

We believe that all our people should be rewarded fairly for their work, regardless of gender. Information about our 2020 Gender Pay Gap Report is included on page 119 and the full report is available at www.royalmailgroup.com/en/responsibility/our-people/investing-in-our-people/.

Supporting our colleagues from ethnic minority backgrounds

Royal Mail's ethnic profile is broadly representative of the UK population. 11% of our employees are from an ethnic minority background. We want to ensure that our business is a place where our ethnic minority background colleagues can achieve their potential.

Career progression is a key focus as we work towards improving the representation of colleagues from ethnic minority backgrounds across all levels of the business. Royal Mail is an inaugural signatory of Business in the Community's (BITC) Race at Work Charter. We participate in BITC's internal and external Mentoring Circles programme, which offers ethnic minority background colleagues an opportunity to be mentored by senior colleagues within our organisation and across multiple industries.

We fully acknowledge that there is more we can do. We are focusing on two key areas. Firstly, the Board has adopted the Parker Review target for all FTSE 250 boards to have at least one director from an ethnic minority background by 2024. Secondly, while we are exceeding ethnic minority colleague representation at manager level, we are under-represented at the most senior levels of the organisation. We are currently reviewing the targets that we have set to ensure they are right for the business moving forwards.

Health and Safety

Our number one priority as an employer is to create a safe and healthy working environment for our people. Our goal is to ensure a workplace where everyone is free from injury, with good physical and mental health.

Our Group-wide Health and Safety Policy outlines our commitment to our people and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports. It is implemented through our integrated Safety, Health and Environment (SHE) Management System. This provides the framework for managing risk, improving our performance and maintaining a safe, healthy and environmentally responsible workplace.

Our SHE strategy sets out the following priorities:

- Changing behaviours: Reinforcing safe behaviours and providing coaching to address unsafe behaviours.
- Delivering on skills: Ensuring that our people have the right training.
- Increasing compliance with our SHE Management System.
- Learning from incidents: Improving how we analyse and learn lessons from past events to reduce risk.
- Transforming through technology.
- Using the latest technology to simplify processes and make compliance easier.

A strong health and safety culture is key to ensuring the safeguarding of our people. Reflecting the importance of this area, our non-financial KPIs include a safety measure (see page 45). This year has been challenging. As we continued operating throughout the pandemic, we made a number of changes to our work places and working practices.

We strive to improve our performance each year. This year, Royal Mail recorded a Lost Time Accident Frequency Rate (LTAFR) of 0.39 per 100,000 hours worked, compared with 0.38 in 2019-20. The operations were impacted by severe weather in quarter three when we experienced a high number of slip/

trip lost time accidents. During the year these accidents increased by 9.6%. For 2020-21 GLS recorded a LTAFR for own employees of 2.44 per 100,000 hours worked, compared with 2.46 the previous year. A decrease of 1%.

Road Traffic Collision Frequency Rate (RTCFR) is a key safety performance metric for Royal Mail. This year, we reduced our RTCFR by 5.7% compared with 2019-20.

We regret to report that seven people tragically lost their lives in accidents involving Royal Mail vehicles over the last year. All accidents are thoroughly investigated to determine the root cause and identify any lessons to be learnt. Our investigations and findings are discussed by the Board.

Within our GLS business we regret that we have to report 24 fatalities in traffic accidents with vehicles performing services for us in Europe and North America. Road safety will be one of the key elements of our 2021-22 Occupational Health and Safety programme.

In addition, GLS has launched an extensive Health and Safety programme in all countries to further strengthen awareness of health and safety. The programme includes a 36-month communication plan across a number of health and safety topics.

We aspire to develop a culture where individuals feel supported and informed to take ownership of their own health, physical or mental. We want our people to be able to work every day feeling their best. We have an extensive range of programmes and tools in place to support our employees' wellbeing. We focus our attention on the issues having most impact on our employees, in either the short or long term. This means placing most emphasis on: respiratory issues, including flu and cold symptoms; musculoskeletal injuries; and mental health. This year our level of sickness absence across Royal Mail increased to 8.48%, compared with 5.87% in 2019-20.

We are committed to offering practical support to all employees who are affected by mental health issues, whether directly or indirectly. Our work in the field of mental health has been recognised externally with two award wins. At the 'This can happen' Awards, we won the 'Best Mental Health in the Workplace Strategy (Large Company)' award and the Grand Prix Award, which is given to the 'most outstanding award entry' from all 11 categories.

Group health and safety performance

	2020-21		2019-20		2018-19	
	Royal Mail	GLS	Royal Mail	GLS	Royal Mail	GLS
Fatalities ¹	7	24	7	–	7	–
Lost Time Accident Frequency Rate (per 100,000 hours worked) ²	0.39	2.44	0.38	2.46	0.49	2.29
Reduction on road traffic collisions from previous year (%)	5.7	–	2.5	–	5.3	–
Sickness absence (%) ²	8.48	4.79 ³	5.87	–	5.41	–

1. The total number of fatalities due to accidents that have occurred as a result of Royal Mail or GLS undertakings. Fatalities include employee, and third parties such as contractors, members of the public and third-party drivers.

2. Refers to direct employees only.

3. GLS are publicly reporting this data for the first time in 2020-21.

Environment



We are committed to delivering a cleaner future. Environmental considerations are a fundamental part of the way we operate. With our 'feet on the street' network of over 85,000 postmen and women in the UK and GLS European network we have a key role to play in reducing emissions.

Task Force on Climate-related Financial Disclosures (TCFD)

In 2018-19 Royal Mail committed to implementing the recommendations of the TCFD. We recognise climate change as one of the world's biggest threats, and one which poses particular risks and opportunities for business. Identifying these risks and opportunities enables us to enhance the resilience of the business and take advantage of the opportunities that it may offer. We have continued to implement the TCFD recommendations including a review of our strategy and associated metrics and targets, and ensuring that we have appropriate governance and risk management processes in place.

Our environmental strategy and metrics

The respective strategies of Royal Mail and GLS are described on pages 16 to 23. Climate change impacts have been considered as part of the development of both strategies.

In 2020, Royal Mail published a new, more stretching environment strategy including the following ambitions:

- Delivering net zero: We will be a net zero carbon emission business by 2050. This target will be periodically reviewed and bought forward if possible.
- Clean air: 100% of our fleet will be powered by alternative fuel by 2050.
- Responsible consumption: We will reduce waste generated, and water used, by 25% by 2030.

These ambitions are aligned with the Paris Agreement of the United Nations Framework Convention on Climate Change that aims to limit global temperature increase to well below two degrees Celsius.

Sustainability is one of the focus areas of the Accelerate GLS strategy. A flagship programme is currently being rolled out across all GLS countries covering the use of more electric vehicles, charging infrastructure and city logistics concepts. GLS already delivers with electric vehicles in more than 60 European cities and is continuing to increase its electric fleet and the number of city depots across.

Progress against our environmental targets is detailed on pages 37 to 39.

Governance

The Board oversees the management of climate-related opportunities and risks. It is supported by the Risk Management Committee (the RM Committee) and the AR Committee. The management of climate-related risk is integrated into the Company's overarching risk management framework.

The CR Committee oversees the Group's ESG agenda. It focuses on a number of key areas including the Group's environment strategies. As such, environment is a standing agenda item for each CR Committee meeting.

The CR Committee monitors the Group's performance across a number of key environmental metrics via a KPI dashboard which is presented at each meeting. The key metrics include carbon emissions, waste generation and water consumption. On a quarterly basis the CR Committee updates the Board on our performance and progress in this area.

The Board, the Royal Mail Executive Board and representatives from GLS completed an extensive CR induction during January and February 2021, which included eight hours dedicated to the ESG landscape, climate risks and opportunities, reporting and disclosure, and stakeholder expectations.

Executive sponsorship

Jenny Hall, Corporate Affairs Director, is the Royal Mail Executive Board sponsor for the environment strategy, and she is responsible for all environment strategy papers presented at Board or Committee meetings. In addition, Achim Dünwald, Chief Operating Officer, has a key role in ensuring the implementation of the plans across Fleet and Operations to achieve agreed targets and milestones.

CR activities are a regular agenda topic for the GLS Executive Board as part of the Accelerate GLS strategy. All country managers are responsible for implementing the sustainability initiatives in their countries. An executive sponsor has been appointed to drive the initiatives across GLS.

The Environment Governance Board (EGB) drives the environment strategy and takes responsibility for improving performance. It is chaired by the CR and Environment team on behalf of the executive sponsor and includes senior managers from across the Group who are accountable for functions with material environmental issues.

Risk management

Environment and sustainability is one of the Group's principal risks, given its major significance internally and externally.

The underlying Environment Risk and Opportunity Register is maintained by the EGB. In line with TCFD recommendations, we consider both physical climate impacts, including flooding, transitional risks and regulatory actions designed to limit global warming. We also consider potential opportunities presented by environmental issues such as climate change.

Business units' risk profiles are reviewed on a regular basis and inform the Group level environment risk as overseen by the RM Committee. Environmental risks and opportunities captured at a Business Unit (BU) level are consolidated into the Environmental Risk and Opportunity Register and risks identified by the EGB are reflected in BU risk profiles, as appropriate. Risks and associated mitigating actions may be owned by several different BUs, depending on their salience. As such, they may appear on multiple BUs' risk profiles.

A standard risk scoring methodology, based on probability and potential impact, is used to rank risks based on their significance and materiality. Where climate-related risks and opportunities are identified, individual BUs are required to factor the actual and potential impacts into their strategy and financial planning, and develop mitigation plans as necessary.

For further information about our risk management process, see pages 46 and 47.



Overview of scenario analysis

We continue to determine our climate risks and opportunities based on our operations, our locations and our legal obligations. During 2020-21 we worked with PwC to better understand how the potential long-term impacts of climate change could impact our business.

We have conducted a qualitative climate change risk and opportunity assessment to understand the different climate issues that could impact the business in the future under different scenarios.

In line with TCFD recommendations, we have also conducted a quantitative review of different climate scenarios from peer reviewed and publicly available third-party sources. These scenarios were from the Network for Greening the Financial System (NGFS) and are summarised below.

- Rapid scenario (1.5°C): A rapid transition to a global low-carbon economy. In this scenario transition risks are maximised and physical risks, although present are relatively low.
- Orderly scenario (<2°C): A long-term orderly transition to a low-carbon economy. Climate action policies are introduced early and become gradually more stringent. Physical risks are present but relatively low, and transition risks are moderate-high.
- Disorderly scenario (2-3°C): A sudden disorderly transition to a low-carbon economy. In this scenario climate policies are not introduced until 2030. Emissions reductions are sharper than in the orderly scenario to limit warming to the same target. Physical risks rise and transition risks are maximised.
- No transition scenario (>4°C): Failed transition to a low-carbon economy. Only current policies are implemented, and Nationally Determined Contributions are not met. Emissions grow leading to severe physical risks and irreversible changes. There are limited transition risks associated.

We assessed the climate-related risks and opportunities with the highest potential to impact the business under the range of scenarios outlined below.

Transition risks and opportunities

We are exposed to a number of risks associated with a shift to a low-carbon economy, in particular the introduction of a carbon tax which would increase the cost of running the large commercial vehicle fleet and property estate. The ban on the sale of petrol and diesel vehicles, and low emissions zones requiring alternative fuel vehicles may impact the businesses ability to continue holding older fleet. There is a risk this will lead to reputational damage if peers/competitors transition more successfully in the low-carbon economy and provide clean delivery mechanisms faster than the Group.

While we recognise these risks, the opportunity around the transition is also significant to the Group. We are playing a key role in delivering the low-carbon transition by investing in electric, and other alternative fuel vehicles to meet increasing demand for clean delivery mechanisms and new products and services.

Physical risks

We recognise the risks arising from physical change in climate, in particular the potential impacts of extreme weather events and chronic changes in the physical environment which could impact our operations, our employees and our facilities and equipment. We already assess our sites for flood risk as part of our due diligence and business continuity processes, including the use of routing tools to divert mail. In addition, we have implemented a flood alert system across 700 of our sites to strengthen forecast capabilities to invoke business continuity arrangements.

During a recent extreme weather event our site in Worksop, UK was flooded. This event had a widespread impact on our network, and resulted in repair costs, adaptation investments, service delays and reductions in productivity. This is an example of the type of extreme weather events that are predicted to occur more frequently and at a higher intensity due to climate change.

Ensuring our people have the right equipment to deal with all weather conditions is an important element of our health and safety approach. We use a severe weather risk assessment approach to identify and manage extremes. We regularly review and adjust uniforms to ensure they are appropriate for changing weather conditions, for example snowshoe spikes for operations staff, and improved water resistance of uniforms.

Future analysis

We continue to analyse our climate risks and opportunities using the four scenarios outlined. We will explore the risks and opportunities identified in further detail, conducting more granular quantitative climate change scenario analysis to gain further insight into the potential materiality of these issues.

Our environmental performance

In 2020-21, our total UK carbon footprint increased by 5.8% compared with the previous year. On a normalised basis, emissions decreased by 6.9% per £1 million of revenue last year. The table on page 38 sets out our Group carbon dioxide equivalent (CO₂e) emissions for 2020-21.

Fleet emissions

As the Universal Service provider in the UK, we are required to maintain a large fleet of vehicles. Nearly two-thirds of our emissions stem from our vehicles and transport. Improving our fleet fuel efficiency is therefore a key part of delivering our carbon reduction targets.

Royal Mail is committed to reducing emissions and improving air quality and focuses on the following areas:

- Improving fuel efficiency through behaviour and driving styles.
- Investing in alternative fuel vehicles, advanced technology and vehicle types.
- Ensuring an efficient transport network, using cutting-edge routing technology and maximising capacity in our vehicles.

During 2020-21 fuel used in our UK fleet increased by 14.7%, resulting in a 9.3% increase in associated emissions. This was due to additional vehicles hired and increased use of our delivery vehicles as a result of volume increases and changes to operations as a result of the pandemic. Additionally, our larger trunking fleet saw increased mileage due to the increase in parcel volumes.

We continue to trial and deploy new technology to reduce our impact. In November 2020, Royal Mail started the trial of a dual fuel hydrogen van at our Altens delivery office in Aberdeen as part of the EU-funded Civitas Portis Project with Aberdeen City Council. Up to 60% of the vehicle's power is generated by green hydrogen¹. The van can travel up to 120 miles and accommodate letters and parcels of all sizes.

In the UK, we use telemetry to influence driver behaviour and encourage more fuel-efficient and safer driving styles, and use this data in our driver coaching programmes. Telemetry has been shown to reduce idling times by around 5%, both saving fuel and reducing emissions. In 2019-20, around 61% of our fleet were installed with telemetry. During 2020-21 we invested £3.6 million to install telemetry across the remainder of our fleet which has helped us save approximately 565,000 litres of diesel, equating to 1,440 tonnes of CO₂e.

We recognise the impact of poor air quality on the communities in which we operate. In the UK, our delivery network is unique in that 63% is delivered either purely by foot, or through a park and loop method which is also largely foot based. This keeps our overall emissions and contribution to urban congestion low.

We continue to operate and invest in the electrification of our Royal Mail delivery and collection fleet, with an additional 121 vehicles ordered in 2020-21. To support our ambitions in this area, we recently joined the steering committee of the UK Electric Fleet Coalition, working with other UK fleet operators to enable the transition at pace. We will continue to roll our more electric and alternative fuel vehicles across our fleet over the coming years.

With its ClimateProtect programme, GLS Germany is rolling out the use of electric vehicles. Currently GLS delivers emission free in six cities, with over 150 electric vehicles operating in over 30 cities across the country.

GLS Italy is utilising electric vehicles across 24 cities. Smaller vehicles are particularly useful for emission-free delivery through the narrow streets of some Italian cities. These deliveries are made possible by using micro depots located in city centres or depots close to the cities.

Buildings emissions

We maintain a large property portfolio, ranging in size, age and use. Climate change, legislation and uncertain energy prices make energy management a key priority.

In the UK, energy used by buildings contributed 23% of our carbon footprint in 2020-21. The use of our buildings changed during the year. Our operational sites were open for longer with many buildings operating with altered heating and ventilation regimes to address health and safety measures to prevent the spread of COVID-19. Overall, in 2020-21 our UK total electricity consumption decreased by 1.2% and our gas consumption increased by 8.1%. Overall emissions arising from our buildings increased by 1%.

Carbon emissions performance CO₂e ('000 tonnes)¹

	2020-21			2019-20 ²		
	Total	Royal Mail	GLS ³	Total	Royal Mail	GLS
Scope 1	490.8	475.4	15.4	451.7	435.3	16.4
Scope 2	87.7	65.1	22.6	92.0	70.5	21.5
Scope 3	80.8	80.8	–	81.4	81.4	–
Total	659.3	621.3	38.0	625.1	587.2	37.9
Tonnes CO ₂ e per £1m revenue	–	71.8	–	–	77.1	–
Scope 2 (market based)	40.1	9.3	30.8	40.5	8.3	32.2
Energy consumption '000 kWh	2,503,629	2,353,178	150,451	2,307,675	2,161,486	146,189

1. We report our carbon emissions in line with the Greenhouse Gas (GHG) Protocol Corporate Standard. The standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Royal Mail, including combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity, heat, steam and cooling purchased for own use. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. For Royal Mail, this includes consumption and GHGs emitted through the use of third-party road or air freight for the transportation of mail, including UK and offshore data. GLS data includes all global emissions and consumption, excluding the UK and offshore, for scopes 1 and 2. Scope 3 data is not included. Annual energy consumption (kWh) is obtained from both actual (invoices) and estimated (modelled) consumption used for our reported scope 1 and 2 carbon footprint. Where conversion of units to kWh is required, the latest conversion factors from the UK Government are used; source www.gov.uk/government/collections/government-conversion-factors-for-company-reporting.

2. 2019-20 data for Royal Mail has been restated following the provision of data which was previously estimated.

3. GLS emissions data reflects the calendar year rather than the financial year.

1. Hydrogen made by using electricity from renewable energy technologies to electrolyse water, separating the hydrogen atom within it from its molecular twin oxygen.

Measures to improve energy efficiency

As outlined within the 2019-20 Annual Report and Financial Statements, our approach to energy efficiency includes the identification and implementation of initiatives to reduce consumption and the associated emissions. These include behavioural change programmes as well as the installation of hardware such as LED lighting and controls.

During 2020-21, to support both the delivery of our UK business net zero ambition, and to drive energy efficiency measures across the operations, we developed a Property Energy Strategy. We implemented energy optimisation trials at Manchester Mail Centre and Princess Royal Regional Distribution Centre, in advance of a wider optimisation rollout. Trials included the adjustment of boiler operation times and other building management system settings against existing equipment. The four-month trial saw 61tCO₂e savings delivered over the period. Specialist consultants and legal experts have been engaged to assist with the development of a tender for an Energy Performance Contract which covers the optimisation of 230 of Royal Mail’s highest energy consuming sites in the UK.

We have reviewed short-term payback initiatives identified during the Energy Savings Opportunities Scheme (ESOS) audits, and implemented those which are relevant to the current estate and its operation. This year we replaced 81 boilers with more efficient condensing boilers as part of a rolling replacement programme.

GLS continues to install solar panels on new sites across the GLS operations, including the new EuropeanEcoHub in Essen, Germany. This site is mainly powered by photovoltaic systems and battery storage and includes an emission-free cooling and heating system as well as a rain water utilisation system. The facility also has a 1,800 square metre green roof and a biotope for protected species including newts, frogs and toads. The facility now serves as a blueprint for future GLS infrastructure development.

Responsible consumption

In 2019-20, Royal Mail set new targets for responsible consumption with a focus on resource procurement, storage, material flows through the business and on improved waste segregation, reuse and recycling. We are targeting a 15% reduction in total waste generated and waste consumed by 2025, and a total review of the purchase, distribution, use and disposal of packaging and single-use resources by 2021-22.

We manage our waste in accordance with the waste hierarchy. During 2020-21, Royal Mail generated 39,924 tonnes of waste, an increase of 3% from the prior year. The increase is attributed to increased cardboard and pallets associated with the increased volume in parcels being delivered to customers over the period of the pandemic.

To support the further development and implementation of the responsible consumption strategy, Royal Mail has signed up to the Ellen MacArthur Foundation Circulytics benchmarking tool. The use of the tool will support the transition towards the circular economy.



Carbon-neutral shipping in the Netherlands

In February 2021, GLS Netherlands announced the introduction of climate-neutral shipping for all parcels sent within the Netherlands and abroad. Beyond measures to avoid and reduce CO₂e emissions, the business focuses on full compensation through VCS or Gold Standard compensation projects that ensure ecological and social sustainability. Emissions reduction programmes include the switch to fully sustainable and emission-free parcel delivery in the 20 largest Dutch city centres.

As part of the GLS ThinkGreen programme, GLS Italy is trialling the use of Greenypack packaging, made up of 100% recycled material from common waste from polygrouped products. The Plastic Second Life materials used to create the Greenypack pallets are certified in compliance with Green Public Procurement as environmentally preferable materials. In addition to their environmental credentials, the pallets are hygienic, robust and do not require additional treatments for export.

We are committed to reducing our water use. We mainly use water for domestic purposes, such as washroom facilities, vehicles and equipment cleaning. During 2020-21 Royal Mail used 1,318,889m³ of water, a decrease from the previous year due to further strengthening of our data reporting, the identification and repair of leaks, and the implementation of water efficiency measure at our Chorley and Exeter sites. During the year, water efficiency surveys have been undertaken at 19 of our properties with costed recommendations provided for implementation during 2021-22.

Community

Delivering economic and social benefits to the communities we serve is one of the key objectives of our CR strategy. We use our core business competencies, people and brand to benefit good causes.

Our social and economic impact

As the UK's Universal Service Provider, Royal Mail is in a unique position to play an integral part in the UK economy.

Through our extensive supply chain, we generate significant economic value across the communities in which we operate. This year in the UK, we contributed around £2.4 billion through our procurement of goods and services alone.

In 2020-21 Royal Mail contributed £4.9 million to good causes and charitable schemes. This included matched giving for colleague fundraising and the cost of our Articles for the Blind service. In addition, our colleagues raised £2.3 million for charity. This equates to a total of £7.2 million of community investment in 2020-21.

Our taxation strategy sets out our key principles and approach and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports/.

Community investment

Royal Mail's overarching community investment strategy is structured into three key areas:

- **Leveraging our national scale:** In September 2020, in partnership with the charity Hestia, we launched Online Safe Spaces (OSS) in response to the alarming increase in domestic abuse in the UK during the COVID-19 pandemic. OSS is a discreet digital portal that can be installed on any internal or external website. It provides support, advice and

helpful contact numbers for those experiencing or at risk of domestic abuse. It leaves no internet history and provides quick exit options for the user. The technology for the portal was developed in house by our Parcelforce Worldwide IT team. We estimate that over 230,000 users have accessed OSS to date.

- **Using our local presence:** Our people are part of every community in the UK and are therefore uniquely placed to support in the search for missing people. We support the charity Missing People by sending high-risk missing people alerts to our postmen and women's handheld scanners (PDAs). We operate a fast and efficient system to ensure that alerts are sent to frontline colleagues within one hour of being issued. The alerts reach all employees through our PDA network, our employee website – MyRoyalMail, and television screens across our operations.
- **Unlocking potential through education:** Royal Mail is a signatory of the National Literacy Trust's 'Vision for Literacy' pledge. The pledge calls on UK businesses to join the national literacy campaign to help close the nation's literacy gap and boost social mobility. We work closely with The Postal Museum to promote the integral role that our service has played in social history. This year, we supported the museum with the launch of a virtual learning programme. Letter-writing packs themed around The Jolly Postman were designed to inspire children to write for pleasure.

Our four-year partnership with Action for Children spans across all three areas of our community investment strategy. This partnership came to a close at the end of March 2021. Since 2017 Royal Mail has donated £2 million to Action for Children through fundraising, volunteering, pro bono support, and benefits in kind, to fund the 'Blues Programme', an innovative mental health programme in schools. The Blues Programme is the first preventative mental health initiative of this scale to be run in the UK. To date, over 5,500 young people have completed the programme.

GLS community support

GLS businesses support numerous charitable projects by organising both regional and nationwide initiatives. These include free parcel shipping for aid organisations and the sponsorship of foundations for people with developmental or physical disabilities. Financial support is provided for numerous local projects, for example, in kindergartens, hospitals or other charitable institutions.

In December 2020, GLS Ireland was appointed the official delivery partner of Volunteer Ireland, an awards event to celebrate, appreciate and say thank you to volunteers from all over the country. GLS provided free delivery services for the event and delivered all awards.

6th¹

largest contribution of any UK company to the UK economy

1 in 172¹

people employed in the UK by Royal Mail

£11.7 bn¹

of gross value added by Royal Mail (direct and indirect contribution)

71,525¹

jobs indirectly supported by Royal Mail in the wider economy

1. CEBR research, conducted for Royal Mail in May 2021, comprising direct and indirect contributions.

Ethics and Compliance

Our customers trust us to deliver for them. Maintaining their trust – and the trust of all our stakeholders – is fundamental to our success. We are committed to operating with integrity to safeguard our reputation and protect our valued place in society.

Our impact extends beyond our direct business operations. Embedding high standards of social, ethical and environmental conduct across our supply chain is essential for us to operate responsibly.

Our approach to business integrity

Our overarching business policies set out our approach to responsible business conduct and cover our supply chain.

Royal Mail Business Standards

Our Royal Mail Business Standards outline the behaviours we expect to see in our people. They are about doing the right thing, following the law, acting honourably and treating others with respect. They help us to do the best job we can for our customers, keep our people safe and protect our reputation.

All employees have access to our policies and guidance via the intranet or our communications channel, MyRoyalMail. All colleagues are required to undertake training that is tailored to their role in the business. Managers are also required to complete annual mandatory compliance refresher training which includes an attestation of Our Business Standards.

Our Business Standards have recently been reviewed and will be shortly relaunched to all our front-line colleagues. This year, 99.7% of Royal Mail managers assigned the annual compliance training completed it.

Colleagues, contractors, agency and casual workers, suppliers and business partners are encouraged to report any suspected breach to policies through our confidential Speak Up system.

GLS Code of Business Standards (the GLS Code)

The GLS Code outlines the values and standards of behaviour that it expects from its employees and subsidiary companies. It is available in 20 different languages to all GLS employees and business partners. It is supported by a dedicated GLS whistleblowing policy and helpline that is available for reporting and investigating alleged violations of the GLS Code. GLS encourages employees, business partners and third parties to report, in confidence, any concerns they have.

Anti-bribery and corruption

We have a strict zero-tolerance policy towards bribery and corruption. Our dedicated Group-wide policy applies to both Royal Mail and GLS, and anyone performing services on our behalf. It sets out our approach to minimising the risk of bribery and corruption taking place in any part of our business and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports/.

Responsible procurement

We believe we only engage suppliers that meet our standards in social, environmental and ethical practices. Once engaged we work with suppliers on an ongoing basis to ensure a high level of conduct.

Our Responsible Procurement Code of Conduct (the Procurement Code) sets out the high standards of social, environmental and ethical practices we expect from all our suppliers. Based on the UN Global Compact Principles, it promotes responsible practices in human rights, labour standards, the environment and anti-corruption.

The Procurement Code requires suppliers to adhere to the UN Universal Declaration of Human Rights, which is part of our commitment to implementing the UN Guiding Principles on Business and Human Rights. We require our suppliers to comply with the Procurement Code and communicate it in full to all relevant employees within their organisations. The Procurement Code is available at www.royalmailgroup.com/en/responsibility/policies-and-reports/.

We continue to engage with our high-risk suppliers to report self-assessments or third-party audits using the SEDEX (Supplier Ethical Data Exchange) platform.

The GLS Supplier Code (Supplier Code) is based on the same UN framework. GLS expects its suppliers to respect the standards laid out in the Supplier Code. The Supplier Code is available at www.gls-group.eu/GROUP/en/about-us/our-code-of-conduct.

As the pandemic began to impact Royal Mail at the beginning of 2020, we faced particular challenges in sourcing large quantities of personal protective equipment for our colleagues that met our health and safety standards. We undertook rapid contracting exercises with new suppliers while at the same time maintaining our responsible due diligence processes.

Human rights and modern slavery

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

During 2020-21 we ran a modern slavery training event for Royal Mail's Procurement and Contract Managers, to ensure full understanding of the part played by those involved in the supply chain to maintain compliance.

GLS provide online supply chain compliance training, which also covers modern slavery. This training is mandatory for all personnel with purchasing authority or depot supervisory function. In addition, the problem of modern slavery is highlighted during face-to-face trainings with relevant managers. The Business Partner Approval Process explicitly mandates that modern slavery risk be taken into consideration in purchasing decisions.

Our Modern Slavery Act Statement is available at www.royalmailgroup.com/en/responsibility/policies-and-reports/.

Non-Financial Information Statement

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

Environment	
Material policies	How we monitor effectiveness
<p>Environment policy</p> <p>Outlines our Group-wide commitment to managing our environmental impacts including our engagement with our people, customers and suppliers.</p>	<ul style="list-style-type: none"> – Measure performance against key environmental metrics. – Regular audits against our Environment Management System, which is aligned to ISO 14001. – Include environmental criteria in supplier selection frameworks and monitor suppliers' performance. – Board oversight of performance by the CR Committee. Page 106 and 107.
Outcomes	Risk management
<ul style="list-style-type: none"> – Our environmental strategy, approach and policy outcomes. Pages 35 to 39. – Environmental performance against key metrics including carbon emissions, waste generation and water consumption. Pages 37 to 39. – The Board factors the impact of the Group's operations on the community and the environment into its decision making. Pages 26 and 27. 	<ul style="list-style-type: none"> – Principal risk: Environment and sustainability. Page 52. – Implementation of TCFD recommendations. Pages 35 to 37.
Employees	
Material policies	How we monitor effectiveness
<p>Business Standards (Royal Mail)</p> <p>Code of Business Standards (GLS)</p> <p>Outline the values and standards of behaviour we expect. Doing the right thing, following the law, acting honourably and treating others with respect.</p> <p>Speak Up policy (Royal Mail)</p> <p>Whistleblowing policy (GLS)</p> <p>Our commitments to investigating suspected wrongdoing, including the system for raising concerns and our respect for whistleblower confidentiality.</p> <p>Health and Safety policy</p> <p>Our Group-wide commitment to managing health and safety risks, removing or reducing the likelihood of injury or harm to its employees or others.</p> <p>Equality and Fairness policy (Royal Mail)</p> <p>Outlines our principles and approach to promoting equality, diversity and fairness at all stages of employment.</p>	<ul style="list-style-type: none"> – Monitor health and safety performance metrics and undertake regular audits against our SHE Management System. Page 34. – Regular employee engagement forums and surveys allow us to monitor culture and engagement. Page 24 and page 31. – Track workforce diversity across job levels and different business areas. – Monitor the contact across our whistleblowing channels and investigate concerns raised. Page 41. – Designated Non-Executive Director for engagement with the workforce. Pages 92 to 94.
Outcomes	Risk management
<ul style="list-style-type: none"> – Our people strategy, approach and policy outcomes. Pages 31 to 33. – The Board factors the interests of our employees into its decision making. Pages 26 and 27. – Our health, safety and wellbeing performance. Page 34. – Our gender diversity profile. Page 33. – Feedback from employee engagement activities and surveys. Pages 9, 19 and 31 and 92 to 94. 	<ul style="list-style-type: none"> – Principal risks: Industrial action, Pension arrangements, Health, safety and wellbeing, and Capability – talent and strategic workforce planning. Page 50 and 51 and page 53.
Social and community	
Material policies	How we monitor effectiveness
<p>Corporate Responsibility policy</p> <p>Sets out our Group-wide commitment and approach to responsibly managing our impacts on, and relationships with, our people, customers, communities and environment.</p> <p>Responsible Procurement Code of Conduct (Royal Mail)</p> <p>Supplier Code of Conduct (GLS)</p> <p>Expectations of our suppliers, business partners and contractors to adopt and apply standards that are consistent with our own across social, ethical and environmental issues.</p>	<ul style="list-style-type: none"> – Annual research of our socio-economic impact in the UK to understand the level of benefit we deliver to the communities we serve. Page 40. – Monitor the scores and rankings in sustainability benchmarks and indices. – Monitor customer feedback. Page 30. – Monitor service performance. Page 30 and 45. – Investigating breaches to our supplier codes, plus effective monitoring and auditing of high-risk suppliers. – Monitor payment practices. – Board oversight of performance by the CR Committee. Page 106 and 107.

<p>Outcomes</p> <ul style="list-style-type: none"> – Our customer-centric strategy, customer feedback scores and service performance. Pages 16 to 23 and page 30. – Our community approach and policy outcomes including UK socio-economic contribution. Page 40. – Our supply chain approach and policy outcomes including monitoring of suppliers. Page 41. – Payment practices, available at www.gov.uk/check-when-businesses-pay-invoices. – The Board factors the interests of suppliers, customers and other stakeholders into its decision making. Pages 26 and 27. 	<p>Risk management</p> <p>Principal risks: Customer expectations and our responsiveness to market changes, Our UK regulatory framework and Business continuity and crisis management. Pages 50 to 52.</p>
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Respect for human rights	
<p>Material policies</p> <p>Corporate Responsibility policy Outlines our commitment to respecting and implementing internationally recognised codes such as the UN Guiding Principles on Business and Human Rights; the 30 Articles of the United Nations Universal Declaration of Human Rights; and the International Labour Organization's (ILO) Fundamental Conventions.</p> <p>Equality and fairness policy (Royal Mail) Described above.</p> <p>Recruitment Vetting policy (Royal Mail) Sets out the policy for Right to Work and vetting checks for all roles within Royal Mail Group to ensure that we meet our legal, regulatory and contractual obligations.</p> <p>Responsible Procurement Code of Conduct (Royal Mail)</p> <p>Supplier Code of Conduct (GLS) Outlines expectations of our suppliers, business partners and contractors to adopt and apply standards consistent with our own, including adherence to UN Universal Declaration of Human Rights and operation of effective systems and controls to ensure that modern slavery and human trafficking do not take place anywhere in our supply chains.</p>	<p>How we monitor effectiveness</p> <ul style="list-style-type: none"> – Embed human rights risks into our compliance risk monitoring programme. – Monitor high-risk supplier categories for evidence of breaches to our standards. – Operate strict resourcing controls that govern the onboarding of new permanent, temporary and contract staff to ensure compliance with vetting standards. – Board oversight and review of modern slavery statement by the CR Committee. Page 107.

<p>Outcomes</p> <ul style="list-style-type: none"> – Human rights approach and policy outcomes. Page 41. – Number of high-risk suppliers signed up to Sedex. Page 41. 	<p>Risk management</p> <ul style="list-style-type: none"> – Our Risk Framework governs how we identify, assess and manage such risks. The risk appetite determines the level of risk we are prepared to accept. Page 46. – Our Modern Slavery Act Statement available at www.royalmailgroup.com/media/11341/group-annual-modern-slavery-act-statement-2019-2020.pdf
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Anti-bribery and corruption	
<p>Material policies</p> <p>Anti-Bribery and Corruption policy Our Group-wide policy outlines our zero-tolerance approach, and sets the standards of behaviour expected to minimise the risk of bribery, including gifts and hospitality.</p> <p>Our Business Standards (Royal Mail)</p> <p>Code of Business Standards (GLS) Described above.</p> <p>Responsible Procurement Code of Conduct (Royal Mail)</p> <p>Supplier Code of Conduct (GLS) Described above.</p> <p>Speak Up policy (Royal Mail)</p> <p>Whistleblowing policy (GLS) Described above.</p>	<p>How we monitor effectiveness</p> <ul style="list-style-type: none"> – Provision of mandatory annual compliance training for employees. Page 41. – Require annual manager attestations to maintain our Business Standards. Page 41. – Regular screening of suppliers to check for instances of corruption. – Monitoring the number of contacts made across our whistleblowing channels. Page 107.

<p>Outcomes</p> <ul style="list-style-type: none"> – Our approach to Ethics and Compliance and policy outcomes. Page 41. – Completion rate of annual compliance training against target. Page 41. 	<p>Risk management</p> <p>Our Risk Framework governs how we identify, assess and manage such risks. The risk appetite determines the level of risk we are prepared to accept. Page 46.</p>
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Non-financial KPIs	Page
Business model	14 and 15
Key non-financial performance indicators	
Measuring Our Performance	44 and 45
Corporate Responsibility Review	28 to 41

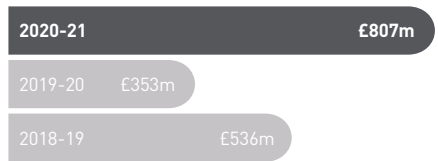
Further information regarding our customers, environment, people, communities, supply chain, human rights and business ethics will be available in our 2020-21 Corporate Responsibility Report, which will be available here from June 2021 www.royalmailgroup.com/en/responsibility/policies-and-reports/. The majority of the policies and procedures referred to above are available at www.royalmailgroup.com/en/responsibility/policies-and-reports and www.gls-group.eu/GROUP/en/about-us/our-code-of-conduct.

Measuring Our Performance

Previously the Group’s performance was measured against KPIs disclosed as part of our remuneration arrangements and Corporate Balanced Scorecard. As a result of the exceptional circumstances and uncertainty caused by the COVID-19 pandemic, there was no formalised bonus scorecard during 2020-21. However, the KPIs previously disclosed remain relevant and our performance measured against these metrics is detailed below.

Scorecard Group operating profit^{1, 2, 3, 4, 6}

£807m



Relevance

Our primary measure of business performance.

How we calculate

Measured after transformation costs but excludes voluntary redundancy charges. Adjusted for budgeted foreign exchange rates.

Performance in 2020-21

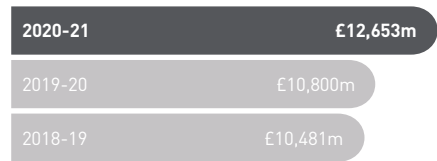
- Adjusted Group operating profit increased to £702 million.
- The Group delivered results well above initial expectations due to changing customer behaviour and the growth in online shopping during the pandemic.

Link to strategy



Scorecard Group revenue^{1, 4, 6}

£12,653m



Relevance

Demonstrates revenue growth, particularly in parcels in the UK and across GLS’ network.

How we calculate

Measured as total Group revenue adjusted for budgeted foreign exchange rates.

Performance in 2020-21

- Reported and adjusted Group revenue was £12.6 billion.
- We have seen a substantial shift in our revenue mix with parcel revenue growth more than offsetting letter revenue decline in the UK.

Link to strategy



Royal Mail costs^{3, 6}

£8,196m



Relevance

Demonstrates efficiency and our focus on driving operating costs to a lower rate (as a function of volume).

How we calculate

Measured after transformation costs but excludes voluntary redundancy charges and GLS costs.

Performance in 2020-21

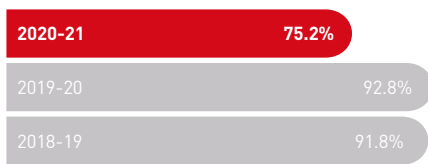
- Adjusted Royal Mail operating costs increased 13.5%.
- The increase was driven by COVID-19, the cost of mix change towards more expensive to handle parcels, higher volumes and the previously announced management restructure.

Link to strategy



First Class Retail Quality of Service⁵

75.2%



Relevance

Regulated measure that ensures that we focus on the customer and that cost containment does not impact service levels.

How we calculate

Measured as percentage of First Class retail products delivered by the next working day, which may be adjusted for force majeure.

Performance in 2020-21

First Class Retail Quality of Service: missed 93.0% target, with performance of 75.2%.

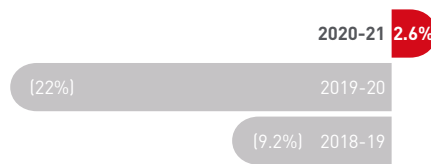
- The pandemic, and in particular, the introduction of necessary social distancing measures combined with increased COVID-19 related staff absences and unprecedented parcel volumes, inevitably had a detrimental impact on performance.

Link to strategy



Lost Time Accident Frequency Rate (LTAFR)

2.6%



Relevance

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

How we calculate

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

Performance in 2020-21

- LTAFR increased 2.6% compared with 2019-20. Our operations were impacted by severe weather in quarter three and we experienced a high number of slip/trip lost time accidents.

Link to strategy



Strategic icon key

Royal Mail



GLS



Our Strategy

See pages 16 to 23.

1. Group financial KPIs are calculated using budgeted exchange rates with adjustments made e.g. for unbudgeted acquisitions. As a result, the Group financial KPI figures presented in this section are different to the adjusted figures reported elsewhere in this Annual Report.
2. In 2018-19 we reported Group operating profit before transformation costs.
3. Adjusted to reflect the cash impact of pensions. This metric includes transformation costs but excludes voluntary redundancy charges.
4. Reported results are adjusted to reflect a budgeted constant foreign exchange rate of £1/€ 1.13 in GLS. Adjustments are also made to remove the impact of the first year of the Mountain Valley Express acquisition in 2019-20.
5. The First Class Retail Quality of Service measure comprises First Class stamped and metered mail. First Class Regulatory Quality of Service, referenced on page 30, comprises First Class stamped and metered mail, plus single piece PPIs (Printed Postage Impressions). PPIs enable customers to print postage in-house directly onto labels or envelopes, without the need for franking machines.
6. 2018-19 measures for Scorecard Group operating profit, Scorecard Group revenue and Royal Mail costs are on a 53 week basis. The Scorecard Group operating profit and Royal Mail cost measures for 2018-19 also exclude transformation costs.

Risk Management

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

Risk management framework

Our risk management processes and controls are embedded throughout the Group. The Board has overall responsibility for ensuring that we operate sound risk management procedures and, on at least an annual basis, the Board assesses their effectiveness.

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

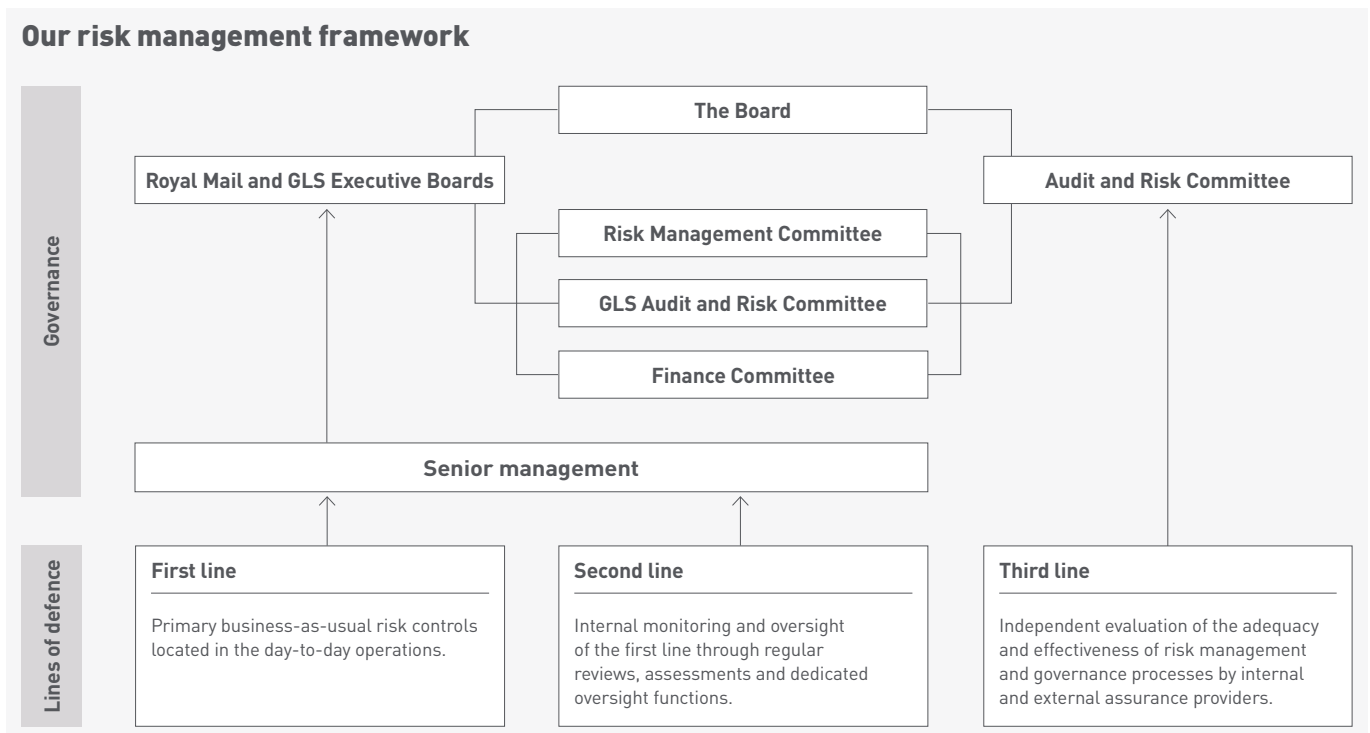
Our management teams across our business are responsible for the management of specific operational risks and developing actions to mitigate their impact. To ensure a consistent approach we implement Group-wide risk management policies and procedures and provide guidance and training.

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

Risk appetite

The Board defines the Group’s risk appetite. This determines, in both quantitative and qualitative terms, the target level of risk we are prepared to take to achieve our strategic objectives and the controls we need to operate in order to mitigate such risks.

The AR Committee monitors the operation of the Group’s business within the risk appetite throughout the year. Focused discussions on risk appetite levels and the progress towards target risk levels take place at the RM Committee and AR Committee meetings at least twice a year.



Management is accountable for identifying and managing risks and for delivering business objectives in accordance with the Group's risk appetite. To achieve our strategic objectives it is necessary to take on, or accept, certain risks. In doing so, we seek to ensure that:

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

Our risk appetite levels range across low, moderate and high tolerance levels. Issues that are likely to have a low risk tolerance level, or risks that we are not prepared to accept include those that could:

- Negatively affect health and safety.
- Damage our reputation.
- Lead to breaches of legal or regulatory requirements.

Risk identification and evaluation

The identification and assessment of individual risks is a continuous process that takes account of the internal and external business environment as well as the effectiveness of the risk controls we operate.

Risk profiles are maintained by risk owners at both Group and functional levels. These profiles include individual risk dashboards that assess the risk scores in terms of gross, net and target risk and provide visibility over the context, appetite, control activities, mitigations and risk indicators. Each risk is assessed considering the likelihood of the event occurring based on multiple causal factors, the full range of potential impacts and their severity should the event occur. Existing controls and required mitigating actions are also taken into account. Gross, net and target risk scores are evaluated as a product of impact and likelihood and are represented visually on heat maps within dashboards to facilitate analysis and management focus.

The leadership teams regularly review the risk profiles covering their areas of responsibility and undertake formal risk assessments on a bi-annual basis aligned to the full and half-year reporting cycle. The outcomes of the bi-annual assessments are reviewed by the RM Committee and AR Committee and are used to inform the Group's risk profile and determine its principal risks.

Principal and emerging risks



The AR Committee routinely considers our principal and emerging risks. Both our principal and emerging risks are robustly assessed by the Board on a bi-annual basis.

Our principal risks are detailed on pages 48 to 53 and are reflected in the key assumptions in the viability statement on pages 54 and 55.

We identify and monitor emerging risks through various discussions with Management, Subject Matter Experts and external stakeholders. All relevant information is captured in a horizon-scanning radar and heat map. This radar and heat map serves to illustrate our potential risk exposures across a number of thematic emerging risk areas and helps us assess whether we are adequately prepared for the potential risks and opportunities they pose. We report the results of the horizon-scanning exercise to the RM Committee and AR Committee on an annual basis. We plan to enhance the process in 2021-22 and in particular strengthen risk identification of both external and internal factors and ensure that a holistic view is adopted across the Group. We will also look to increase the frequency of emerging risk reporting to augment the half-year and year-end risk assessments.

Our Principal Risks and Uncertainties

Detailed below are the principal risks we consider could threaten our business model, the execution of our strategy, and the preservation and creation of sustainable value for shareholders and other stakeholders. How we 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
<p>1. Efficiency</p> <p>Royal Mail must become more efficient and flexible to compete effectively in the parcel and letter markets.</p> <p>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.</p> <p>Failure to effectively control costs while at the same time delivering high-quality services could result in a loss of customers, market share and revenue.</p> <p>Link to strategy</p> 	<p>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.</p> <p>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.</p> <p>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. Further detail is provided on page 20.</p> <p>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.</p> <p>These arrangements may continue for some time. In turn, they may have an adverse impact on cost control and productivity.</p> 	<p>We have a number of initiatives in place to drive efficiency benefits across our business including:</p> <ul style="list-style-type: none"> – 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 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. <p>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.</p> <p>For further detail on measures taken to address efficiency see pages 8 and 9 and 20.</p>
<p>2. Economic and political environment</p> <p>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.</p> <p>Link to strategy</p> 	<p>The Board continues to monitor the economic, political and wider external environment in the UK and our other markets. Particular areas of focus include:</p> <ul style="list-style-type: none"> – 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. <p>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.</p> <p>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.</p> 	<p>We have a multitude of mitigations across our business which include:</p> <ul style="list-style-type: none"> – 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 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.

Link to strategy (see pages 16 to 23)		Relative severity	Change during the year	Speed at which the risk could impact
Royal Mail	GLS	High	Increasing risk	Fast: 6 months
Customer	Connect Europe	Medium	Decreasing risk	Medium: 6-12 months
Trust	Strengthen 2C parcel market position and lead in 2B	Low	Stable	Slow: >12 months
Growth	Inspire the market	New		

Risk	Status	Actions to mitigate
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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 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.

Link to strategy



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 158,000 people and large quantities of documentation, there is a prospect of human error in the protection of data.



We are:

- Continuing to invest in ensuring cyber resilience, enhancing our capabilities to integrate cyber controls 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.
- 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.

Risk	Status	Actions to mitigate
<p>4. Customer expectations and our responsiveness to market changes</p> <p>Changes in customer needs, expectations and structural trends in our markets could impact the demand for our products and services.</p> <p>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.</p> <p>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.</p> <p>Link to strategy</p> 	<p>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).</p> <p>Advertising mail has recovered more rapidly following the initial hit to volumes.</p> <p>While business mail volumes were more resilient to the initial economic slump, they are taking longer to recover.</p> <p>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.</p> <p>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. See page 7 for further information.</p> <p>B2C will remain a major area of growth going forward for GLS whilst continuing to serve our B2B customer base.</p> <p>For further details on the Accelerate GLS strategy see pages 21 to 23.</p> 	<p>We have a number of programmes and initiatives across the business focused on customer expectations, our responsiveness to market changes and capturing revenue and growth opportunities, including:</p> <ul style="list-style-type: none"> – 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. See pages 18 to 20. – Deploying a range of appropriate incentives to encourage customers to reconnect with using mail. – Delivering our Accelerate GLS strategy. – Growing new areas of business through innovation and expanding service offerings.
<p>5. Competition Act investigation</p> <p>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.</p> <p>In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom’s decision.</p> <p>Link to strategy</p> 	<p>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.</p> <p>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.</p> 	<p>Whistl’s High Court claim is on hold until after the completion of the appeal process.</p> <p>We have in place policies, training and guidance around our obligations in addition to a team of competition lawyers advising on such matters.</p>
<p>6. Industrial action</p> <p>There is extensive trade union recognition across our UK workforce, with strong and active trade unions.</p> <p>One or more material disagreements or disputes could result in widespread localised or national industrial action.</p> <p>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.</p> <p>Link to strategy</p> 	<p>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 (see page 26) and the operational change programme to drive productivity.</p> <p>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.</p> 	<p>We are:</p> <ul style="list-style-type: none"> – Continuing to engage with the CWU at a senior level, on the implementation of the Pathway to Change Agreement. – 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.

Risk

Status

Actions to mitigate

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.

Link to strategy



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.



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.

Link to strategy



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.



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.

Risk	Status	Actions to mitigate
<p>9. Environmental and sustainability (see also Task Force on Climate-related Financial Disclosures on pages 35 to 37)</p> <p>As our customers and stakeholders seek to adapt to climate change, demand is increasing for more sustainable products and services.</p> <p>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.</p> <p>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.</p> <p>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 environmental matters and climate change.</p> <p>Link to strategy</p> 	<p>We recognise our responsibility to reduce our environmental impact and consume fewer non-renewable resources.</p> <p>We have a requirement to maintain a large fleet of vehicles across Royal Mail and GLS.</p> <p>Growth in parcels is also driving up our energy demand.</p> 	<p>We have clear market strategies and business plans to address risks and opportunities relating to the environment and sustainability, including:</p> <ul style="list-style-type: none"> - Executing our environmental strategy (see pages 35 to 39) 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 emissions 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.
<p>10. Business continuity and crisis management</p> <p>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.</p> <p>Link to strategy</p> 	<p>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.</p> <p>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.</p> <p>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.</p> 	<p>We have a number of mitigations across the Group, which include:</p> <ul style="list-style-type: none"> - 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. <p>In relation to COVID-19, we are:</p> <ul style="list-style-type: none"> - 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.

Risk

Status

Actions to mitigate

11. Health, safety and wellbeing

A health and safety incident or global health crisis could result in the serious injury, ill health or death of our people or members of the public. An incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and/or reputational damage.

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.

Link to strategy



The health, safety and wellbeing of our people, customers and members 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.



We have a number of programmes and initiatives across the Group to address this risk, which include:

- 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. Further information is provided on page 34.

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.

Link to strategy



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.



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 on the following page, 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 €500 million 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 (see pages 46 to 53). 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 (see pages 48 to 53)
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 on pages 56 to 81. 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. For further information, see Note 1 to the consolidated Financial Statements on page 154.

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.

Financial Review – Introduction



Mick Jeavons
Group Chief
Financial Officer

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 the 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%. A more detailed review of Royal Mail performance is provided on pages 6 to 9.

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. A more detailed review of GLS performance is provided on pages 10 and 11.

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 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).

Outlook

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 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

- 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.
- 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.

Financial Review

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 on pages 75 to 81 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 page 62 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 on page 76.

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%
Adjusted¹			
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%
Adjusted¹			
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

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'.

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 on page 69.

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	52 weeks March 2021			52 weeks March 2020		
	Royal Mail	GLS	Group	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 ¹	(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

1. 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).

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 €210 million in total, of which €62 million 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: <ul style="list-style-type: none"> – Meet all obligations, including pensions. – Manage future risks, including the principal risks. 	<p>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.</p> <p>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.</p> <p>The Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.</p>
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.	<p>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).</p> <p>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).</p> <p>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.</p> <p>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, subject to approval at the 2021 AGM.</p>
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 dividend policy and expects to propose a full year dividend for 2021-22 of 20p 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' in Note 11 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 Notes to the Consolidated Financial Statements on page 164.

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.

	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
2021-22 exposure							
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.

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.

Adjusted¹ 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%)

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'.

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:

Parcel volumes (m units)	52 weeks March 2021			52 weeks March 2020			Change (%)		
	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%

Parcel revenue (£m)	52 weeks March 2021			52 weeks March 2020			Change (%)		
	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%

Letter volumes (m units)	52 weeks March 2021			52 weeks March 2020			Change (%)		
	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%)

Letter revenue (£m)	52 weeks March 2021			52 weeks March 2020			Change (%)		
	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.

GLS¹

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%

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 and Mountain Valley Freight Solutions businesses on 30 September 2019. The prior year includes only six months' contribution.

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.

Adjusted² 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%

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'.

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.

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)	52 weeks March 2021			52 weeks March 2020		
	Reported	Specific items and pension adjustment ¹	Adjusted	Reported	Specific items and pension adjustment ¹	Adjusted
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 costs	(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

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.

Segmental reported results

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

(£m)	52 weeks March 2021				52 weeks March 2020			
	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 tax	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

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 on pages 48 to 53 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 March 2021	Reported 52 weeks 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)	52 weeks March 2021	52 weeks 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 the 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 an 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.

This Strategic Report was approved by the Board on 19 May 2021 and signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer

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Chair's Introduction



Keith Williams
Non-Executive Chair

Introduction

On behalf of the Board, I am pleased to present this year's Corporate Governance Report. It should be read in conjunction with pages 1 to 81 of this Annual Report and Financial Statements.

Key priorities

As explained in my letter on pages 4 and 5, 2020-21 has been an unprecedented year. Throughout the Board has focused on the following key priorities:

- Ensuring the safety of our workforce and customers.
- Continuing to provide a vital frontline service to keep our customers, companies and countries connected.
- Overseeing the strategic development of Royal Mail and GLS.
- Ensuring that despite different ways of working, the highest levels of governance continue to operate across the Group, including effective risk management measures and controls.

Purpose and culture

The Board sets the Group's vision, purpose and values. It also assesses and monitors the culture within which our businesses and employees operate and conduct themselves to ensure that it supports the delivery of our purpose and effective execution of our strategy. Information about how the Board monitors culture is included on page 88.

Stakeholders

Our purpose demonstrates the importance we place on our stakeholder relationships. We take into account all stakeholder views and interests in our decision-making processes and, as a significant contributor to the UK economy, we are aware of our responsibilities to the local communities we serve and our contribution to society.

The Directors' duties under section 172 of the Companies Act 2006 underpin our decision making and help ensure good governance. Our section 172 statement, which includes examples of how we have considered our stakeholders when making decisions this year, is included on pages 26 and 27. Information about how the Board engages with stakeholders is provided on pages 24 and 25 and 92 to 94.

In February 2021, Maria da Cunha took over from Simon Thompson as the Designated Non-Executive Director for engagement with the workforce. Given the important role

our people have in serving our customers and delivering our strategy, it is essential that we understand their views. This engagement has been particularly important throughout the pandemic during which our people have been designated key workers and have played a vital role. Information about the Board's engagement with our workforce is included on pages 92 to 94.

Environmental, social and governance

Last year we established our CR Committee which is chaired by Rita Griffin. The CR Committee oversees our performance in ESG matters and our Corporate Responsibility standards. Information about the CR Committee's activities during the year is included on pages 106 and 107.

We are committed to implementing the recommendations of the TCFD and an update of the work undertaken in this important area is included on pages 35 to 37.

Diversity and inclusion

To effectively serve our stakeholders, enhance our decision-making processes and create an inclusive culture we must employ people with different viewpoints and promote diversity in its broadest sense, including professional, educational, skills, age, gender and ethnicity.

In relation to Board appointments, the Nomination Committee continues to consider a wide range of candidates from a diverse pool. Its recommendations are based on objective criteria including skills and experience, the contribution the candidate will make to the Board and the Board's overall composition and diversity skill set. Recognising and welcoming the recommendations of the Parker Review, the Board is currently in the process of appointing to the Board at least one Director from an ethnic minority background. Also recognising ethnic minority colleagues are under represented in senior roles, the Nomination Committee will consider ways to improve the ethnic diversity across the Group's leadership pipeline.

As at 28 March 2021 the proportion of women on the Board was 50%, and as at 1 April 2021, following the appointment of Martin Seidenberg to the Board, 44%. However, as at December 2020 we had not achieved our aspiration to meet the Hampton-Alexander target of having at least 33% of our senior management roles held by women. Our rate of progress needs to accelerate. In the coming year, as part of our talent assessment and succession planning work, we will focus on understanding and addressing any issues to facilitate the career development of female colleagues.

Our customers and employees cover all age groups however, younger people are not fully represented across our management teams. As highlighted on page 33, Royal Mail has established a Youth Board, made up of members aged between 16 and 30, that aims to enable our younger colleagues to contribute to the future direction of the business.

Board changes

There were a number of Board changes during the year.

Simon Thompson, previously one of our Non-Executive Directors, was appointed Chief Executive Officer of Royal Mail (CEO Royal Mail) on 11 January 2021. 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. Martin Seidenberg, Chief

Executive Officer of GLS (CEO GLS), was also appointed to the Board on 1 April 2021. Biographical information about Simon, Mick and Martin is included on pages 86 and 87.

As a result of these changes, Stuart Simpson, who had been acting as Interim Chief Executive Officer of Royal Mail since May 2020, left Royal Mail at the end of January 2021.

Having acted as Group Interim Executive Chair since May 2020, I reverted to being Non-Executive Chair on 1 February 2021.

Our structure reflects the way we believe we will now get the best from the Group. I will now concentrate on how the management of Royal Mail and GLS are each held to account, how the overall organisation runs and ensure that our Board continues to perform effectively. Our two new Chief Executive Officers (CEOs), reporting to the Board, will concentrate on the day-to-day activities of our Royal Mail and GLS businesses, with support from the Group Chief Financial Officer (Group CFO) and the Group General Counsel and Company Secretary (Company Secretary). The Group CFO and the Company Secretary each have assumed responsibility for Group activities. This will allow our CEOs to focus on their respective business and delivery of their business plans.

Compliance with the FRC's 2018 UK Corporate Governance Code (the Code)

As Chair, it is my role to promote the highest levels of governance across the organisation. The Board places a high value on good governance and recognises that effective governance contributes to the Group's long-term success and benefits all stakeholders.

During the year, except in relation to Provision 9 of the Code (the role of chair and chief executive should not be exercised by the same individual), the Company has complied with all relevant Provisions of the Code.

Compliance with the Code¹

The Board confirms that for the year ended 28 March 2021, except in relation to Provision 9 which is explained above, the Company complied with the Code. This governance section explains how we have applied the Code's Principles during the year.

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

Following Rico Back's departure from the Group, the Board commissioned an internal and external search for a new Royal Mail Chief Executive. While this search was ongoing I assumed the role of Executive Chair. The Board deemed it appropriate for me to assume this role, on an interim basis, given my knowledge of the business and, in particular, the need to deliver the ongoing transformation of Royal Mail at an accelerated pace and ensure that the Group continued to provide its vital services during the pandemic. At the same time, the Board appointed Stuart Simpson as Interim Chief Executive of Royal Mail. In that role Stuart was responsible for Royal Mail's day-to-day operations with Martin Seidenberg responsible for GLS' day-to-day operations. Shortly following the appointment of Simon Thompson as CEO Royal Mail, I reverted to the role of Non-Executive Chair, which took effect on 1 February 2021.

Whilst we recognise that my role as Interim Executive Chair may have provided some challenges to my independence, as defined in Provision 10 of the Code, the Board considers that my independence has been maintained and indeed has been strengthened as a result of the creation of the new Board-level CEO Royal Mail and CEO GLS roles (see page 95). Further information on the independence of Non-Executive Directors is included on page 96.

Board evaluation

In December 2020 the Board's performance and effectiveness were evaluated with the assistance of Independent Board Evaluation (IBE), an external facilitator. Information about the process and outcomes is included on page 97. I am pleased with the way that Board members are working together, and how with the recent additions to its membership, the balance of skills, expertise and independence has been strengthened.

Conclusion

The 2021 AGM will be held on 21 July 2021 at 11:00am. Full details of the business to be considered at the meeting, together with any special arrangements that may be required as a result of the COVID-19 pandemic, will be included in the Notice of AGM that will be sent to shareholders and published on our website at www.royalmailgroup.com/en/investors/annual-general-meetings.

I look forward to responding to any questions shareholders may have at the AGM.

Keith Williams
Non-Executive Chair
19 May 2021

Code Application

Information about how we have applied the Code's Principles during the year ended 28 March 2021 can be found as indicated below.

Code Principle	Page
1. Board leadership and Company purpose	
A. Effective leadership, promotion of long-term success, value generation and social contribution	86 to 91
B. Purpose, values, strategy and cultural alignment	88
C. Resources and controls	90 104 and 105
D. Stakeholder engagement	24 to 27 92 to 94
E. Policies and practices and mechanisms to raise workforce concerns	41 and 42 92 to 94 107
2. Division of responsibility	
F. Role of the Chair	95 and 96
G. Composition of the Board	86 and 87 95
H. Role and time commitment of the Non-Executive Directors	96
I. Effective and efficient Board	90 95
3. Composition, succession and evaluation	
J. Appointments to the Board and succession planning	97 to 99
K. Skills, experience and knowledge of the Board	86 and 87
L. Board evaluation	96 and 97
4. Audit, risk and internal control	
M. Internal and external audit	90 100 to 105
N. Fair, balanced and understandable	137
O. Risk management and internal control framework	46 and 47 90 104 and 105
5. Remuneration	
P. Remuneration policies and practices	108 114 to 121
Q. Executive remuneration	122 to 133
R. Remuneration outcomes and independent judgement	108 to 111

Board of Directors



Keith Williams N R
Independent Non-Executive Chair

Appointed

Non-Executive Director on 1 January 2018
Non-Executive Deputy Chair on 7 November 2018
Non-Executive Chair on 22 May 2019
Interim Executive Chair on 15 May 2020
Non-Executive Chair on 1 February 2021

Skills and experience

Keith is a highly regarded business leader and chartered accountant who brings a wealth of governance, operational and customer service experience, as well as a deep understanding of industrial relations and regulated industries. Prior to joining Royal Mail, he spent 18 years at British Airways, including five years as CFO, three years as CEO and two years as Executive Chair. During that time, he led the transformation of British Airways, building a leaner and more customer-focused organisation with a sustainable future. Keith was formerly a Non-Executive Director and Deputy Chairman of the John Lewis Partnership, a Non-Executive Director of Aviva plc and an Executive Board member and Chair of the Audit Committee at Transport for London. He spent his early career at Boots, Apple Inc. and Reckitt & Colman.

Significant external appointments

- Chair of Halfords Group plc
- Independent Chair of a review of the British Railways on behalf of the UK Government



Simon Thompson
Chief Executive Officer of Royal Mail

Appointed

Non-Executive Director on 1 November 2017
CEO of Royal Mail on 11 January 2021

Skills and experience

Simon has extensive experience as a global business leader with proven expertise in strategy, logistics, digital transformation and customer experience. Prior to joining Royal Mail, he held senior positions at Honda Motor Europe Ltd, Motorola Inc., lastminute.com, Apple Inc. and Wm Morrison Supermarkets plc. His recent roles include Global Head of Digital Commerce at HSBC, Chief Product Officer at Ocado plc and Managing Director of the NHS Test and Trace programme. Simon was previously the Designated Non-Executive Director for engagement with the Company's workforce but stepped down from this role following his appointment as CEO.

Significant external appointments

- Member of the Digital Advisory Board of Coca Cola European Partners



Martin Seidenberg
Chief Executive Officer of GLS

Appointed

1 April 2021

Skills and experience

Martin has a wealth of international experience as a senior executive in the logistics industry. He spent 15 years at Deutsche Post DHL, where he held a variety of senior logistics, parcel-related and strategic roles, including CEO of the DACH region at DHL Supply Chain. He joined GLS in 2015 as the Chairman of the Management Board of GLS Germany before being appointed CEO of the GLS Group in June 2020. His deep knowledge of GLS and the logistics industry will be of great value to the Board.

Significant external appointments

- None



Rita Griffin C N
Independent Non-Executive Director

Appointed

1 December 2016

Skills and experience

Rita brings a wealth of strategic, commercial and operational experience as an international business leader with proven experience in business restructuring and transformation at scale in regulated businesses. During her career at BP she gained extensive ESG experience, particularly related to governance, safety and operational risk, environmental performance, D&I, human rights, and compliance and ethics during her roles as VP of Downstream Transformation, BP Group Chief Marketing Officer, Chief Operating Officer of Global Petrochemicals, and as a member of the Downstream Senior Executive Leadership Team and the Safety and Operational Risk Committee.

Significant external appointments

- None



Maria da Cunha C N R
Independent Non-Executive Director

Designated Non-Executive Director for engagement with the workforce

Appointed

22 May 2019

Skills and experience

Maria brings a wealth of experience in governance, industrial relations, transformation programmes and employee engagement. She spent 18 years at British Airways plc, including four years as the Director of People, Legal and Government and Industry Affairs and seven years as the Director of People and Legal, a role in which she was responsible for global human resources, legal, risk and compliance. Maria is a qualified solicitor and has held various positions at Hogan Lovells, Lloyds of London and Law College of Europe.

Significant external appointments

- Non-Executive Director of De La Rue plc
- Panel Member of the Competition and Markets Authority
- Non-Executive Director of London & Quadrant Housing Trust



Michael Findlay A N R
Independent Non-Executive Director

Appointed

22 May 2019

Skills and experience

Michael has extensive strategy, finance and M&A experience. He spent 27 years in investment banking, working for firms including Robert Fleming & Co, UBS and most recently Bank of America Merrill Lynch, where he was Co-Head of Investment Banking and Corporate Broking for the UK and Ireland. He has significant knowledge of the letters and parcel sector, gained through his previous role as a Non-Executive Director of UK Mail Group plc, where he was also Senior Independent Director, Chair of the Remuneration Committee and a member of the Audit Committee.

Significant external appointments

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



Mick Jeavons
Group Chief Financial Officer

Appointed
11 January 2021

Skills and experience
Mick is a chartered accountant with significant financial, logistics and industrial relations experience in a regulated industry. He joined Royal Mail in 1993 and has served in various senior roles since, including Corporate Finance Director at the time of the IPO in 2013 and Chief of Staff to the then CEO. He was appointed Group CFO on 11 January 2021, having been in that role on an interim basis since May 2020.

Significant external appointments
– None



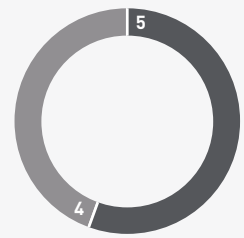
Baroness Hogg (A) (C) (N)
Senior Independent Non-Executive Director

Appointed
1 October 2019

Skills and experience
Baroness Hogg brings extensive board and governance experience, having served as Chair of 3i Group plc and as a Non-Executive Director of numerous companies including BG Group plc and GKN plc. She also has significant political and regulatory experience through her former roles as Lead Independent Non-Executive Director of HM Treasury, Chair of the Financial Reporting Council and Head of the Prime Minister's Policy Unit under John Major. She was granted a life peerage in 1995 and sits in the House of Lords as a crossbencher. In 2017, she won a Lifetime Achievement award from the Non-Executive Directors' Association.

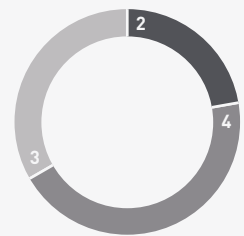
Significant external appointments
– Non-Executive Director of Times Newspapers Holdings Limited

Board diversity



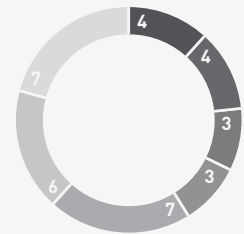
Male	5
Female	4

Board tenure



0-1 year	2
1-2 years	4
3+ years	3

Board skills and experience



Industrial relations/Employee engagement	4
Customer	4
Transformation	3
Finance	3
Regulated industries	7
Corporate Governance	6
Audit, risk management and compliance	7

Committee membership key

- (A) Audit and Risk
- (C) Corporate Responsibility
- (N) Nomination
- (R) Remuneration
- Committee Chair



Lynne Peacock (R) (A) (N)
Independent Non-Executive Director

Appointed
1 November 2019

Skills and experience
Lynne brings substantial strategy, governance, leadership and transactional experience. She was CEO of National Australia Bank Europe Limited (NAB) from 2004 to 2011, during which time she oversaw the divestment of NAB's Irish operations and the integration of Clydesdale and Yorkshire Banks. Prior to NAB, she spent 20 years at Woolwich plc, working in a variety of senior marketing roles until she became Group Operations Director in 1996 and then CEO in 2000. During that time, she was a member of the team which oversaw a successful IPO and FTSE 100 listing. Lynne was formerly a Non-Executive Director at Standard Life Aberdeen plc, Scottish Water, Jardine Lloyd Thompson Group plc and Nationwide Building Society.

Significant external appointments
– Senior Independent Director of Serco Group plc
– Non-Executive Director of TSB Banking Group plc
– Senior Independent Director of TSB Bank plc (a subsidiary of TSB Banking Group plc)
– Chair of Trustees of Learning Disability Network London Limited (a charity)



Mark Amsden
Group General Counsel and Company Secretary

Chief Risk and Governance Officer

Appointed
8 April 2019

Skills and experience
Mark is a qualified solicitor and has significant legal, technology, data and company secretarial experience. He was previously the Interim Company Secretary of Yorkshire Water and the General Counsel and Company Secretary of Wm Morrison Supermarkets plc. Whilst at Morrisons, Mark helped to oversee Morrisons move online with Ocado and then Amazon. He also dealt with the response to Morrisons employee data theft in 2014. Prior to joining Morrisons he was a partner at Addleshaw Goddard LLP, where he specialised in corporate litigation and headed up the national IT litigation practice.

Significant external appointments
– None

Board Leadership and Company Purpose

An effective Board

A strong governance framework alone is not enough to deliver our strategic objectives. This framework needs to be managed and overseen by an effective Board.

Governance framework

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

Matters reserved for the Board's approval and the responsibilities the Board has delegated to its Committees are available at www.royalmailgroup.com/en/about-us/governance.

Purpose, values and culture

We have a clear purpose – Connecting customers, companies and countries. During the past year as a result of the pandemic, the relevance and importance of this purpose, and its societal value, has been magnified.

We endeavour to promote an open culture which values diversity and integrity and is responsive to the views of all our stakeholders. Our culture, and our values which shape it, underpin everything we do and, if we are to achieve our ambitions, it is essential that they are aligned with our strategy. The Board endorses the Royal Mail and GLS' values which are described on page 2.

The Board regularly monitors the Group's culture using a number of mechanisms as detailed below.

How the Board monitors and assesses culture

Activity	Action
Employee surveys	Reviewing feedback from employee surveys.
Workforce engagement	Considering information gathered through initiatives led by the Designated Non-Executive Director for engagement with the workforce.
CR Committee updates	Considering various updates provided by the Chair of the CR Committee covering a range of subjects including culture and diversity, and health, safety and wellbeing performance.
Health and safety	Reviewing health and safety performance. An absolute, non-negotiable commitment to providing a healthy and safe workplace for all stakeholders is a core component of our culture.
Compliance	Monitoring the Group's confidential whistleblowing helplines (see page 107). Operating with integrity is essential if we are to safeguard our reputation and valued place in society.

The Board considered the feedback provided by employees in response to the Trust Survey undertaken in February 2021. Further details of the responses to our Trust Survey can be found on pages 9 and 31. This feedback informed the Board's deliberations in relation to the Royal Mail strategy and, in particular, the need to improve workplace relationships and prioritise the rebuilding of trust.

Governance framework

The Board

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

Nomination Committee

Committee Chair:
Keith Williams

- Reviews the balance and composition of the Board and its Committees including in relation to skills, knowledge, independence, diversity and experience.
- Ensures a progressive renewal of Board membership through orderly succession planning.
- Considers talent reviews and succession planning for senior executives.
- Oversees progress against the Group's diversity policy.

See pages 98 and 99

Audit and Risk Committee

Committee Chair:
Michael Findlay

- Reviews, and recommends for the Board's approval, all financial statements and associated disclosures.
- Advises the Board on the Group's overall risk appetite, tolerance and strategy, and reviews the policies and processes for identifying and assessing the risks to which the Group is exposed and the management of those risks.
- Satisfies itself that internal controls and risk management processes generally work effectively.
- Oversees the financial performance of the Group.
- Oversees the relationship with the external auditor, ensuring the effectiveness of the external audit process.

See pages 100 to 105

Remuneration Committee

Committee Chair:
Lynne Peacock

- Determines, and recommends for the Board's approval, the framework for the remuneration of the Group's senior executives.
- Determines and recommends for the Board's approval the individual remuneration arrangements for the Chair, the Executive Directors, the Executive Board of Royal Mail and GLS and the Company Secretary.
- Agrees targets for any performance-related incentive schemes.

See pages 108 to 133

Corporate Responsibility Committee

Committee Chair:
Rita Griffin

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

See pages 106 and 107

Board meetings and attendance

The table below shows the number of scheduled Board meetings each Director attended and the number of meetings they were entitled to attend during the year ended 28 March 2021.

During these unprecedented times, we have had to adapt to different methods of communication to ensure that the Board is effectively managing the business of the Group. We have met in person where we have been able to under COVID-19 restrictions and guidance. Where we have not been able we have conducted our scheduled meetings using video conferencing, which provides an effective means of communication and enables us to engage face-to-face. We have also held audio meetings via telephone when circumstances have prevented video conferencing. Despite having to find different ways to conduct the business of Board meetings, we believe that this has not affected our decision-making process or prevented any meetings taking place. We continue to use a portal for the distribution of meeting minutes and all relevant papers, which has proved invaluable during these times.

In addition to the scheduled meetings, the Board and its Committees held other 'ad hoc' meetings throughout the year, as needed. In the early part of the year, the Board met weekly and then fortnightly, to oversee the Group's performance and its response to the COVID-19 pandemic. The majority of Directors made themselves available at short notice for these meetings.

Board attendance

Director	Role	Attendance
Keith Williams¹	Chair	9/9
Sarah Hogg²	Senior Independent Director (SID)	8/9
Rita Griffin	Non-Executive Director	9/9
Michael Findlay	Non-Executive Director	9/9
Maria da Cunha	Non-Executive Director	9/9
Lynne Peacock	Non-Executive Director	9/9
Mick Jeavons³	Group Chief Financial Officer	2/2
Simon Thompson⁴	CEO Royal Mail	9/9
Stuart Simpson⁵	Interim CEO Royal Mail	7/7
Rico Back⁶	CEO	1/1

1. Keith Williams was Non-Executive Chair up to 15 May 2020, Interim Executive Chair between 15 May 2020 and 31 January 2021, and again Non-Executive Chair from 1 February 2021.

2. Sarah Hogg was unable to attend one meeting due to illness. Sarah was provided with all papers before the meeting and received a debrief after from the Chair.

3. Mick Jeavons joined the Board as Group CFO on 11 January 2021. In his capacity as Interim Group CFO, Mick attended Board meetings held after 15 May 2020.

4. Simon Thompson, previously a Non-Executive Director, was appointed CEO of Royal Mail on 11 January 2021.

5. Stuart Simpson stood down from the Board on 31 January 2021.

6. Rico Back stood down from the Board on 15 May 2020.

In his capacity of CEO GLS, Martin Seidenberg attended Board meetings prior to his appointment to the Board on 1 April 2021.

The Non-Executive Directors and the Chair regularly catch-up without the presence of Executive Directors. These catch ups are an important way to develop working relationships between the Non-Executive Directors and to assess the performance of senior management.

The Non-Executive Directors also regularly catch up with senior management, and spend time increasing their understanding of the business. These catch-ups help to 'open out' discussions, enabling formal Board meetings to be more focused. It also helps the Non-Executive Directors recognise that attendance at Board meetings is only one part of their role.

This year, due to the pandemic, the above meetings between the Non-Executive Directors and the Chair (without Executive Directors) and the Non-Executive Directors and senior management generally took place via audio calls and video conferencing.

Directors unable to attend any Board or Committee meeting receive the relevant papers prior to the meeting and are able to provide comments in advance to the Chair or to the relevant Committee Chair.

Board activities

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

The specific areas the Board focused on during the year and up until 19 May 2021 are outlined in the table on the adjacent page. In addition, at every Board meeting a number of standing items are reviewed including health and safety and wellbeing reports, customer service and market developments. At each Board meeting each Committee Chair updates the Board on the work of his or her Committee. As appropriate, individuals from relevant business areas present on key items, which enables the Board to debate and challenge Management's proposed initiatives and plans.

Effectiveness review of risk management and internal control

The Board has overall accountability for the Group's risk management and internal control systems and has delegated to the AR Committee a number of activities including objectives related to risk control, governance, financial control and statutory reporting. Further information about the AR Committee's activities in these areas is included on pages 104 and 105.

During the year the Board reviewed the Group's risk management and internal control systems and confirmed they were generally effective. The Board also determined the Group's risk appetite and has carried out a robust assessment of the Group's principal and emerging risks. Information about the Group's principal risks is included on pages 48 to 53.

Conflicts of interest

The Group operates a policy to identify and, where appropriate, manage Directors' potential conflicts of interest. Any potential conflict must be notified to and authorised by the Board. Each Director abstains from approving their own potential conflicts. Directors also have an ongoing obligation to advise the Board of any related-party transactions involving themselves or their connected persons, and that these are conducted on an arm's length basis.

Board activities

Matter considered	Activity
Strategy and business plan	
Strategy	<ul style="list-style-type: none"> – Dedicated a significant amount of time discussing, monitoring and reviewing strategy including participating in a dedicated strategy day and a number of discussions in relation to Royal Mail's transformation programme. – Discussed and approved the GLS and Royal Mail strategies.
Business plans	<ul style="list-style-type: none"> – Reviewed and approved the 2021-22 business plans and budgets and monitored progress against the Group's long-term business plan. – Considered and approved the Capital Allocation Framework. – Monitored progress against the annual budgets and the Group's financial targets.
COVID-19	<ul style="list-style-type: none"> – Received regular COVID-19 updates including impact assessments, contingency plans and the measures being deployed to protect the Group's workforce and customers.
Leadership	
Board composition and succession planning	<ul style="list-style-type: none"> – Considered and approved the appointment of three new Executive Directors. – Continued to consider Board membership, including Board succession planning and committee composition, with a focus on diversity and ethnicity.
Organisational change	<ul style="list-style-type: none"> – Monitored and received updates on the Royal Mail management restructuring programme. – Approved recommended changes to composition of Royal Mail and GLS Executive Boards.
Culture and Corporate Responsibility	<ul style="list-style-type: none"> – Discussed and reviewed the Group's culture including the role to be played by the CR Committee in monitoring culture. – Reviewed the Group's CR strategy and specifically considered what programmes and approaches should be adopted as part of the Group's business plans. – Approved the 2020-21 CR Report. – Participated in a CR induction programme to provide a full and clear understanding of the Group's key ESG risks and opportunities.
Stakeholders	<ul style="list-style-type: none"> – Regularly reviewed the Directors' section 172 duties and responsibilities. – Considered the feedback from employee Trust Survey and oversaw the development of an action plan to address a number of issues (see page 19). – Considered reports covering employee feedback provided by the Designated Non-Executive Director for engagement with the workforce and from the Chair of the CR Committee. – Received regular updates on shareholder sentiment and the Group's investor relations programme. – Received regular updates on discussions with unions and the industrial relations environment and, prior to reaching agreement with the CWU at the end of last year, considered the possible threat of industrial action and the impact this could have on the Group.
Operational	
	<ul style="list-style-type: none"> – Reviewed and discussed operating performance reports prepared by the CEOs of Royal Mail and GLS. – Received updates on Royal Mail's transformation programme. – Received updates on the Group's property portfolio.
Financial	
Performance	<ul style="list-style-type: none"> – Regularly discussed and considered the Group's financial performance. – Regularly reviewed the cost-control initiatives being implemented across the Group.
Dividend	<ul style="list-style-type: none"> – Reviewed the dividend policy, particularly in light of the COVID-19 pandemic.
Reporting	<ul style="list-style-type: none"> – Considered and approved full-year results, interim results and trading updates. – Considered and approved this Annual Report, including the going concern and viability statements on page 55. – Considered and approved the decision not to pay a dividend in 2020 and the decision to pay a one-off FY2020-21 final dividend.
Risk and internal controls	
Health and safety	<ul style="list-style-type: none"> – Received regular updates on health, safety and wellbeing matters.
Principal and emerging risks	<ul style="list-style-type: none"> – Received regular updates on the Group's principal and emerging risks including the findings of a horizon-scanning exercise to determine and understand emerging risks.
GDPR	<ul style="list-style-type: none"> – Received regular updates on the Group's compliance with GDPR.
Cyber security	<ul style="list-style-type: none"> – Received updates on cyber security and the associated risks. – Reviewed the updated cyber security improvement plan and discussed progress.
Brexit	<ul style="list-style-type: none"> – Reviewed and discussed the potential impacts of Brexit and considered the impact of various outcomes on the Group. – Oversaw planning for Brexit and associated customs clearance impacts. – Reviewed and discussed the position on the Northern Ireland border, the Universal Service Obligation and Royal Mail's engagement with Ofcom, and considered the impact of various outcomes and effects on the Group.
Whistleblowing	<ul style="list-style-type: none"> – Reviewed reports from the AR Committee and the CR Committee in relation to the whistleblowing helplines.
Governance	
	<ul style="list-style-type: none"> – Considered findings of the externally facilitated Board evaluation and agreed actions to improve and enhance a number of areas (see page 97). – Reviewed and approved changes to the Matters Reserved for the Board and the Committees' Terms of Reference. – Reviewed and approved changes to the roles of the Chair, CEO, Group CFO and Company Secretary following changes to the composition of the Board. – Reviewed and approved, upon recommendation from the relevant Committee (where appropriate), the Group's Modern Slavery Statement, Treasury Policy and the Corporate Responsibility Policy.
Political and regulatory environments	
	<ul style="list-style-type: none"> – Reviewed regular updates including updates in relation to Management's engagement with Ofcom, including the sustainability of the Universal Service Obligation.

The Board's engagement with stakeholders

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

Our stakeholders and the channels we use to engage with them are described on pages 24 and 25. Our section 172 statement is on pages 26 and 27 together with examples of principal decisions and how the Board considered the section 172 matters.

Workforce engagement

The vast majority of the decisions we make could impact our colleagues therefore it is important that we engage with them and understand their views.

As our workforce has direct access to our customers every day and a unique understanding of their needs, we must also ensure that we actively gather their insights and factor this valuable information into our decision making. And given how pivotal our people are in the delivery of our strategy, it is crucially important that we explain our strategy and objectives.

We operate a number of channels to ensure that we facilitate an effective and open dialogue with our people (see pages 31 and 32). Feedback from our people is reviewed and considered at Board meetings and assists the Board in assessing the Group's culture (see page 94). The Board also receives regular updates from the Chair of the CR Committee on a range of subjects including culture and engagement, and whistleblowing hotline updates.

Annually we host at least one of our Board meetings at an operational site and members of the Board visit at least one site each year. As a result of the pandemic, during 2020-21, most Board meetings have been held virtually and site visits have not taken place.

We also have a Designated Non-Executive Director for engagement with the workforce. As a large diverse business with two separate subsidiaries we believe this is the most effective engagement mechanism. In particular, it would not be readily feasible for a single individual or a small panel of people to effectively represent our collective workforce across all of the countries in which we operate.

The Designated Non-Executive Director for engagement with the workforce is a crucial role. It ensures that the Board has a good understanding of our colleagues' views and, when making decisions, can factor in their views and concerns and assess the impact of decisions made on the workforce. Following meetings with the workforce the Designated Non-Executive Director for engagement with the workforce prepares a written report and updates the CR Committee and, on occasion, the Board. The Board also reviews the results of employee surveys.

Simon Thompson held this role until 11 January 2021. While the pandemic restricted the number of face-to-face meetings and prevented travel to GLS' operations, Simon hosted six virtual Employee Voice Forums involving colleagues from all parts of the Royal Mail business. Colleagues from across the Group, including operational and central functions, participated in the sessions which covered the Royal Mail strategy and the need to reward and show appreciation for the workforce particularly given the challenges the pandemic had created and the uncertainty related to the business' transformation programme.

Maria da Cunha is now the Designated Non-Executive Director for engagement with the workforce. She succeeded Simon Thompson in this role following his appointment as CEO Royal Mail. On the adjacent page Maria explains why workforce engagement is important and some of her activities to date.

Workforce engagement outcomes

Last year our Employee Voice Forums, which provide our workforce across the Group with a voice on key matters, highlighted the issues detailed below.

To help colleagues understand the Group's strategy and what it means to them, the Board approved the launch of the Ambassador programme in 2019. During 2020-21 our 1,500 Ambassadors took our 'Transformation Story' to circa 120,000 frontline colleagues, across 1,600 sites, allowing them the opportunity to understand and discuss change at both an organisational and local level.

2019-20 Employee Voice Forum Findings

"I am proud to wear the badge"

"Unfairness everywhere"

"Why are we waiting – we should be going more quickly"

"What should I do? What does the change mean to me?"

"We are not given the tools to be successful"

"Please make me the best I can be"

"I only trust people like me"



Q&A with Maria da Cunha

What are you most looking forward to in your new role?

Every time I have had the chance to meet with our people, whether at Royal Mail or GLS, I have felt energised by their pride and commitment to providing a great service to our customers. I am really looking forward to meeting as many colleagues as possible in the coming months to hear first-hand their views on the opportunities and challenges facing our business and how we can become a better company.

Why do you think it is important?

The vast majority of the decisions the Board makes could impact our colleagues across the business. It is my role to make sure that when we discuss and deliberate key matters, we can answer the question: “what would our colleagues think of that?” This role has been particularly important during the pandemic which has seen our frontline staff play a key role in society.

Given the pandemic, have you been able to meet colleagues?

Yes. I have had the opportunity to participate in three Employee Voice Forums involving both operational and commercial colleagues. While two of these sessions were conducted virtually, one of the sessions was conducted in a COVID-19-safe environment and I was able to meet colleagues in person. A number of common themes emerged from the discussion which were reported to and considered by the Board in April 2021 (see page 94).



In April 2021 Maria da Cunha provided an update to the Board following her participation in three Employee Voice Forums. These discussions highlighted a number of issues including the need to improve working relationships and build trust between employees and management (consistent with the responses provided by the wider workforce via the pulse survey undertaken earlier in the year (see page 31)). Being equipped with the right tools to do the job was still a concern and the need to improve products and services and simplify processes were regarded as essential if Royal Mail is to remain competitive. The Board discussed the feedback from the Employee Voice Forums and, as part of its deliberations about the Royal Mail strategy, further considered the invaluable insights provided. The Board agreed that key strategic priorities for Royal Mail should include rebuilding trust and ensuring that colleagues were equipped with the right tools to do their jobs.

Engagement with investors

During the year the Chair and, separately, the Group CFO and the Director of Investor Relations, met with major shareholders to understand their views on governance and performance against strategy. Feedback from these meetings, together with regular monthly updates about the investor landscape, was provided to the Board. Our corporate brokers also provided updates to the Board as required.

In March 2021 we commissioned an investor perception study which was undertaken by Rothschild & Co Investor Advisory. The objectives of the study, which gathered the views of a broad range of institutional investors and sell-side analysts, were to elicit views on both Royal Mail and GLS' market positions and respective strategies, the financial position of the Group (including views on capital allocation and dividend), the Group's approach to ESG and performance on a number of metrics, the management team and market communications.

Key findings from the study included investors' focus on the Group's ability to deliver long-term returns; a sustainable new dividend policy; Royal Mail's transformation and its ability to deliver sustainable cost savings as well as constructive union relationships; GLS' growth ambitions and ability to retain profitability; and the future investment requirements for both businesses and their ability to improve operational gearing. In May 2021 the Board considered these findings which informed its decision-making process in relation to capital allocation and the Group's new dividend policy. As the Board continues to monitor Royal Mail and GLS' strategic progress it will consider and take account of the survey's findings.

All Directors attended the 2020 AGM. Regrettably, due to COVID-19 and to protect the health and wellbeing of our shareholders, employees and the wider community, shareholders were unable to attend the meeting in person. Reflecting our commitment to constructive engagement we invited shareholders to submit questions in advance of the meeting and responses, together with an update on the Group's performance and strategy, were provided in a pre-recorded virtual shareholder event which is available at www.royalmailgroup.com/en/investors/annual-general-meetings.

We operate a comprehensive IR programme. In addition to providing quarterly trading updates, including hosting full and half-year results presentations, during the year we undertook two virtual multi-day investor roadshows and participated in three industry-focused conferences hosted by Deutsche Bank, UBS and Barclays. Keith Williams and Mick Jeavons, along with Martin Seidenberg and Stuart Simpson (Interim CEO of Royal Mail at the time) participated in both results presentations and Keith Williams led our roadshow meetings. We also conducted a number of ad-hoc meetings involving Keith Williams and Mick Jeavons.

At the end of March 2021, in response to feedback and investors' requests for more information and insight about GLS, we held a virtual presentation covering the Accelerate GLS strategy. The presentation was hosted by Martin Seidenberg and Mick Jeavons and included a live Q&A session, followed by a multi-day investor roadshow.

Division of Responsibilities

Following the appointment of the Royal Mail and GLS CEOs, the roles and responsibilities of the Chair, CEOs, Group CFO and Company Secretary have been reviewed and updated. The responsibilities of each Director is summarised below.

Division of responsibilities

Chair

- Responsible for the leadership and management of the Board and for promoting high ethical and governance standards.
- Ensures an effective and complementary Board, including appropriate contribution and sufficient challenge from the Directors.
- Ensures the Board determines the nature and extent of the significant risks that the Group is willing to accept in implementing its strategy.
- With support from the Company Secretary, promotes the highest standards in corporate governance and provides all new Directors with a thorough and tailored induction programme.
- Ensures effective relationships exist between all Directors, driving a culture that supports constructive discussion, challenge and debate.
- Maintains effective communications with shareholders, ensuring that their views are understood and considered appropriately during Board discussions.

Senior Independent Director

- Acts as a sounding board for the Chair and serves as a trusted intermediary for the other Directors.
- Leads the annual appraisal of the Chair's performance.
- Available to meet with shareholders, should they have issues or concerns.

Independent Non-Executive Directors

- Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process.
- Provide constructive challenge and monitor the Executive Directors' delivery of the strategy within the Board's risk and governance structure.
- Provide independent insight and support based on relevant experience.
- Satisfy themselves of the integrity of financial information and of the effectiveness of financial controls and risk management systems.
- Determine the appropriate level of remuneration for Executive Directors and ensure that there is appropriate succession planning in place at both Executive and Board level.
- Engage with internal and external stakeholders and feed back insights as to their views in relation to Group culture.

Designated Non-Executive Director for engagement with the workforce

- Represents the Board in engagement with the workforce.
- Develops a thorough understanding of the workforce's views and the Group culture.
- Develops, implements and feeds back on employee engagement initiatives in conjunction with Management.
- Provides an employee voice in the Boardroom by raising relevant matters on issues raised.
- Communicates to the workforce the outcomes and developments made by the Board on specific matters.

Group Chief Financial Officer

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

Company Secretary

- Provides advice to Board members, particularly in relation to corporate governance practices, induction training and personal development.
- Ensures that Board procedures are complied with, applicable rules are followed and that good information flows exist to the Board and between its Committees.
- Communicates with shareholders as appropriate and ensures that due regard is paid to their interests.
- Ensures the Board has high-quality information, adequate time and appropriate resources in order to function effectively and efficiently.
- Considers Board effectiveness in conjunction with the Chair and provides support to the Chair as required.
- Considers the appropriateness of risk management.
- Otherwise oversees the policies needed across the Group, to keep it safe, legal and compliant.

Chief Executive Officer – Royal Mail

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

Chief Executive Officer – GLS

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

The Chair and the CEO

Keith Williams assumed the role of Executive Chair on an interim basis on 15 May 2020 when Rico Back, the Group CEO, left the Company. Keith continued in this executive role until 1 February 2021. Following the appointment of Simon Thompson as CEO Royal Mail and Martin Seidenberg as CEO GLS, there is now a clear separation of roles and responsibilities with Simon and Martin responsible for the smooth running of Royal Mail and GLS respectively.

Following the appointment of the Royal Mail and GLS CEOs, the role and responsibilities of the Chair, CEOs, the Group CFO and the Company Secretary have been reviewed and updated. The responsibilities of each Director are summarised on the previous page.

Independent Non-Executive Directors

The Board includes three Executive Directors and six independent Non-Executive Directors. There is a clear division of responsibilities between their roles which is summarised below. Biographies of each Director are included on pages 86 and 87.

The Board has reviewed Keith Williams' independence taking account of the factors detailed in Provision 10 of the Code and has determined that, at the time he re-assumed the role of Non-Executive Chair in February 2021, he was independent. In reaching this determination the Board considered the short interim nature of his Executive Chair role, that he did not assume responsibility for Royal Mail or GLS' day-to-day operations and that he received no additional remuneration while acting as Interim Executive Chair. The creation of the new Board-level Royal Mail and GLS CEO roles and the appointment of three new Executive Directors supports his independence. He has no links to the Executive Directors and other managers and no business or other relationship with the Group that could impact his judgement.

As part of its annual Board effectiveness review the Board reviews the independence of its Non-Executive Directors and considers them to be independent. This means that, in the view of the Board, they have no links to the Executive Directors and other managers and no business or other relationship with the Group that could impact their judgement.

Time commitments

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

Since his appointment, the Chair has devoted a minimum of two days per week to the Group. This increased considerably while he undertook the role of interim Executive Chair but since reverting to Non-Executive Chair his time devoted to the Group's business has been reduced slightly.

Each Non-Executive Director is required to declare any significant outside commitments prior to their appointment with an indication of the time commitment involved. Any new external appointments which may impact existing time commitments will be considered by the Chair and agreed by the Board in advance.

Michael Findlay was appointed to the board of London Stock Exchange plc (a subsidiary of London Stock Exchange Group plc) in June 2020 and Lynne Peacock was appointed to the board of TSB Banking Group plc, and also to the board of its subsidiary TSB Bank plc, in April 2020. Prior to their respective appointments, Michael and Lynne notified the Board. The Board satisfied itself that these appointments do not create a conflict for the Company, and that Michael and Lynne had sufficient time to properly fulfil their duties to the Company.

Progress update on 2019-20 external Board evaluation

Key findings	Actions
Board composition, dynamics and relationships with senior management, including governance structure	During the year there were a number of senior appointments. The Board also committed to recruit two additional Non-Executive Directors. A revised governance structure was also introduced.
Strategic oversight	The Board and Management engaged in extensive discussions in relation to the Group's short and long-term strategy.
Succession planning	A significant element of the Board's activities during the year involved the appointment of the Group CFO and the CEOs of Royal Mail and GLS. In addition there was substantial change within the Royal Mail Executive Board including a number of internal appointments. In the coming year, refreshing the talent pipeline will be an area of key focus.
Chair performance	During his time as Interim Executive Chair the Board had more real time contact with the Chair and acknowledged its satisfaction with his performance. This, together with a strategy focused on two large financially independent businesses, has resulted in a revised governance structure. The CEOs of Royal Mail and GLS each report directly to the Board which is headed by the Non-Executive Chair.

Composition, Succession and Evaluation

Board composition

The delivery of the Group's strategy and long-term success depends on attracting and retaining the right skills across the Group. This starts with the Board. The Board includes six independent Non-Executive Directors, including a Non-Executive Chair, and three Executive Directors. They have wide-ranging backgrounds and relevant and complementary skills and experience.

Board appointments

The Nomination Committee leads the process for Board appointments (see page 98) and seeks to construct an effective, robust, well-balanced and complementary Board, with the appropriate balance of skills, experience, independence and knowledge of the Group to enable duties and responsibilities to be discharged appropriately.

The Board and the Nomination Committee actively consider the structure, size and composition of the Board and its committees when considering new appointments and succession planning. They also take account of a range of diversity factors together with the need to balance the composition of the Board and Committees and refresh them over time to meet the changing needs of the Group.

Board terms of appointment

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

Board induction programme

On appointment all externally appointed Directors participate in a tailored and comprehensive induction programme that is agreed through discussion with the Chair and arranged and supported by the Company Secretary.

The programme, which is designed to suit individual needs comprises:

- Various meetings with Management.
- Visits to operational sites.
- Two formal induction days at head office.
- Corporate governance training session provided by our external law firm.

This induction process aims to ensure that new Non-Executive Directors are adequately informed and equipped to participate effectively in Board discussions and properly fulfil their role.

Committee members are also provided with additional induction sessions specific to their Committee's remit.

After the initial induction phase, Non-Executive Directors are encouraged to meet with key personnel throughout the business at any time to continue their familiarisation with the Group's business, strategy, values and culture.

Board effectiveness evaluation

In 2019-20, in accordance with best practice, a full external evaluation of the performance and effectiveness of the Board was facilitated by Independent Board Evaluation (IBE), an independent consultancy that has no other relationship with the Group or its individual Directors. The process to select IBE was led by the Chair and Company Secretary, based on their knowledge of different providers. This evaluation included detailed interviews with every Board member and senior management and key advisers who have regular contact with the Board or its Committees. Key findings arising from this evaluation and progress to date are set out on the adjacent page.

In December 2020 the Board's performance and effectiveness were evaluated with the assistance of IBE. Given that four new Non-Executive Directors had joined the Board in 2019, the Board considered it would be useful for continuity to involve IBE once more. The Non-Executive Chair, together with the Company Secretary, agreed the scope, timing and practicalities of the evaluation with IBE, including a comprehensive questionnaire which was sent to Board members in early 2021. Completed questionnaires were returned to IBE who then produced a report, including recommendations and actions, which were discussed and agreed with the Non-Executive Chair and subsequently discussed and agreed at Board and Committee meetings. In addition the Company Secretary provided feedback to each Committee chair on the performance of their Committee and discussed the Chair's performance with the Senior Independent Director. The key findings from the evaluation and the priority actions agreed are detailed below.

The Board considered the performance of each individual Director, including whether they continued to be effective and demonstrate commitment to their roles. All Directors are considered to be fully effective and this supports the proposal for those Directors standing for reappointment at the AGM on 21 July 2021. Results of the evaluations of each of the Board's Committees is included in the respective Committee Reports on pages 99, 101, 107 and 133.

Key findings and priority actions arising from 2020-21 external Board evaluation

Key findings	Actions
Board focus and discussion topics	<ul style="list-style-type: none"> - Concentrate the Board's agenda on strategic or tactical matters and overseeing the Group's performance. - Ensure sufficient time is allowed for discussions in relation to strategy, succession and talent management, ESG and culture change.
Composition	<ul style="list-style-type: none"> - Recruit two additional NEDs, including at least one from a minority ethnic background, with skills complimentary to those of the existing Board members.
Expectations	<ul style="list-style-type: none"> - Develop a programme for incoming Directors and Royal Mail and GLS Executive Board members to supplement their understanding of Board and executive responsibilities and stakeholders' expectations. - Agree a revised set of performance measures aligned to the Group's key strategic objectives. - Schedule a Board session to discuss and further develop the Group's stakeholder engagement activities.
Talent and succession planning	<ul style="list-style-type: none"> - Conduct a comprehensive talent assessment across the Royal Mail and GLS senior management teams and develop plans to create a strong talent pipeline.

Nomination Committee Report



Keith Williams
Chair

Main objectives for 2020-21

- Focus on talent management and succession plans.
- Monitor the Board's composition to ensure that it has the right balance of skills and is aligned with the Group's diversity policy.

Key activities in 2020-21

- Concluded an extensive external and internal search leading to the January 2021 appointments of Simon Thompson as CEO Royal Mail and Mick Jeavons as the Group Chief Financial Officer.
- Oversaw a number of changes to the Royal Mail and GLS Executive Boards.

2021-22 priorities

- Complete a talent assessment for key critical management roles in both Royal Mail and GLS and oversee a development programme in respect of these roles.
- Map short, medium and long-term succession planning for critical roles in Royal Mail and GLS.
- Deliver on the Board's aspiration to appoint at least one director from an ethnic minority background by 2024.

Committee membership, meetings and attendance

The table below shows the number of scheduled meetings each Director attended, and the number of meetings they were entitled to attend, during the year ended 28 March 2021. In addition there were numerous additional ad-hoc meetings of both the Committee and two sub-committees set up to progress the Group CFO and Royal Mail CEO recruitment programmes.

Director	Joined	Attendance
Keith Williams (Chair since 22 May 2019)	19 April 2018	4/4
Maria da Cunha	25 September 2019	4/4
Michael Findlay	25 September 2019	4/4
Rita Griffin	19 April 2018	4/4
Baroness Sarah Hogg	1 October 2019	4/4
Lynne Peacock	1 November 2019	4/4
Simon Thompson^{1 and 2}	19 April 2018	2/4

1. Simon Thompson stood down as a member with effect from 11 January 2021.

2. Simon Thompson did not take part in meetings that dealt with the recruitment of the CEO of Royal Mail.

Introduction

I am pleased to update you on the Committee's activity for the year ended 28 March 2021.

Composition of the Committee

Information about the membership of the Committee, which I chair, its meetings and attendance is set out in the adjacent column. In line with our Conflicts of Interest Policy, Directors are asked to absent themselves from any discussions regarding their own reappointment or succession. Meetings of the Committee were also attended by the Company Secretary.

Committee activity

During the year the Committee oversaw an extensive internal and external search for a new Royal Mail CEO and Group CFO supported by Spencer Stuart. This resulted in several additional ad-hoc Committee meetings; also numerous additional ad-hoc meetings of the two sub-committees established to progress the recruitment programmes, respectively, for the Group CFO and the Royal Mail CEO roles. As a result of these searches, the Committee recommended the appointment of Simon Thompson as CEO Royal Mail and Mick Jeavons as Group CFO. The recommendations were approved by the Board and announced on 11 January 2021. In addition, the Committee oversaw the succession of Martin Seidenberg as the CEO of GLS, effective June 2020. Prior to his appointment, Martin had been CEO of GLS' biggest country operation, Germany.

Succession planning

During the year the Committee continued to focus on the Group's organisational structure and senior management succession planning.

As part of its restructuring programme almost 50% of Royal Mail's senior management left the business during the year. The Committee was regularly updated about the restructuring programme and, in particular, the continued effectiveness of the measures in place to promote a diverse and inclusive culture and manage the Group's risk exposure.

The Committee also oversaw changes to the composition of the Royal Mail and GLS Executive Boards. In line with the business succession plan a number of internal candidates were promoted to the Royal Mail Executive Board. Also, following Martin Seidenberg's appointment as CEO GLS, the Committee considered Martin's plans to reorganise his senior team to increase accountability for key business initiatives and enhance geographic coverage.

As a result of the above changes senior managers, previously identified as candidates for promotion, have now taken up their new roles. To strengthen the Group's talent pipeline the Committee has approved a senior leaders' development assessment programme which will be undertaken with the support of Korn Ferry. This programme seeks to identify, nurture and develop our future leaders and will be integral to the Group's succession planning in the future.

Diversity and inclusion

We recognise the importance of fostering a diverse and inclusive culture across the Group. Ensuring that we have a good balance of skills, views and backgrounds in all parts of our business will help us better understand our stakeholders' needs, enhance our decision making and support the delivery of our strategic ambitions.

The Board's Diversity Policy includes measurable objectives and a commitment to aspire to achieve the diversity targets of the Parker and Hampton-Alexander reviews. The Policy also includes a commitment to only engage with search firms who are signatories of the Voluntary Code of Conduct for Executive Search Firms. A copy of the Board's Diversity Policy is available on our website at www.royalmailgroup.com/en/about-us/governance. Our Group Equality and Fairness Policy outlines our approach to promoting equality, diversity and fairness at all stages of employment. A copy is available on our website at www.royalmailgroup.com/en/responsibility/policies-and-reports.

In line with the Parker Report recommendations, we aspire to have at least one Director from an ethnic minority background by 2024. As highlighted on page 97 the Board has committed to recruit two additional Non-Executive Directors. Searches in relation to these appointments are well advanced and the short-list of candidates being considered include individuals from an ethnic minority background.

As at 28 March 2021, the proportion of women on the Board was 50%. Following the appointment of Martin Seidenberg to the Board on 1 April 2021 the proportion of women on our Board reduced to 44%.

As at 28 March 2021 women made up 26% of our senior management team. We need to improve this position and accelerate the pace of change. Assessing talent for key critical management roles across the Group and succession planning work are key priorities for the year ahead. Reflecting our commitment to promote equality, diversity and fairness at all stages of employment, as part of these activities, the Committee will seek to understand and address issues to facilitate the career development of female colleagues. We will also monitor, on a regular basis, the effectiveness of the programmes and schemes already in place to strengthen the pipeline of senior female executives across the Group and, as required, support the development of new initiatives to improve gender diversity.

The Group participates in mentoring schemes to increase ethnic representation across the organisation (see page 33). However, across the senior levels of the business ethnic minority colleagues are currently under-represented and we must make more progress. As the Committee continues to focus on talent management and succession planning, it will consider ways to improve ethnic representation and diversity across the Group's leadership pipeline.

Recruitment process

Spencer Stuart supported the recent Royal Mail CEO and Group CFO search processes. Spencer Stuart is a signatory to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate Board recruitment searches. Spencer Stuart has no other connection to the Group or any of its Directors.

When recruiting new Directors a long list of candidates is compiled and compared against the Committee's latest review of the composition, diversity and skill set of the Board. A short list of candidates are then invited to attend a number of interviews with variations of the Chair, Directors and Chief HR Officer. The results of the interviews are formulated and then considered by the Committee who agree on its preferred candidate, subject to satisfactory referencing. Background checks and references are taken and any conflicts of interest are checked. Upon receipt of satisfactory references, the Nomination Committee recommends its preferred candidate to the Board for approval.

Committee evaluation

The Committee's performance was evaluated as part of the Board's effectiveness evaluation (see page 97). The recommendations from the evaluation highlighted the need to focus the Committee's agendas in the coming year on a number of issues, including succession plans for key executive roles, and Non-Executive Director and Royal Mail and GLS Executive Board recruitment. Development of a programme of activities to identify high-potential individuals across the Group was also recommended. Overall the findings of the evaluation were positive and confirmed that the Committee was performing effectively.

Keith Williams
Chair of the Nomination Committee
19 May 2021

Audit and Risk Committee Report



Michael Findlay
Chair

Main objectives for 2020-21

- Deepen understanding of longer-term and emerging risks facing the Group and its businesses.
- Enhance oversight of the Group's governance processes and financial controls.
- Improve the quality of Committee papers to allow Committee members to effectively discharge their duties.

Key activities in 2020-21

- Ongoing review post COVID-19 outbreak to ensure health and safety of employees, customers and suppliers.
- Thorough review of the Company's going concern, viability and covenant compliance.
- Focus on financial controls, with detailed review session to assess current state and regular updates on improvement activity.
- Risk monitoring and review of the Group's risks including deep dives on cyber security, Brexit and GDPR.
- Oversight on compliance and audit activity to provide assessment and assurance of control effectiveness.
- Reviewed the Group's pension assumptions.

2021-22 priorities

- Ensure that further progress is made in relation to financial control activity, including Internal Control Effectiveness Assessment.
- Prepare for changes in corporate reporting and control landscape.
- Greater inclusion of GLS into risk and control processes.
- Include emerging risks as part of ongoing risk monitoring process, including a rolling prioritisation of risks as new information becomes available.
- Continue to focus on cyber security risk.
- Ensure that risk is managed appropriately at Group level, including use of consistent measures across the Group.

Committee membership, meetings and attendance

The table below shows the number of scheduled meetings each Director attended and the number of meetings they were entitled to attend during the year ended 28 March 2021. In addition there were numerous ad hoc meetings throughout the year, as required.

Director	Joined	Attendance
Michael Findlay (Chair since 30 May 2019)	30 May 2019	5/5
Sarah Hogg	1 October 2019	5/5
Lynne Peacock	1 November 2019	5/5

Introduction

I am pleased to update you on the Committee's activity for the year ended 28 March 2021.

Composition of the Committee

Information about the membership of the Committee, which I chair, its meetings and attendance is set out in the adjacent column. Meetings of the Committee were also attended, where relevant, by the Non-Executive Chair, the CEOs of Royal Mail and GLS, the Group CFO, the Group General Counsel and Company Secretary, the Director of Internal Audit and Risk Management and other members of senior management together with representatives from the external auditor, KPMG LLP. The Committee is supported by the Company Secretary.

The Board considers that, as the Chair of the Committee, I have the relevant and recent financial skills and experience required to fulfil this role for the purposes of the Code and the Financial Reporting Council's (FRC) Guidance on Audit Committees. My relevant skills and experience, together with those of the other Committee members, are set out on pages 86 and 87.

Committee activity

The Committee has an extensive agenda of items focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with senior management, the external auditor, Internal Audit & Risk Management (IA&RM) and the financial reporting team. The Committee has oversight of both Royal Mail, GLS and the Group's pension arrangements.

During the year, the Committee focused on the Group's financial performance and the integrity of the Group's financial reporting, including the annual and half-year financial statements and announcements. This included a thorough review of the Company's going concern, viability and covenant compliance. We also focused on the Group's principal and emerging risks and uncertainties, including an ongoing review following the outbreak of COVID-19 to ensure that our employees, customers and suppliers were protected and that plans were in place to enable the business to continue to provide a key service to the nation. The Committee also reviewed the key accounting areas of judgement, the adequacy and effectiveness of the Group's system of internal controls, including whistleblowing, and the effectiveness, performance and objectivity of the internal and external audit functions.

The Committee continued to work closely with the CR Committee, in relation to risks associated with climate change. The Committee also worked closely with IA&RM on the reporting of emerging and principal risks to the Board, enabling oversight and challenge of these activities. In particular the Committee reviewed and considered the findings of an extensive annual horizon-scanning exercise conducted by IA&RM to assess and evaluate the emerging risk environment. This survey provided enhanced levels of insight and has helped to shape and progress Board discussions on risk.

Other areas of focus include the Brydon report, and other related reviews, and the possible impact of the proposed reforms, Brexit, COVID-19 and the Group's internal controls and systems of risk management.

The Committee, along with Management and the external auditor, considered the impact of reporting recommendations published by the FRC, as well as new accounting and reporting requirements introduced by IFRS.

As a Committee, we have developed our agenda to enable us to have active oversight of our remit and to facilitate deep dives into key areas of strategic focus. During the year the management team presented deep dives on financial controls, the economic environment including Brexit, GDPR and cyber security. This facilitated a healthy debate between Management and the Committee and enhanced knowledge on these topics.

The Committee meets regularly with the external auditor, the Director of IA&RM and the Data Protection Officer, to ensure that reporting, forecasting and risk management processes are subject to rigorous review throughout the year.

Committee evaluation

The Committee's performance was evaluated as part of the Board's effectiveness evaluation (see page 97). The recommendations from the evaluation included increasing the frequency of private meetings with the internal audit function and the external auditor, scheduling more sessions with people around the Group to further enhance understanding of the business, and arranging a session on key learnings arising from the COVID-19 pandemic to identify how we can be more proactive in risk identification in the future. Overall the findings of the evaluation were positive, and confirmed that the Committee was performing effectively.

Committee advisers

To support the Committee with our responsibilities, the Committee receives independent assurance from IA&RM and the compliance function. The Committee is further supported by the Risk Management (RM) Committee. The Audit & Risk Committee of GLS (GLS ARC) provides further support to both the Committee and the RM Committee, and I regularly attend the GLS ARC, along with the Director of IA&RM and the Group General Counsel and Company Secretary.

The Committee also receives regular reports from the external auditor, KPMG, across a wide range of issues in support of their respective oversight responsibilities. We also obtain support from other external experts, including the Group's actuary, Willis Towers Watson Limited, who provide expert opinion and long-term assumption advice with respect to pension accounting. Aon Limited provides similar expertise in relation to other long-term liabilities.

The Committee also relies on the advice and information provided by the Group General Counsel and Company Secretary with respect to specific provisions and other contingent liabilities. The Committee is satisfied that the Group General Counsel and Company Secretary has, or has access to, the relevant necessary expertise and resources. The external auditor has full access to these experts where required and, using its own actuarial and statistical experts, is able to provide further assurance to the Committee on these matters.

Effectiveness of the external audit process

The Committee, on behalf of the Board, is responsible for the relationship with the external auditor, and part of that role is to examine the effectiveness of the audit process. Audit quality is a key requirement of the external audit process. The performance of the Company's external auditor, KPMG LLP, is kept under review by the Board and the Committee. The Committee undertakes a formal assessment of the external audit process each year and assesses the quality of audit against some of the following criteria:

- Provision of timely and accurate industry specific and technical knowledge.
- Maintaining a professional and open dialogue with the Committee Chair and members at all times.
- Delivery of an efficient audit and the ability to meet objectives within the agreed timeframes.
- The quality of its audit findings, Management's response and stakeholder feedback.

In early 2021, the Company's 2019-20 audit was subject to an Audit Quality Review (AQR) by the FRC. I am pleased to say that the FRC report identified no matters for improvement. The AQR also highlighted good practice observations in relation to KPMG's challenge over deferred revenue associated with advance customer payments arising from stamps sold and the approach adopted to auditing the valuation of level 3 pension assets.

The Committee reviews and approves the terms of engagement of the external auditor and monitors its independence. This includes overseeing, and in certain circumstances approving, the engagement of the external auditor for non-audit work. Meetings between the senior audit team and Finance have been held at least monthly, giving the opportunity for any concerns to be raised and addressed on a timely basis. The Committee also received a report on the areas of audit risk identified by KPMG and approved its proposed audit approach.

At the end of the half-year review and year-end statutory audit, the Committee received reports from KPMG covering significant issues identified and discussed during the audit visits. In addition, KPMG presented its control findings and provided input and challenge as part of the Committee's detailed financial controls deep dive, which helped inform the Committee's priority on this topic for 2021-22. These reports were compared with the matters that Management had identified, to ensure consistency. The Committee also held regular private meetings with the external auditor with, as well as without, Management.

Overall, the Committee and KPMG both considered that the 2020-21 external audit process had been completed effectively notwithstanding the challenges presented by the COVID-19 pandemic. It agreed that KPMG's engagement was managed well and there had been an appropriate level of challenge from the audit team. The Committee identified key lessons from this review which have been considered for the 2021-22 audit.

Matters considered during the year

Items of business considered by the Committee during the year are set out in the table below.

Matter considered	Activity
Financial reporting Annual Report and Financial Statements and Significant accounting judgements	– Reviewed the draft full and half-year 2020-21 results announcements, the draft 2020-21 Annual Report and Financial Statements including reviewing and discussing reports from the financial reporting team on the Financial Statements, considering Management's significant accounting judgements, legal claims and contingent liabilities, and the policies being applied, and how the statutory audit contributed to the integrity of the financial reporting.
Royal Mail and GLS performance	– Reviewed the performance and financial reporting of Royal Mail and GLS.
Going concern	– Reviewed the basis of preparation of the Financial Statements as a going concern as set out in the accounting policies and also considered the business plan taking account of the Group's principal risks (see pages 48 to 53) and the severe but plausible downside scenarios that were stress tested as part of the viability assessment (see page 54). The Group's performance during the year was also considered and balance sheet strength and liquidity were noted. The Committee concluded that these factors, together with the Group's outlook, provided a high level of confidence in the Group's ability to meet its obligations over the review period, even in a downside scenario, and recommended the going concern basis of accounting to the Board.
Viability statement	– Reviewed the viability statement in conjunction with the external auditor, taking into account the ongoing COVID-19 pandemic.
Dividends	– Reviewed the interim and final dividend recommendations and advised the Board on the appropriateness of the proposed dividends.
Pension	– Reviewed the Group's pension assumptions.
Impairment testing	– Reviewed and considered the impairment of Royal Mail together with Dicom.
Covenant compliance	– Reviewed covenant compliance on an ongoing basis.
Deep dives	– Participated in a deep dive session on financial controls.
External auditor	– Reviewed the proposed audit strategy for the 2020-21 statutory audit, including the level of materiality to be applied by KPMG, audit reports from KPMG on the Financial Statements and the areas of particular focus for the audit, and tasking Management to resolve any issues relating to internal controls and risk management systems.
Effectiveness	– Conducted a review of the effectiveness of the external audit process.
Non-audit services and fees	– Reviewed and approved the non-audit services and related fees provided by the external auditor and approved the policy on non-audit services provided by the auditor for 2020-21.
Budgets	– Reviewed and approved the Royal Mail and GLS external audit fee.
COVID-19	– Monitored the COVID-19 pandemic and assessed the impact on the Group. Continued focus on developing and implementing mitigating actions and processes to ensure that the Group continued to operate in an effective control environment.
Risk management and effectiveness	– Reviewed the effectiveness of the risk management and internal control systems prior to making a recommendation to the Board.
Risk appetite	– Reviewed and monitored the Group's risk appetite.
Principal and emerging risks	– Assessed the risks that might impact the achievement of the Group's strategy, including consideration of whether these should be categorised as a principal risk to the business (see pages 48 to 53). – Discussed new and emerging risks and the interrelationships between the principal risks.
Risk profile	– Reviewed changes to the Group's risk profile on a quarterly basis and held deep dive discussions on principal risk areas with risk owners including discussions in relation to financial controls, the economic environment (Brexit) and data regulations (GDPR).
Cyber security	– Reviewed the cyber security strategy.
Internal audit	– Considered the issues and findings brought to the Committee's attention by the internal audit team and satisfied itself that Management has resolved or is in the process of resolving any outstanding issues or concerns. – Reviewed and approved the internal audit plan for the Group for the year which included the approval of an audit on the effectiveness of monitoring and assessment of culture by the business. – Considered the resources available to Internal Audit and confirmed these are appropriate.
Corporate Responsibility	– Oversaw and monitored on a bi-annual basis the Group's compliance with the Bribery Act 2010, which the Board then reviewed annually.
Governance	– Reviewed update in relation to the closure of the FRC's review of the 2019 Annual Report and Accounts (see page 103) which did not require the Company to make any amendments to accounting treatments adopted in the Annual Report and Accounts.
Evaluation	– Reviewed the conclusions of the Committee's annual evaluation.
Brexit	– Deep dive on Brexit noted above.
GDPR	– Deep dive on GDPR noted above.

Significant matters and application of judgements

During the year the Committee considered and discussed a number of material matters and/or judgements made by Management. The table below details the key issues discussed and the actions taken.

Matter	Action taken by the Committee
<p>Advance customer payments</p> <p>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 the balance being made up of stamps sold to the general public. Consistent with the previous reporting period Management has used a number of different data sources to calculate the estimated deferred revenue liability. These data sources include: revenue data related to stamp sales through the Post Office network, historic trends of deferred revenue balances and changes to the number of working days during the period.</p> <p>Management uses judgement in applying a weighting to the components of the data sources. This judgement impacts revenue, profit and net assets.</p> <p>An independent survey has also been referenced this year as an additional data source to support the calculation of the deferred revenue adjustment.</p> <p>As at 28 March 2021 the Group recognised £218 million (March 2020: £185 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date.</p>	<p>The Committee examined reports from Management summarising the deferred revenue calculation. We compared the level of deferred revenue recognised by Management at each reporting date to ensure a consistent approach.</p> <p>Separately, the auditor reviewed the statistical processes and assessed the judgemental assumptions made.</p> <p>We concluded that the level of deferred revenue remained appropriate.</p>
<p>Pension surplus calculation and recognition</p> <p>The valuation of the pension liabilities and assets relies on the estimation of long-term assumptions such as RPI/CPI and mortality and the selection of appropriate asset valuation methods. Small movements in these assumptions can lead to material impacts on the balance sheet.</p> <p>In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.</p>	<p>Key long-term assumptions were prepared by the Group's actuary, Willis Towers Watson Limited, and benchmarked against prevailing economic indicators and other large pension schemes. All of these assumptions are disclosed in Note 11 (page 183) to the Financial Statements. Changes in the assumptions were summarised for the Committee and explanations provided for the returns on scheme assets, particularly as a result of the liability hedging strategy.</p> <p>The auditor used its own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.</p>
<p>Impairment test – Royal Mail UK Cash Generating Unit (CGU)</p> <p>During the year this CGU was tested for impairment. At 28 March 2021 the carrying value of this CGU was £1,174 million (29 March 2020: £1,313 million). The recoverable amount, assessed as being the 'value in use', was calculated based on the Board's three-year forecast free cash flows, with the assumption that the subsequent years will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of 0.5%.</p> <p>The calculated value in use of the CGU exceeds its carrying value. The Group has conducted sensitivity analysis on the impairment test for each of the key assumptions. This did not identify any plausible outcomes that would require the CGU to be impaired.</p>	<p>The Committee reviewed the risks around the impairment of the Royal Mail UK CGU, which had previously been disclosed as a significant area of judgement. In light of the significant improvement in the EBITDA forecast for the CGU, which has resulted in increased headroom for the CGU, the Committee concluded that separate consideration would no longer be required.</p>
<p>Parent Company impairment test</p> <p>The carrying amount of the Parent Company's investments in, and amounts due from, subsidiaries represents 70% (2019-20: 69%) and 30% (2019-20: 31%) of the Parent Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the Parent Company Financial Statements, this is considered to be the area that has the greatest effect on the Parent Company balance sheet.</p>	<p>The Committee discussed and received confirmation from Management that it had adequately assessed the recoverability of investments in subsidiaries and intercompany indebtedness, by assessing and confirming that the net assets of the relevant subsidiaries (being an approximation of their minimum recoverable amount) were in excess of their carrying value at the balance sheet date.</p>

In February 2020 the Company received a letter from the Conduct Committee of the FRC following a review of the Annual Report and Accounts for the financial year ended 31 March 2019¹. The letter requested further information on disclosures relating to the accounting treatment of a bulk annuity purchased in 2018 by the Royal Mail Senior Executives pension plan, accounting for pension escrow investments within net debt and supplier financing arrangements. Following correspondence and a meeting with the Company, the FRC and the external auditor, all matters were closed. The Company was not required to make any amendment to accounting treatments adopted in the Annual Report and Accounts.

1. The FRC's review was based on the Group's Annual Report and Accounts for the year ended 31 March 2019 (the 2019 Accounts). It was conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework but no detailed knowledge of the Group's business or an understanding of the underlying transactions entered into by the Group. The FRC's review provides no assurance that the 2019 Accounts are correct in all material respects and the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

We have complied in all material respects throughout the year with the Statutory Audit Services Order 2014 issued by the Competition and Markets Authority.

Safeguarding the independence and objectivity of the external auditor

The Committee has a policy in respect of non-audit work which requires Management to seek approval prior to the engagement of the external auditor for the provision of any non-audit services. This is to ensure that the level of fees earned from non-audit services and the type of services provided do not impair the external auditor's independence and objectivity. In general, the external auditor is not approached to perform non-audit work. KPMG has also adopted a policy of not undertaking non-audit work for audit clients unless there is a clear requirement for the auditor to perform this work.

However, the auditor may be engaged to perform non-audit services if it is uniquely placed to undertake them, or if the performance of the non-audit services will support a future statutory audit (including the provision of buyer assist due diligence) and would not compromise the auditor's independence. The engagement may follow a competitive tender process.

The Committee currently permits the external auditor to provide non-audit related services, tax services and other services insofar as permitted by auditor independence rules.

The Committee has delegated authority to the Group CFO to pre-approve assignments up to £25,000, with an annual limit of £500,000. Non-audit services above this limit require prior approval from the Chair of the Committee.

During the year, KPMG has been engaged to provide certain, agreed upon services. Total fees earned for non-audit services during 2020-21 were £382,000 which represented around 14% of the external audit fee. In addition to the fees earned from the Company, KPMG has been engaged by the respective Pension Trustee as external auditor of the Royal Mail Pension Plan and the Royal Mail Defined Contribution Plan, the fees for which were £137,500 in 2020-21.

KPMG was appointed by shareholders as the Group's statutory auditor in 2015 following a formal tender process. Richard Pinckard served as the lead audit partner from the start of the 2015-16 audit until the end of the 2019-20 audit. The 2020-21 audit has been led by Ian Griffiths. The external audit contract will be put out to tender at least every 10 years in line with the provisions of the UK Competition and Markets Authority (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities). The Committee therefore considers that it would be appropriate to conduct an external audit tender by no later than the 2025-26 reporting year.

The Committee remains satisfied that KPMG continued to be independent. In addition, KPMG annually reports on whether and why it deems itself to be independent.

The Committee has recommended the reappointment of KPMG as the Group's external auditor to the Board for approval by shareholders at the AGM in July 2021.

Risk management and internal control overview

The Board collectively, including the Committee members, believes that effective risk management and a sound control environment are fundamental to the Group. The Code requires the Board to maintain sound risk management and internal control systems, to review their effectiveness at least annually and to report on this review to shareholders (see page 90). A sound system of internal control depends on a thorough and regular evaluation of the nature and extent to which the Group is exposed to risk. The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Committee. The Committee seeks to ensure that the Group operates within a framework of prudent and effective controls that allow risks to be identified, assessed and effectively managed.

Assessing the effectiveness of the system of risk management and internal control

The Committee has completed its review of the effectiveness of the Group's system of internal control and risk management. While the system of internal control is generally effective, work continues to improve the internal control framework. In addition, the Committee monitored and reviewed the effectiveness of the Group's IA&RM function. The Director of IA&RM has a standing agenda item at each meeting to update the Committee on internal audit activities and progress of the internal audit plan, as well as regular one-to-one sessions with the Chair of the Committee. The Committee regularly reviews and monitors the internal audit activity and, where necessary, will request updates from the appropriate Executive Board member on any unsatisfactory internal audit reports.

In addition to the specific composition, meetings, reliance on experts, and focus areas highlighted above, the Committee uses several mechanisms to help it to arrive at its conclusions on the effectiveness of the system of risk management and internal control in the business. These include:

- **Governance over risk and control:** The Board has delegated responsibility for specific review of risk and control processes to the Committee. The Committee, in turn, is supported by the RM Committee and the Finance Committee, to help discharge its duties. It also seeks to ensure that risks that are significant at Group level are being effectively managed and supports the business in complying with the Risk Management Mandatory Standards and the reporting of key controls and mitigation plans for Group level risks. The Finance Committee supports the Committee in reviewing the Company's financial performance and reports to the Committee and/or the RM Committee. The RM Committee oversees and evaluates a 'bottom-up' assessment of risks on a quarterly basis. It receives presentations from business units on the operation of risk management and control processes on a cyclical basis and conducts deep dive analysis of Group risks.
- **Assurance from internal audit:** IA&RM provides independent assurance to the Committee and the Board on the effectiveness of the internal control system and elements of the risk management process. IA&RM establishes and agrees with the Committee a bi-annual rolling plan of assignments and activities covering the whole Group, including GLS, based on discussions with the Board and Management. This considers key areas of business risk, areas of importance to the delivery of the strategy, geographical spread, areas subject to strong or emerging regulation or legislation or specific issues in the industry. During the year, the Committee evaluated the performance of IA&RM. It concluded that the function continued to be effective. In the coming year there will be an external review of the effectiveness of the IA&RM function.
- The IA&RM work programme during 2020-21 included 23 risk-based audits in the UK and over 130 audits in GLS, covering compliance with business controls in depots, head offices, data protection and information security audits in addition to one risk-based audit. The UK internal audit programme was risk focused and included audits of key strategic and business priorities including:
 - Governance of major business transformation and programmes.
 - Major business processes and regulatory requirements.
 - Monitoring and assessment of culture.
 - Key financial controls and activities.

External audit activity

External audits and reviews take place during the year to provide the Committee, the Board and Ofcom with assurance on specific matters. Activity includes:

- The external auditor performs a statutory year-end audit.
- The external auditor performs an audit of the regulatory accounts as part of Universal Service Provider accounting requirements.
- The externally measured end-to-end Quality of Service is audited by an independent accounting firm (appointed by Ofcom) as part of Royal Mail's designated Universal Service Provider condition requirements.
- The Universal Service Obligation daily collections and deliveries performance reporting and methodology is assured by an independent accounting firm (appointed by Royal Mail) as part of Royal Mail's designated Universal Service.

In the carrying out of these activities, the Board considers that it has fulfilled its obligations under the Code in respect of risk management and internal controls. Further details of the Group's principal risks and how they are managed and mitigated can be found on pages 48 to 53.

Michael Findlay
Chair of the Audit and Risk Committee
19 May 2021

Corporate Responsibility Committee Report



Rita Griffin
Chair

Main objectives for 2020-21

- Focus on health, safety and wellbeing performance.
- Focus on culture and diversity.
- Develop environmental strategy.
- Enhance understanding of stakeholder ESG expectations and performance.

Key activities in 2020-21

- Reviewed health and safety measures, and wellbeing support for employees in light of COVID-19.
- Reviewed Royal Mail target culture, measurement and programmes.
- Continued to review Royal Mail environment strategy implementation roadmaps.

2021- 22 priorities

- Oversee health, safety and wellbeing performance as we keep our employees and customers safe and well.
- Oversee implementation of Royal Mail and GLS environment strategies.
- Enhance/increase engagement with investors in relation to ESG matters.
- Continue to monitor culture and engagement performance against values and target culture.

Committee membership, meetings and attendance

The table below shows the number of meetings each Director attended and the number of meetings they were entitled to attend during the year ended 28 March 2021.

Director	Joined	Attendance
Rita Griffin (Chair since 25 September 2019)	25 September 2019	4/4
Simon Thompson ¹	25 September 2019	3/3
Maria da Cunha	25 September 2019	4/4
Baroness Hogg	4 February 2021	1/1

1. Simon Thompson stood down as a member with effect from 11 January 2021.

Introduction

I am pleased to update you on the work undertaken by the Committee for the year ended 28 March 2021. The Committee oversees Corporate Responsibility and matters related to ESG, culture, and health & safety and wellbeing within the business, and across our key stakeholder groups.

Information about the Group's CR programme and performance during the year is included on pages 28 to 41. Our CR programme supports the delivery of the Group's purpose – to 'Connect customers, companies and countries' – and defines what we do and how we do it.

Information about the membership of the Committee, its meetings and attendance is set out in the adjacent column. Meetings of the Committee were also attended by the CEOs of Royal Mail and GLS and, as required, by the Director of Corporate Affairs, the Chief HR Officer and the Global Compliance and Sustainability Director. The Committee is supported by the Company Secretary and members of the CR team. I would like to thank the members for the open and constructive discussions that take place during our meetings and their personal commitment to our wide ranging and impactful agenda.

There were two changes to the composition of the Committee during the year. On his appointment as CEO of Royal Mail, Simon Thompson stood down as a member of the Committee. However, he will still continue to participate in the Committee's discussion in his new role. In February 2021, I was pleased to have Sarah Hogg join the Committee. During the year, the Committee also expanded its standing attendees to include the Royal Mail and GLS CEOs.

Committee activity

The Committee's key objectives are outlined in the adjacent column. Performance in each of these areas is tracked using a CR dashboard tool which was developed during the year. The dashboard review is a standing item at every Committee meeting.

The Committee is also responsible for keeping abreast of emerging ESG issues and addressing any areas of concern in relation to the Group's culture and issues raised by its internal stakeholders.

The main areas the Committee focused on during the year are detailed below.

Health, safety and wellbeing

A key priority throughout the pandemic has been ensuring the health, safety and wellbeing of the Group's workforce. Health, safety and wellbeing management and performance is a standing Committee agenda item. In light of the COVID-19 pandemic, the Committee particularly focused on arrangements to ensure all necessary safety precautions and wellbeing and mental health support were available, effective and utilised and monitoring of employee absence.

The Committee also discussed the GLS Occupational Health and Safety awareness and training programme. This programme targets an improved safety culture across the GLS business.

Culture

The Committee is responsible for monitoring the Group's culture and works with Management to ensure culture is aligned to the Group's strategy. Culture and engagement are standing items on the Committee's agenda and at each Board meeting I provide an update to the Board.

Of specific focus during the year was the 'target culture' for Royal Mail. The Committee discussed the feedback from the Trust pulse survey which was undertaken in February 2021 (see page 31). The survey identified a number of areas for attention which the Committee discussed and considered together with Management's plans to address during 2021-22. The Committee also discussed the proposed 'target culture' for Royal Mail, and associated metrics and targets to monitor progress.

The Committee also undertook an in-depth review of the Group's wider culture and various diversity programmes and progress to date.

Throughout the year, the Committee has reviewed the Company's whistleblowing, bullying and harassment reports, and monitored diversity, inclusion, and employee engagement activities, including the outcomes of Employee Voice Forums. All of these activities provide the Committee with an understanding of the current culture and performance across the Group.

Environment

The Committee spent a considerable proportion of its time focussing on the delivery plans associated with the Royal Mail's environment strategy (see pages 8 and 19). With growing expectations from customers and investors, this is a strategically important area for the business. During the year, the Committee reviewed interim targets associated with a net zero journey to 2050 and reviewed the decarbonisation roadmaps required to meet those targets. The Committee has initiated some preliminary work to assess the business case for increasing the ambition associated with the Royal Mail environment strategy which will be considered further during 2021-22.

Leadership in ESG

The Group aspires to be a leader in ESG matters. The Committee reviewed its Terms of Reference to ensure continued alignment with stated commitments and focus areas. To support the delivery of the Company ambitions and commitments, the Committee regularly reviews performance against key ESG performance indicators.

To ensure a full and clear understanding of the Group's key ESG risks and opportunities, and the expectations of key stakeholder groups, the Committee oversaw the development of a full induction programme. The induction programme was attended by all Board members and the most members of the Royal Mail and GLS Executive Boards. The programme incorporated presentations by external experts on the ESG landscape, stakeholder expectations, the importance of a strong culture, and climate risks and opportunities, including the requirements of the TCFD reporting framework. The Committee also reviewed the governance arrangements in relation to ESG risks and opportunities and their effectiveness.

CR policies, reports and statements

During the year, the Committee reviewed and approved the updated Group CR policy. The policy sets out the standards to which the Company commits, as well as the standards expected of its business partners and supply chain.

The Committee is responsible for reviewing and approving key public disclosures. During the year, the Committee reviewed the 2020-21 Corporate Responsibility Report and Modern Slavery Statement and recommended their approval to the Board.

Committee evaluation

The Committee's performance was evaluated as part of the internal evaluation of the Board's effectiveness which took place during the year (see page 97). To ensure focus areas are clear and remain appropriate in the changing external landscape, the evaluation highlighted the need for the Committee to establish a strategic framework and review priorities. The evaluation also noted that, to enhance the Committee's skills and experience, ESG, logistics and international experience should be taken into account when considering the appointment of new Non-Executive Directors. Overall the findings of the evaluation confirmed that the Committee was performing effectively.

Rita Griffin
Chair of the Corporate Responsibility Committee
19 May 2021

Directors' Remuneration Report



Lynne Peacock
Remuneration
Committee Chair

Dear Shareholder

On behalf of the Board, I am pleased to present our 2020-21 Remuneration Report, my second as Chair of the Remuneration Committee.

2020-21 has certainly been a year unlike any other. As such, I felt it important to set out in more detail relevant context and information on the activities and decisions we have made as a Committee in what is undoubtedly an unprecedented year.

Our Remuneration Policy

I was delighted that the Company received such a high level of support from shareholders for the 2020 Remuneration Policy.

Following the Management changes announced on 15 May 2020, it became apparent that we needed to make some limited, albeit important, changes to the Directors' Remuneration Policy (Policy) so that it could be administered effectively in these changed circumstances. The Policy approved at the 2020 AGM gives the Committee flexibility in the future to appoint other Executive Directors, who may not be based in the UK. Key changes were to benefits, the annual incentive performance measures, and contractual arrangements, as summarised in the 'At a Glance' section on pages 112 and 113.

Setting the scene and the context within which remuneration decisions have been made

The Committee is acutely aware of the adverse impact that the COVID-19 pandemic has had on our stakeholders including customers, shareholders, and broader society. This inevitably influenced our remuneration decisions this year.

As reported last year, the Board took the decision not to recommend a final dividend in respect of 2019-20. This was reflected in the year-end remuneration decisions with no incentives paid to Executive Directors. In June 2020, as part of the plans to transform Royal Mail, the Company announced a management restructure with a planned reduction of up to 2,000 roles. These projects are always difficult as we lose colleagues from the business.

No direct UK Government COVID-19 support (such as the receipt of furlough payments) has been utilised during the pandemic although it is acknowledged that UK Government intervention, in general, to support the economy has mitigated some of the risks resulting from the pandemic within our business.

We have worked hard to deliver the most comprehensive service possible to all our customers during the pandemic. However, increased absence rates due to COVID-19 and exceptional parcel volumes impacted on service quality in Royal Mail.

Royal Mail was a key partner for the UK Government's COVID-19 testing programme, delivering and collecting tens of millions of COVID-19 tests across the UK, and in the final quarter of the year we worked with public health authorities to ensure the vital and timely delivery of vaccination letters and COVID-19 test kits. We also delivered over 1.5 billion items of PPE to schools, social care and healthcare providers.

In light of the Group's performance during the year, the Board has approved a one-off final dividend in respect of 2020-21.

Group performance

As discussed elsewhere in the Annual Report and Accounts, we had made some good progress during the year including:

- Group adjusted operating profit increased 116.0% year on year to £702 million. Group revenue increased 16.6% to £12.6 billion, with parcels making up 72% of Group revenue.
- GLS continued to perform strongly, driven by growth in B2C and international volumes. During the year we saw significant growth in parcel volumes across our footprint. Revenue increased by 27.8% to £4,040 million (2019-20: £3,161 million) with European markets representing 90.8% of total revenue and the North American market contributing 9.2%. GLS adjusted operating profit was £358 million up 72.1% on 2019-20. Adjusted operating profit margin was 8.9%.
- Royal Mail revenue increased by 12.0% to £8.6 billion and adjusted operating profit was £344 million, up 194.0%. Parcel volumes grew strongly, particularly as people stayed at home and ordered online during the pandemic. Since its launch in October 2020 Parcel Collect has processed over 1.6 million items. However, addressed letter volumes (excluding elections) declined by 20% and, as noted above, despite us recruiting some 33,000 Christmas casual workers at the peak to handle volume (and subsequently retaining 10,000 of these colleagues), service quality during the year was impacted.

2020-21 remuneration outcomes

At year end, the Committee decided that it was not appropriate to award Short-Term Incentive Plan (STIP) awards in Royal Mail to its Executive Board (and other senior managers). The Committee noted that the Group's results are positive year on year with double-digit revenue growth and good adjusted operating profit performance. However, the Committee acknowledged that quality of service has not always been as we would have wished and that the pace of transformation within Royal Mail had been slower than planned. Moreover, it was recognised that UK revenue had been boosted by contracts to support the UK Government's response to the pandemic, none of which was planned a year ago and which was unlikely to continue in the medium term. The decision against paying any STIP to Executive Directors also reflected the Board's decision around the suspension of the dividend during the year, the Royal Mail restructuring programme and an outlook that remains difficult to predict.

In GLS, the Committee decided that STIP payments should be made to its Executive Board in light of the strong financial performance during 2020-21. As outlined on page 108, GLS adjusted operating profit was £358 million, up 72.1% on 2019-20.

The performance period for the 2018 Royal Mail Long-Term Incentive Plan (LTIP) concluded at the end of March 2021. This was the final award granted under the 2016 Remuneration Policy, with the single metric of relative total shareholder return (TSR) compared to the FTSE 100 excluding mining and financial companies. Threshold performance was not met, so no part of this award will vest. The Committee reviewed the outcome and decided against exercising discretion to alter the formulaic outcome.

2020 LTIP grants

As outlined in the 2019-20 Annual Report, the Committee delayed the grant of the 2020 LTIP awards until November 2020 due to the high degree of uncertainty around the ability to set long-term financial targets. The measures and targets were confirmed at the time of grant via a stock exchange announcement and full details of the targets are set out in this report. The terms of these awards also provide the Committee with the ability to review the outcome at vesting taking into account the underlying performance of the business.

Committee membership, meetings and attendance

The table below shows the number of meetings each Director attended and the number of meetings they were entitled to attend during the year ended 28 March 2021.

Director	Joined	Attendance
Lynne Peacock (Chair since 1 November 2019)	1 November 2019	7/7
Maria da Cunha	25 September 2019	7/7
Michael Findlay	25 September 2019	7/7
Keith Williams¹	4 February 2021	3/3
Simon Thompson²	19 July 2019	5/5

1. Keith Williams was first appointed to the Committee on 25 September 2019. On assuming the role of Interim Executive Chair on 15 May 2020 he ceased to be a member of the Committee on the same date. On reverting to his role as Non-Executive Chair Keith Williams re-joined the Committee on 4 February 2021.
2. Simon Thompson stepped down as a member of the Committee on 10 January 2021, when he was appointed as CEO Royal Mail. He was not involved in Committee discussions between November 2020 and January 2021 relating to potential Board appointments.

Supporting colleagues during the COVID-19 pandemic and recognising their efforts

Throughout the year we have supported our colleagues, prioritising their wellbeing, safety and security.

Our UK colleagues are classified as key workers and form part of the country's essential infrastructure, keeping parcels and mail moving during the pandemic. Accordingly, we have prioritised putting in place arrangements to mitigate the risks associated with this important role. We have enhanced our employee sick pay provision and updated our operating procedures to limit contact between colleagues and customers.

Royal Mail has actively helped to address potential financial hardship for its colleagues and their dependants via the Rowland Hill Fund, contributing £750,000 to the fund during the year. This is in addition to its ongoing financial education support.

All colleagues have worked tirelessly, often in difficult circumstances, demonstrating huge commitment to continue to serve our customers. In May 2020, the Company announced that, in recognition of the role played by frontline colleagues maintaining services during the pandemic, it had set aside around £25 million to be paid as a one-off payment in order to recognise their efforts. Over 130,000 frontline colleagues received a cash recognition award which was paid last summer.

Our managers have also worked incredibly hard to keep operations going, reacting with speed and agility to deal with the unprecedented and exceptional increase in parcel volumes, all at a time when many units have experienced rising levels of COVID-19-related absences, including necessary self-isolation. As the Committee had decided against operating the 2020-21 discretionary short-term incentive plan, the Committee nonetheless felt it was appropriate to recognise the ongoing exceptional contribution of our managerial colleagues as well as retaining and incentivising them going forward in serving the needs of customers. The Committee decided to make a one-off recognition payment to eligible frontline managers and other colleagues. The payments, totalling £25 million, will be made in July 2021.

In December 2020, we announced that we had agreed a framework agreement with the CWU on the strategy and future direction of Royal Mail including in relation to operational change, pay and job security. We are committed to remaining the best employer in our industry. The two-year pay deal for CWU colleagues includes a 2.7% pay increase effective from April 2020, a further pay increase of 1% with effect from April 2021 and the second hour of the shorter working week to be implemented at the point that the 2021 programme of revision activity is deployed in a function/unit and no later than the end of October 2021.

Board changes and implications for remuneration

There were a number of Board changes during the year which are explained on pages 83 and 84. The implications for remuneration are detailed below.

On 11 January 2021 Stuart Simpson ceased to be Interim CEO Royal Mail. He remained an employee until 31 January 2021. The Committee agreed that the following termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements:

- Stuart Simpson will receive 12 equal monthly payments, totalling £450,000, which represents 12 months' pay in lieu of notice. These payments will be reduced by any amounts he received from alternative paid employment during his notice period.
- Stuart Simpson was eligible for any 2020-21 short-term incentive (bonus), time pro-rated for service although none was paid to him in light of the broader performance of the business, and he was conferred eligible leaver status to retain certain share awards after leaving employment.
- There is a requirement to hold shares (worth up to two times salary) for two years following termination. This holding requirement will apply to shares that subsequently vest under his LTIP awards. Nominee accounts will be used to hold shares subject to restrictions.
- He received a capped contribution of up to £8,500 towards legal fees and will receive a capped contribution of up to £50,000 (excluding VAT) towards outplacement support.

On 11 January 2021 Simon Thompson was appointed CEO Royal Mail with immediate effect (and became an Executive Director) and Mick Jeavons, Interim Group CFO, was appointed permanently and joined the Board as an Executive Director from the same date. Martin Seidenberg, CEO GLS, was also made an Executive Director and joined the Board on 1 April 2021. Details of their respective remuneration are set out on page 128. All remuneration decisions made in respect of these changes are in accordance with the Policy approved by the shareholders.

All Executive Directors appointed during the year receive a pension of 13.6% of salary, which is aligned with the benefit that will be provided to all eligible employees under the proposed Royal Mail Collective Pension Plan which will be launched after the relevant enabling legislation has been passed and The Pensions Regulator publishes details of its authorisation process. The 13.6% is less than the 15.6% of salary benefit currently received by the majority of Royal Mail colleagues.

Following these changes to the Executive Director population, the Committee has reviewed the performance measures used for 2021-22 STIP and LTIP awards for each Executive Director to ensure that they are appropriate for either a Group, Royal Mail or GLS role. The Committee agreed that the incentive scorecards should reflect each Executive Director's role and responsibilities, with common principles applied with respect to the balance of financial measures and strategic measures and, within the LTIP, the balance of financial and TSR. Details of the measures set for 2021-22 awards are provided on pages 128 to 130.

Prior to his appointment as CEO Royal Mail, Simon Thompson was a Non-Executive Director and member of the Committee. For the avoidance of doubt, he was not involved in the Committee discussion and decision in relation to the remuneration terms and conditions for Martin, Mick, Stuart or himself in the run up to the 11 January 2021 announcement.

During 2020-21, as reported elsewhere, Keith Williams acted as Interim Executive Chair for approximately eight months. During this period, he stepped down as a member of the Committee. Despite stepping up as Interim Executive Chair, Keith asked to remain on the same fee that he was paid in his role as Non-Executive Chair of the Board.

Wider use of ESG measures in our 2021-22 incentive plans

During the year, the Committee reviewed emerging best practice in relation to the use of ESG performance measures in incentive plans.

Health and safety is an important priority for the Company and it, together with customer service, has been a key measure in Royal Mail’s incentive plans (for Executive Directors, our leadership teams and the broader senior management population in the UK) for a number of years.

For 2021-22, we will continue to retain health and safety and customer service as part of the Royal Mail STIP scorecard. We have also added a third ESG measure, linked to our environmental commitments. In total, ESG measures have a 25% weighting for the CEO Royal Mail. Health and safety is also now part of the 2021-22 STIP scorecard for the CEO GLS and the Group CFO.

In the coming year, the Company will continue to review the appropriate types of ESG measures it uses and tracks at a Group level and in its respective businesses. The Committee will then consider whether it is appropriate to make changes to the measures in the Company’s incentive plans for 2022-23.

2021 LTIP awards

The measures that will apply to the 2021 LTIP awards are set out on page 130. As set out above, these follow the principle of ensuring that Executive Directors are incentivised to deliver the key long-term priorities relevant for their role, with a significant proportion of the award based on Group TSR to ensure alignment with overall Company performance.

The Committee wishes to ensure that LTIP financial targets for 2021 awards are set appropriately in the context of the outlook and progress towards the lifting of COVID-19 restrictions in the UK. Given the continuing significant uncertainty around the long-term business environment, the Committee has agreed to delay the target setting for these awards. The associated targets will be therefore confirmed at the time of grant via stock exchange announcement. The grant of the 2021 LTIP awards is likely to be made no later than August 2021.

Shareholder engagement

We remain committed to maintaining an open and transparent engagement with our shareholders. We were very pleased that our Policy was strongly endorsed by shareholders in September 2020, with over 99% voting in favour. I would like to thank shareholders for their constructive feedback over the last 24 months (including during the adoption of the former policy in 2019), which continues to feed into our Committee discussions and shape our approach to remuneration.

We look forward to continuing our discussions with investors in the coming months in the run up to the AGM.

Consideration of the wider workforce remuneration

In addition to its primary role of reviewing Executive Directors’ remuneration and the remuneration of other executives in GLS and Royal Mail, the Committee, and the Board more generally, continue to exercise oversight of other colleagues’ remuneration. The Committee takes into consideration pay policy across the wider workforce as part of its decision making on executive remuneration. As in previous years, the Committee reviewed the gender pay gap reporting and remuneration practices across the Group (both in Royal Mail and GLS). In 2020-21 members of the Committee and the Audit & Risk Committee held a deep-dive into Royal Mail’s pension plans. As a Board, we also discuss details of any pay arrangements for the workforce represented by the CWU and Unite/CMA.

Summary

2020-21 has been another challenging year. Our colleagues across the Group have worked tirelessly to keep our customers connected. As a Committee, we have sought to make decisions which recognise their efforts and the Group’s financial performance, balanced with our desire to reflect both an uncertain outlook and the underlying performance of the business.

I trust that you find the Remuneration Report clear and informative, and that the Committee has your support for our Remuneration Report at the forthcoming AGM.

Lynne Peacock
Remuneration Committee Chair
19 May 2021

Our Remuneration at a Glance (unaudited)

Executive Directors' Remuneration Policy

At the September 2020 AGM, an updated Directors' Remuneration Policy (the Policy) was approved by shareholders. The Policy gives the Remuneration Committee (the Committee) flexibility in the future to appoint other Executive Directors, who may not be based in the UK. Among the key changes in relation to Executive Directors' remuneration were:

- **Benefits.** Enables an overseas based director who attends Board meetings to be reimbursed a) any reasonable travel and accommodation costs and for b) any associated taxation thereon.
- **Annual incentive.** Gives the Committee the flexibility to set a minimum level of earnings at an appropriate business unit level e.g. Royal Mail or GLS rather than at a Group level.
- **Contractual arrangements.** Provides the Committee flexibility should it decide to appoint an Executive Director based outside the UK, the contractual terms and conditions for such a director can align to local laws in the applicable jurisdiction of employment and the Policy can be interpreted to ensure compliance with such local laws where necessary.
- **Pension.** The pension contribution rate for existing Executive Directors was reduced from 17.5% to 15.6% effective 1 April 2021, mirroring the current rate for the majority of the workforce.

2021-22 Executive Directors' remuneration structure

The table below summarises the implementation of the Policy for Executive Directors in 2021-22.

Financial year	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Implementation for 2021-22
Salary								<ul style="list-style-type: none"> - Mick Jeavons – £420,000 - Martin Seidenberg – EUR580,000 - Simon Thompson – £525,000 - Salaries may be reviewed during the year.
Benefits								<ul style="list-style-type: none"> - No change in how Remuneration Policy operated. - Pension contribution and/or allowance 13.6%. - Other benefits may include healthcare, car allowance (or car) and tax filing support.
Annual bonus								<ul style="list-style-type: none"> - Maximum 150% of salary (100% cash and 50% deferred in shares for three years). - Target 75% of salary (50% cash and 25% shares). - Measures 75% financial and 25% ESG or other strategic priorities.
LTIP								<ul style="list-style-type: none"> - Maximum 150% of salary. - Shares vest after three years subject to performance, with a further two-year holding period. - Relative TSR 40% and financial measures 60%.

All existing Executive Directors will receive an LTIP award in 2021 (grant date anticipated to no later than August 2021), with a grant equivalent to 150% of salary. The measures will be relative TSR (40% weighting) with the balance linked to financial performance of their relevant business area. Further information is set out in the Remuneration Report on the following page.

Executive Directors' variable remuneration in 2020-21

No STIP (or bonuses) were awarded to Executive Directors in respect of their service in 2020-21. Although the Group's results were positive year on year, with adjusted operating profit up 116%, the Committee acknowledged that quality of service has not always been as we would have wished, the pace of transformation within Royal Mail had been slower than planned and UK revenue had been boosted by contracts to support the UK Government's response to the pandemic.

The performance period for the 2018 LTIP concluded at the end of March 2021. For any portion of the award to vest, median relative TSR performance was required against this comparator group. As this has not been achieved, this award will not vest.

	R Back	M Jeavons	S Simpson	S Thompson
2020-21 RM STIP (% of salary)	N/A	0%	0%	N/A
2018 RM LTIP vesting (% of salary)	N/A	0%	0%	N/A

Executive Directors' total single figure of remuneration

	R Back	M Jeavons	S Simpson	S Thompson
2020-21 total remuneration (£'000s)	94	110	462	136
Year-on-year change	N/A ¹	N/A ²	-15% ³	N/A ²

1. Rico Back ceased to be an Executive Director on 15 May 2020, so no year-on-year comparison is provided.

2. Mick Jeavons and Simon Thompson were appointed Executive Directors on 11 January 2021. Therefore, year-on-year comparisons of remuneration are not appropriate.

3. Stuart Simpson ceased to be an Executive Director on 11 January 2021.

Additional information

	Percentage/Ratio
UK CEO shareholding requirement (% of salary)	200%
UK CEO's actual shareholding as a proportion of his salary (note: appointed 11 January 2021)	0%
Median gender pay gap	2.6%
Median gender bonus pay gap	3.9%
CEO pay ratio	20.1

How does our Directors' Remuneration Policy address the key features set out in the UK Corporate Governance Code?

The table below details how the Committee addressed the principles set out in the Code in respect of Directors' remuneration:

Provision	Approach
Clarity	<ul style="list-style-type: none"> The Committee undertook extensive shareholder engagement during the development of its Remuneration Policies in 2019 and 2020, and redesigned the relevant annual reports to ensure that both the changes to the Policy, and decisions taken on Directors' pay, were transparent and in line with best practice. Information on how remuneration is structured for all employees and how it is aligned to Directors' remuneration is included in the Directors' Remuneration Report.
Simplicity	<ul style="list-style-type: none"> The Policy consists of a) fixed remuneration and b) variable remuneration comprising one Short-Term Incentive and one Long-Term Incentive only. The objective of each element, as well as how they operate, is included in the Policy. The Short-Term Incentive Plan was simplified as part of the remuneration policy adopted in 2019, including a reduction in the number of measures, with links to our strategic objectives clearly set out.
Risk	<ul style="list-style-type: none"> The combination of reward for short-term business performance (paid partly in cash and partly in deferred shares) and long-term performance (with measures covering shareholder returns, financial and non-financial elements) ensures that the incentives drive the right behaviours for the Group, its shareholders, employees and customers. Incentive plans include non-financial risks such as health and safety and environmental protection. Our incentive plans are also subject to malus and clawback provisions.
Predictability	<ul style="list-style-type: none"> Threshold, target and maximum pay scenarios are set out in the Remuneration Report section. Maximum variable remuneration award levels are capped. Other than vesting levels, which are driven by performance outcomes, the only source of variation in final payouts is the fact that part of the variable remuneration is awarded in shares and so is linked to the share price.
Proportionality	<ul style="list-style-type: none"> There is a clear and direct link between business performance and individual rewards through our incentive plans. The Committee retains the discretion to adjust formulaic outcomes of incentive plans if they do not reflect the underlying performance of the Group.
Alignment with culture	<ul style="list-style-type: none"> The Committee has worked hard to design the Remuneration Policy that directly supports our strategic priorities, and aligns our Directors and wider management to these outcomes. Our incentive plans include both financial measures, and ESG measures. These ESG measures focus on our customers and health and safety. All Royal Mail managers' individual performance is considered against our Company values: be positive, be brilliant, be part of it. Therefore, we assess our managers against not only what they have achieved, but also how they do things.

Directors' Remuneration Policy (unaudited)

The Company's Remuneration Policy was approved by 99% of shareholders at the AGM on 8 September 2020. The following tables summarise the key elements of our remuneration policy. The Policy is not subject to a shareholder vote this year. The Policy is set out in full on pages 133 to 140 of the Annual Report and Financial Statements 2019-20:

Executive Director fixed remuneration

At a glance

Operation

Base salary

Purpose and link to strategy

Reflects the scope and responsibility of the role, while taking account of the skills and experience of the individual. Used to attract and retain talented executives to deliver the business strategy.

M Jeavons (Group CFO) – £420,000

M Seidenberg (CEO GLS) – EUR580,000

S Thompson (CEO Royal Mail) – £525,000

Salary levels for the Executive Directors are normally reviewed annually. The Committee takes into account factors such as the performance of the Company, the performance of the Executive Director, any changes in role and responsibility, assessment against relevant comparator groups, internal relativities and the level of increase being offered to our frontline employees.

Increases will normally be in line with the broader employee population. Increases may be made above this level to take account of changing circumstances, such as a change in responsibility, progression in the role, individual performance or a significant increase in the scale or size of the role.

Benefits

Purpose and link to strategy

To support the attraction and retention of talented executives by providing a competitive offering.

The value of the benefits stated is the maximum cost to the Company of providing them

Benefits currently include the provision of a company car and health insurance, or the cash equivalent of these benefits. Life assurance and health screening are also provided. Additional benefits may be offered such as financial advice and relocation allowances on recruitment.

UK based Executive Directors are entitled to participate in any SIP or SAYE schemes currently available to employees.

Where an Executive Director is based outside the UK, but is required to travel to the UK to fulfil the responsibilities of their role and to attend Board meetings, they may be subject to tax on their business travel expenses to and from the UK and on the provision of any accommodation in the UK. Although in reality it represents a business expense, the tax treatment requires that their travel and accommodation expenses are then included as benefits. Because of the business context, the tax liabilities will be covered by the Company on a grossed-up basis.

Pension

Purpose and link to strategy

To provide a competitive post-retirement income.

For newly appointed Executive Directors the pension allowance will be in line with employer contribution for the majority of the workforce

Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension).

Executive Director variable remuneration

At a glance – maximum opportunity	Operation	Performance measures
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Short-Term Incentive Plan (or annual bonus)

Purpose and link to strategy

Designed to reward achievement of key strategic, financial and operational priorities for the year to deliver strong performance in service of longer-term strategic goals and creation of long-term shareholder value. Part of the total annual incentive opportunity is a deferred share award encouraging a long-term view, providing alignment with shareholders' interests.

<p>Maximum total annual incentive opportunity of 150% of salary, split between two plans: an annual cash bonus award of up to 100% of salary and a deferred share bonus award of up to 50% of salary. Target opportunity of 75% of salary.</p>	<p>The total annual incentive opportunity is provided as follows:</p> <ul style="list-style-type: none"> – Two thirds is payable in cash, paid at the end of the annual performance period. – One third is granted as a deferred share award, after the end of the performance period and subject to continued employment over the three-year vesting period. <p>Deferred share awards will be granted to Executive Directors in the form of a conditional share award. The Committee will normally award dividend equivalents on deferred shares to plan participants to the extent that they vest.</p> <p>Malus and clawback provisions will apply to both elements of the award.</p>	<p>Annual performance measures and weightings will be selected at the start of each financial year to align with the key strategic, financial and operational priorities of the business. The measures themselves may change on an annual basis as financial and operational priorities of the business change.</p> <p>In addition, the Committee will set a minimum level of earnings that must be achieved (which may be at a Group or an appropriate business unit level) before any bonus is payable to an Executive Director.</p>
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The Committee may use its discretion to:

- Change the performance measures and targets, and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe that the original measures, weightings and targets are no longer appropriate.
- Make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.

Long-Term Incentive Plan

Purpose and link to strategy

Supports executive recruitment and retention, with an appropriate balance between short-term performance and the creation of long-term, sustainable shareholder value.

<p>Maximum award level of 150% of salary.</p>	<p>Awards are granted annually to Executive Directors in the form of a conditional share award.</p> <p>These will vest at the end of a three-year period subject to:</p> <ul style="list-style-type: none"> – The Executive Director's continued employment at the date of vesting. – The satisfaction of the performance conditions. <p>The Committee will normally award dividend equivalents on those shares to the extent that they vest. Following the vesting, there is a holding period of two years when Executive Directors cannot sell the vested shares other than to pay tax.</p> <p>Malus provisions apply over the performance period. Clawback will apply over the holding period.</p>	<p>Performance measures and/or weightings reflect the business strategy at the time and are measured over or at the end of three years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.</p> <p>The underlying performance of the business will also be taken into account when determining the vesting.</p>
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In exceptional circumstances the Committee retains the discretion to vary or waive the performance conditions applying to LTIP awards, if the Board considers it appropriate and the new performance conditions are deemed reasonable and are not materially more or less difficult to satisfy than the original conditions.

Application of malus and clawback**At a glance – maximum opportunity Operation**

Malus and clawback may be applied by the Committee in the event of:	<ul style="list-style-type: none"> i. Discovery of a material misstatement resulting in an adjustment in the Company's accounts. ii. Discovery that the grant or vesting of an award was based on error or inaccurate or misleading information. iii. Conduct by an Executive Director that amounts to fraud or gross misconduct. iv. Conduct by an Executive Director that results, or could result, in serious reputational damage to the Group. v. Conduct by an Executive Director that has caused a material failure of risk management. vi. The Company enters involuntary administration or insolvency process. vii. An Executive Director breaching any restrictive covenants or confidentiality obligations that apply after the termination of their employment. <p>Events iv) to vii) only apply to awards granted after 1 April 2019.</p>
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At a glance – maximum opportunity Operation**Shareholding guidelines – during employment****Purpose and link to strategy**

To ensure alignment between remuneration and long-term shareholder value creation.

Shareholding guideline of 200% of salary.	Executive Directors are expected to keep any shares they already own and any shares released under the LTIP and the Deferred Share Bonus Plan (DSBP) (except for those sold to cover any tax and social security obligations) until this is achieved.
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Shareholding guidelines – post cessation**Purpose and link to strategy**

To ensure continued alignment of Executive Directors with shareholders as they transition out of the business.

200% of salary to be held in granted shares for two years after leaving.	On cessation, Executive Directors are required to maintain their shareholding guideline for two years. The number of shares to be held will be based on the shares vested under executive share schemes only (including the shares from any DSBP award that are yet to vest, based on a net calculation) and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200% of salary guideline at the point of departure, they will be required to hold any shares granted under executive shares schemes for two years. The post cessation shareholding requirement will be included in Settlement Agreements for Executive Directors on leaving the business.
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Information on remuneration for new Executive Directors, what happens when an Executive Director leaves, or what happens in case of a takeover is included in the full Policy, published in last year's Remuneration Report.

Remuneration Policy for Non-Executive Directors (including the Chair of the Board)

At a glance	Operation
<p>Purpose and link to strategy Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chair of the Board with the necessary experience to fulfil the leadership role required of them.</p>	
<p>Non-Executive Directors are paid an annual fee and additional fees for being Chair of a Committee or a member of a Committee and, if appropriate, other additional time commitments.</p> <p>The Chair of the Board does not receive any additional fees for membership of Committees.</p>	<p>The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chair of the Board's fees.</p> <p>The fees for Non-Executive Directors and the Chair of the Board are set at broadly the median of the comparator group. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. In general, the level of fee increase for the Non-Executive Directors and the Chair of the Board will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.</p> <p>The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chair of the Board and may settle any tax incurred in relation to these. Non-Executive Directors and the Chair of the Board do not participate in any variable remuneration or benefits arrangements.</p>

Service contracts and letters of appointment

The Company's policy is that the Executive Directors are employed under service contracts. The contracts have an indefinite term and are normally terminated by the Executive Director with six months' written notice and by the Company with 12 months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

Subject to Board approval, it is the Company's policy to allow each Executive Director to accept one Non-Executive Director position on the board of another listed company. The fees for such appointments are retained by the Executive Directors and, as appropriate, are disclosed in the Remuneration Report.

The Non-Executive Directors (including the Non-Executive Chair of the Board) are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and reappointment. The fees for new Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. One month's notice is required by either party (four months' notice in the case of the Chair of the Board).

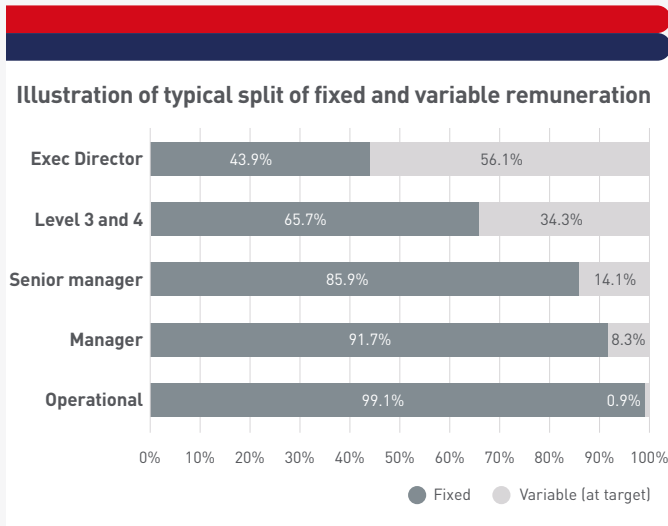
All Employee Remuneration (unaudited)

The Committee is directly responsible for the remuneration of the Executive Directors and respective Royal Mail and GLS Executive Boards. The Board and the Committee are also given regular updates and, as required, take key decisions on incentive plans that cascade through the organisation. The Committee takes changes in workforce remuneration into account when making decisions on executive remuneration. A summary of remuneration across the Royal Mail organisation is set out below.

	Operational	Managers	Senior managers	Senior leaders
Salary	Based on role, location and service, progression typically based on service. Salary increases negotiated with the CWU and applied to the pay scales, no personal or performance-related element.	Middle and junior managers typically have a similar fixed pay structure to operational colleagues, with pay scales that they progress through based on service.	Pay based on the role and an individual's experience and skills, within broad bands.	Pay based on the role and an individual's experience and skills, and external market positioning.
Allowances and overtime	Eligible for allowances (including functional, shift and legacy allowances), overtime and scheduled attendance (a form of planned overtime).	Some roles at this level are also eligible for shift pay, overtime and allowances.	Not eligible.	Not eligible.
Pension	The majority of employees are members of the Royal Mail Defined Benefit Cash Balance Scheme (DBCBS), with Company contribution at 15.6% of salary, into which participants transferred after the closure of the final salary pension plan. New hires are eligible for the RM Defined Contribution Plan (DCP), with Company contributions up to 10% of salary. However, on the launch of the new Royal Mail Collective Pension Plan, all eligible colleagues will participate in this plan (rather than the current DBCBS and DCP). Company contributions will be up to 13.6% of salary.			Option of cash allowance in lieu of Company contributions.
Benefits	Employee paid for flexible benefits (e.g. childcare vouchers, cycle to work scheme, car leasing, insurances, season ticket loans) and all employee share plans.		Car allowance and healthcare, in addition to employee paid for flexible benefits and all employee share plans.	
Short-term incentive (STIP)/ bonuses	Eligible for a 'Christmas Supplement' reflecting their huge effort and impact during our busiest period. Not linked to personal performance.	Managers are eligible for a management STIP based on corporate and personal performance.		Eligible for annual management STIP with a cash and deferred share element based on corporate and personal performance.
LTIP	Not eligible.	Not eligible.	Not eligible.	Royal Mail Executive Board eligible.

The chart shows an indicative summary of the relationship between fixed and variable pay across Royal Mail. There is no performance-related pay for operational roles. Colleagues at this level influence their remuneration through working additional, or antisocial, hours.

All our managers have an element of performance-related pay – with Executive Directors having the highest proportion of their pay at risk.



Alignment between our approach to Directors’ remuneration and other colleagues

In developing the 2019 Remuneration Policy and the subsequent updated Remuneration Policy in 2020, the Committee carefully considered the remuneration arrangements across the Group. The Committee receives information on wider workforce demographics and remuneration on a regular basis, to ensure that the Committee has a good understanding of the structure and application of reward policies throughout the Group.

The Committee has agreed a set of Guiding People Principles, against which it can assess the Company’s reward arrangements. Across the Group we are working towards reward arrangements that:

- Deliver both value for our people and a return on investment for the business.
- Incentivise and recognise high performance.
- Are aligned with the markets in which we operate and compete.
- Drive efficiencies by taking a consistent cross-business approach.
- Are well communicated, holistic and understood by our people.

When making decisions about executive remuneration, the Committee ensures, for example, that pay review budgets for senior managers and executives are set at levels which are typically lower than the same as those agreed with our trade unions for employees whose pay is collectively bargained. In addition, the different incentive and commission plans in operation across the Group support the delivery of the Company-wide Short-Term Incentive Plan, through which

the Executive Directors are incentivised. The broader workforce did not have direct input into the Policy, but its application is heavily influenced by remuneration arrangements for all employees. As well as being a Committee member, Maria da Cunha is also the Designated Non-Executive Director for engagement with the workforce, which allows any key themes from employee engagement activity to be fed into Committee discussions. Further information about our workforce engagement activities is set out on pages 92 to 94.

Committee oversight of all employee remuneration

During the year, the Committee received updates on key activities and discussed material changes to all employee remuneration policies and arrangements as well as an overview of how remuneration is managed in GLS.

In addition, the Board was updated on proposals to implement a Collective Pension Plan and remuneration arrangements in respect of the workforce represented by the CWU and Unite/CMA.

Gender pay gap reporting

The Company’s 2020 Gender Pay Gap Report, published during 2020-21, continues to show that average pay for men and women is broadly the same. On a median basis, our gender pay gap is 2.6%. This compares with a national average gender pay gap on a median basis of 15.5% across all industries, calculated by the ONS in 2020. We would expect to see small changes in the total pay gap each year due to changes in the composition of the workforce, and the payment of allowances and shift pay, which can vary between men and women year on year.

	Total pay gap	Bonus gap
2020		
Mean	1.9%	-15.1%
Median	2.6%	3.9%

Most frontline colleagues in the UK are eligible, as part of their agreed contractual terms, to receive up to £200 payable at Christmas. This means we pay incentives (as defined under the gender pay gap regulations) to the vast majority of our employees (98% of men and 96% of women). Those who are ineligible have typically not reached the minimum service requirement or not obtained a minimum personal performance threshold. On a median basis bonuses were slightly higher for men but substantially in favour of women on a mean basis (i.e. -15.1% in 2020), as there is a higher proportion of women in our management population, compared with the operational population.

While we are pleased that our gender pay gap reporting shows that the Company has no significant pay gap, we continue to focus on improving the representation of women at all levels of the organisation. Our gender strategy focuses on attracting, retaining and developing female talent at all levels of the organisation. We have female representation and recruitment targets for operational roles, as well as a wide range of initiatives in place to achieve them.

CEO pay ratio

The CEO pay ratio is set out below, as required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Regulations), with the required explanation, and further contextual information in relation to methodology and assumptions used.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2021	Option A	22:1	20:1	17:1
2020	Option A	31:1	28:1	24:1
2019	Option A	28:1	26:1	22:1

The table below sets out the salary, full pay and benefits value received by employees identified at the 25th, 50th and 75th percentiles, during 2020-21. There are over 88,000 operational colleagues on the salary of £23,647 on a full-time equivalent basis across the business. The difference in total pay and benefits is due to the different allowances, overtime, shift payments and pension arrangements received by these employees during 2020-21.

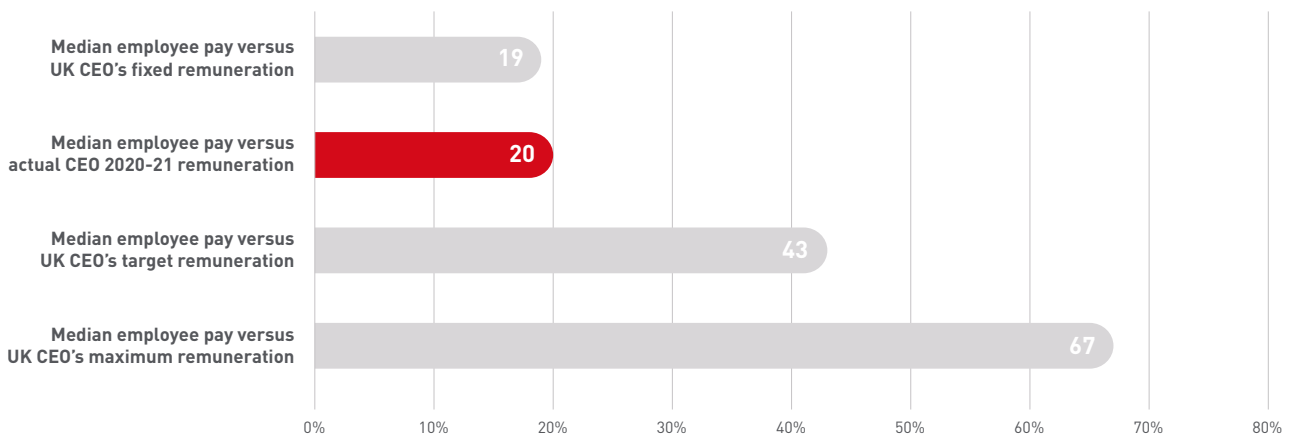
2020-21	25th percentile	50th percentile	75th percentile
Salary	£23,647	£23,647	£23,709
Total pay and benefits	£28,668	£32,101	£37,776

For 2020-21 the ratio is based on a combination of the remuneration for the former Group CEO (from the start of the financial year until 14 May 2020), the former Interim CEO Royal Mail (from 15 May 2020 to 10 January 2021) and the current CEO Royal Mail (from 11 January 2021 until the end of the year).

The reason for the percentage point reduction in the pay ratio between 2019-20 and 2020-21 is twofold. Firstly, on average employees' total remuneration has increased year on year due to the implementation of the 2.7% pay deal agreed for CWU graded colleagues, more overtime hours and the recognition payment for frontline colleagues in June 2020. Secondly, the aggregate remuneration for the CEO is lower than the comparable figure for last year: there were no incentives (including vesting of any LTIP unlike in 2019-20) and the fixed remuneration for both the former interim and current CEO Royal Mail is lower than the former Group CEO.

We have also detailed the potential ratios based on the CEO Royal Mail's theoretical fixed, target and maximum pay as set out in the Policy. It is important to note that a high proportion of the CEO Royal Mail's pay is based on performance against the short and long-term incentive plans, and their payouts can vary significantly year on year affecting the ratio going forward.

Illustrative pay ratios based on different remuneration outcomes for the Royal Mail CEO



How we have calculated our pay ratios

Under the Regulations, companies are required to identify the employee with pay and benefits at the 25th, 50th and 75th percentiles of all UK employees for the relevant financial year and compare to the total remuneration of the CEO as set out in the single figure of total remuneration table.

The Company has chosen to use Option A to identify the employees at the 25th, 50th and 75th percentiles and their respective pay and benefits, as it is recognised that this is the most accurate approach. All UK employees as at year end have been included in the reporting, with employees ranked based on their remuneration for 2020-21. The data assumptions included in our reporting are set out below:

Element	Description
Base salary	The Regulations require that full-time equivalent salaries are used to identify P25, P50 and P75 in order to ensure comparability across Royal Mail. At Royal Mail, over 45,000 colleagues work part-time, primarily in operational roles, and may have working hours changes through the year. We have, therefore, used the full-time equivalent salary, as at year end, as the salary figure to rank our employees.
Allowances and overtime	This includes a range of functional, shift, location, role-based allowances, and overtime, included on an actual basis (not pro-rated for part-time colleagues, or annualised for new starters).
Taxable benefits	Taxable benefits included are car allowance and healthcare (or equivalent cash amount).
Employer pension contributions	Actual employer pension contributions have been included (not pro-rated for part-time colleagues or annualised for new starters).
Incentives	<p>The Regulations require that incentives relating to the relevant financial year are included. In some cases, the decision on the level of bonuses and LTIP vesting is not made until after the publication of this report.</p> <p>The calculation also includes:</p> <ul style="list-style-type: none"> - A projected recognition and retention payment for frontline managers and other junior managers payable in July 2021 - Contractual payments of up to £200 to frontline colleagues made annually before Christmas. - The recognition payment of around £25 million in recognition of the role played by frontline colleagues maintaining services during the COVID-19 pandemic, and which were paid in June 2020. <p>The vesting for the 2018 Royal Mail LTIP is assumed to be zero.</p>

Annual Report on Directors' Remuneration (audited)

This part of the Directors' Remuneration Report sets out how the Policy has been applied for 2020-21. This detailed information, set out below, has been audited by the Company's independent auditor, KPMG LLP.

Single figure table – Executive Directors (audited)

£'000	Salary ⁵		Benefits ⁶		Pension ⁷		Total fixed		Short-term incentive ⁸		Long-term incentive ⁹		Total variable		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Simon Thompson ¹	117	–	3	–	16	–	136	–	–	–	–	–	0	–	136	–
Mick Jeavons ²	94	–	3	–	13	–	110	–	0	–	0	–	0	–	110	–
Former Directors																
Rico Back ³	77	640	3	25	14	112	94	777	–	0	–	90	–	90	94	867
Stuart Simpson ⁴	399	450	2	15	61	79	462	544	0	0	0	0	0	0	462	544

Notes

- Simon Thompson's remuneration in the table above reflects the period from his appointment as an Executive Director on 11 January 2021. He was not eligible for a 2020-21 STIP.
- Mick Jeavons joined the Board on 11 January 2021. The amounts above reflect his service as an Executive Director.
- Rico Back ceased to be an Executive Director on 15 May 2020. The amounts above relate to the period for which he was an Executive Director. The 2020 LTIP figure for Rico Back relates to historic grants under the GLS LTIP with performance periods ending in 2019-20. The 2020 LTIP figure of £91,000 has been updated from last year. This included a share component estimated at £21,200 based on the three-month average share price to 30 March 2020 of £1.8152. This has been restated to £20,600 based on an actual share price of £1.761 when the award vested on 28 July 2020. He was not eligible for a 2020-21 STIP.
- Stuart Simpson ceased to be an Executive Director on 11 January 2021 and remained as an employee until 31 January 2021. The amounts above relate to the period during which he was an Executive Director.
- The Committee reviewed the Executive Directors' salaries and decided against making any increases during 2020-21. Rico Back's and Stuart Simpson's salaries were set on their respective appointments as the Group CEO and Group CFO in 2018 and 2017 respectively. The salary column for Stuart Simpson includes an allowance (annualised figure of £75,000) payable to him while Interim CEO Royal Mail between 15 May 2020 and 10 January 2021.
- Benefits include car benefit and healthcare provision (or a cash equivalent allowance). From April 2020 until his termination, Stuart Simpson elected to take a company car rather than receive a cash in lieu of car allowance of £13,160. The company car was electric so for 2020-21 fiscal year there is no taxable benefit, hence no value in the benefits column above.
- For 2021, the amount shown for Simon Thompson, Mick Jeavons and Rico Back was paid as an allowance in lieu of pension. For both Simon Thompson and Stuart Simpson, up to £4,000 (on an annualised basis) was paid into the Royal Mail Defined Contribution Plan, with the balance paid as a cash allowance.
- There were no short-term incentive (annual bonus) payments (cash or deferred) for both 2020-21 and 2019-20 in respect of any period when an individual was an executive director. A STIP payment was made to Mick Jeavons in respect of the period prior to being appointed an Executive Director in respect of his contribution to Group financial performance and personal achievements during that time.
- As the threshold performance level over the period to 31 March 2021 was not achieved, any 2018 RM LTIP award lapsed in full and a value of zero is included above for 2021.

2020-21 short-term incentive outcome (unaudited)

At the onset of the pandemic in the spring of 2020, the Committee determined that setting a short-term incentive scorecard at that time was not sensible given the significant uncertainty over the performance outlook. During the year the Committee continued to consider the impact of COVID-19 on the Company's performance. Setting meaningful targets for the STIP remained challenging in the context of uncertain and fluid outlook. The Committee agreed that should STIPs be payable this would be assessed considering aggregate performance of the Group and Royal Mail in the UK relative to 2019-20 and relative to internal forecast and consensus after the publication of last year's results, and that no short-term incentive would be payable unless Royal Mail in the UK was profitable.

The performance period for the STIP is the same as the financial year, with achievement being assessed against both financial and non-financial priorities. The maximum opportunity for the former Interim CEO and CFO was 150% of salary (pro-rated for time in role as an Executive Director), of which one-third would be delivered in deferred shares.

Notwithstanding the aggregate performance, the Committee decided against awarding STIP awards to the Executive Directors. The Committee noted that the Group's results are positive year on year with double digit revenue growth and good adjusted operating profit performance. However, the Committee acknowledged that quality of service has not always been as we would have wished and that the pace of transformation within Royal Mail had been slower than planned. Moreover, it was recognised that UK revenue had been boosted by contracts to support the UK Government's response to the pandemic, none of which was planned a year ago and which is unlikely to continue in the medium term. The decision against paying any STIP to Executive Directors also reflected the Board's decision around the suspension of the dividend during the year, the Company's management restructure in the UK and an outlook that remains difficult to predict.

It was also agreed at the time of Simon Thompson's appointment as an Executive Director that he would not be eligible to receive a STIP award for 2020-21.

	M Jeavons	S Simpson	S Thompson
Maximum award (% of salary)	150%	150%	N/A
Salary eligible for 2020-21 STIP	£89,753	£379,726	N/A
Committee assessment on performance	0%	0%	N/A
Discretion applied	-	-	N/A
Final outcome for 2020-21			
- as a % of maximum	0%	0%	N/A
- as a % of salary	0%	0%	N/A
- as £ amount	£0	£0	N/A

As the performance outturn determines the value of the deferred share award granted, no deferred share award will be granted to the Executive Directors in relation to 2020-21.

Royal Mail LTIP (unaudited)

2018 LTIP outcomes

The 2018 LTIP was based on performance against a relative TSR measure, with a performance period from 1 April 2018 to 31 March 2021, as set out below:

Measure	Weighting	Threshold	Maximum	Achievement
TSR versus FTSE 100 (excluding mining and financial companies)	100%	Performance vesting Median 50%	Top quartile 100%	Below median 0%

The Committee agreed that the performance of the 2018 LTIP was in line with the wider performance of the business and, therefore, no discretion was exercised to adjust the outcome of this plan. Due to the above performance, the 2018 LTIP will not vest in August 2021. There is, therefore, no element attributable to share price appreciation.

Other outstanding LTIP awards

The following grants under the 2019 RM LTIP and 2020 RM LTIP remain outstanding at 28 March 2021. The performance conditions are set out below:

Measure	Weighting	Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
2019 RM LTIP					
TSR vs FTSE 50-150 (excluding mining and financial companies)	40%	Median	10%	Upper quartile	40%
Group EBITDA ^{1,2}	40%	£925m	10%	£1,200m	40%
Group parcels revenue	20%	£7.0bn	5%	£7.8bn	20%
Total	100%		25%		100%
2020 RM LTIP					
TSR vs FTSE 51-150 (excluding mining and financial companies)	40%	Median	10%	Upper quartile	40%
Group EBITDA ¹	40%	£1,070m	10%	£1,380m	40%
Group parcels revenue	20%	£7.65bn	5%	£8.45bn	20%
Total	100%		25%		100%

1. Outturn of Group EBITDA after three years, adjusted back to budgeted exchange rates. Includes project costs but excludes voluntary redundancy costs and exceptional charges.

2. Performance measure assumes £160 million impact from the adoption of IFRS 16 'leases'.

The amount of the LTIP share awards outstanding for each of the Executive Directors is shown in the following table, as at 28 March 2021.

Award	Max value of award at grant (% of salary)	Max value of award at grant (£'000)	% vesting at threshold performance (% of salary)	Final year of performance period	Number of shares at grant
Mick Jeavons					
2018 RM LTIP ¹	–	–	–	2020–21	56,896
2019 RM LTIP ²	–	–	–	2021–22	126,354
2020 RM LTIP ³	150%	390	37.5%	2022–23	128,108
Stuart Simpson					
2018 RM LTIP ¹	100%	450	50%	2020–21	98,474
2019 RM LTIP ²	112.5%	506	28%	2021–22	246,027
2020 RM LTIP ³	150%	675	37.5%	2022–23	221,725

1. The 2018 RM LTIP award was granted on 9 August 2018 at a price of £4.57 per share. The level of vesting for the 2018 RM LTIP is 0% and shares will lapse in August 2021.

2. The 2019 RM LTIP award was granted on 8 August 2019 at a price of £2.06 per share.

3. The 2020 RM LTIP award was granted on 27 November 2020 at a price of £3.0443 per share.

Shareholder dilution

All awards vesting under the Group's share plans are satisfied by the transfer of existing shares or, where appropriate, the issuance of new shares. The Group's share plans contain limits that govern the amount of shares that may be issued to satisfy any subsequent exercise of awards. These limits are in line with those stated in the Investment Association's Principles of Remuneration. The Group operates employee benefit trusts that are administered by independent trustees and which hold shares to meet various obligations under the Group's share plans. As each Executive Director is within the class of beneficiary of these trusts, they are deemed, for the purposes of the Companies Act 2006, to have an interest in the trusts' shares.

Shareholding levels (unaudited)

The table below sets out details of the shareholdings of the Directors as at 28 March 2021 (except where noted below). There has been no change in the Directors' interests in the ordinary share capital of the Company between 28 March 2021 and 19 May 2021 (being the latest practicable date prior to the publication of this Annual Report) except as noted below.

	Number of shares owned on 29/03/21 ¹	Number of shares owned on 29/03/20	Policy shareholding requirement	Current shareholding (as a % of salary) ²	Share awards not subject to performance ³	Share awards subject to performance (LTIP 2018, 2019, 2020)
Chair of the Board						
Keith Williams	56,800	50,000	–	–	–	–
Executive Directors						
Mick Jeavons	47,376	–	200%	30%	47,661	311,358
Simon Thompson	0	0	200%	0%	0	0
Non-Executive Directors						
Maria da Cunha	15,000	15,000	–	–	–	–
Michael Findlay	16,690	16,690	–	–	–	–
Rita Griffin	20,000	20,000	–	–	–	–
Sarah Hogg	12,000	12,000	–	–	–	–
Lynne Peacock	11,309	11,309	–	–	–	–
Former Directors						
Rico Back	1,664,583	1,664,583	N/A	N/A	52,243	0
Stuart Simpson	68,542	46,294	N/A	N/A	56,350	566,226

1. For Directors who have stepped down from the Board, the number of shares owned is shown as at the date they stepped down. The number of shares is based on beneficial shareholdings, excludes any unvested share awards and includes (if appropriate) any shares held by persons closely associated with the Directors.

2. Value of beneficial shareholding based on the average share price during 2020–21 (269.25p), including any LTIP shares subject to a holding period. Excludes any unvested Deferred Share Bonus Plan (DSBP) awards. Both Simon Thompson and Mick Jeavons were appointed Executive Directors on 11 January 2021 and are expected to build their shareholding over time.

3. Includes the DSBP awards and any matching shares awarded in 2020–21. During 2020–21, Stuart Simpson was awarded 20 Matching Shares through the Partnership and Matching Share Arrangement, but these were forfeited on termination.

Payments for loss of office and payments to former Executive Directors (audited)

Rico Back

As was disclosed in last year's Remuneration Report, Rico Back stepped down from the Board on 15 May 2020 and left the Company on 15 August 2020. In line with his contractual entitlements, he is due to receive nine monthly payments in lieu of notice (PILON) totalling £480,000, which represents the balance of his 12-month notice period. These payments will be reduced by any amounts that Rico Back receives from alternative paid employment during his notice period. During 2020-21 seven PILON instalments were made, each totalling £53,333.

Rico Back retained a deferred share bonus award granted in 2018 (52,243 shares). This award, which related to the 2017-18 performance year prior to his appointment as Group CEO, will vest as scheduled in June 2021, i.e. there is no acceleration of vesting and the award will remain subject to malus (i.e. the potential clawback of any unvested element).

Under the Policy, there is a requirement to retain certain shares for two years following termination of employment. This holding requirement applies to shares vested under share awards granted to an Executive Director under an executive share plan only. On Rico Back's termination this shareholding requirement continues to apply to his unvested Royal Mail DSBP award, as his Royal Mail LTIP awards granted to him after his appointment as an Executive Director lapsed as part of his leaving arrangements.

Stuart Simpson

Stuart Simpson ceased to be Interim CEO Royal Mail on 11 January 2021 and remained an employee until 31 January 2021.

The Committee determined that the following termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements:

- He will receive 12 monthly payments in lieu of notice totalling £450,000, which represents his 12-month notice period. These payments will be reduced by any amounts that he receives from alternative paid employment during his notice period. During 2020-21 two PILON instalments were made, each totalling £37,500.
- He remained eligible for an annual incentive in respect of 2020-21, pro-rata for service, although no short-term incentive was paid.
- Stuart was conferred eligible leaver status and retained certain share awards post his termination:
 - One unvested Deferred Share Bonus Plan (DSBP) award, awarded in 2018 (56,350 shares), relating to performance year 2017-18 which is due to vest in June 2021.
 - Three unvested Royal Mail Long-Term Incentive Plan (LTIP) awards which will continue to vest over the original vesting period, i.e. there is no acceleration of vesting, and the awards will remain subject to a) malus (i.e. the potential clawback of any unvested element), b) the future satisfaction of performance measures and c) time apportionment based on service.

- Under the Remuneration Policy, there is a requirement to retain certain shares for two years following termination of employment. This holding requirement applies to shares vested under share awards granted to an Executive Director under an executive share plan only. Nominee accounts will be used to hold shares subject to restrictions.
- Stuart received a capped contribution of up to £8,000 (excluding VAT) towards legal fees incurred in connection with his departure and a capped contribution of up to £50,000 (excluding VAT) towards outplacement support.
- There are no further payments for loss of office.
- For the period from 11 January 2021 to 31 January 2021 when Stuart remained employed by Royal Mail, Stuart received total remuneration of £34,208, consisting of salary (£25,403), benefits (£4,359) and pension payments (£4,446).

Executive Director fees from external positions (unaudited)

The Executive Directors are entitled to receive fees from external appointments.

Rico Back, Mick Jeavons, Stuart Simpson and Simon Thompson did not hold any external appointments at other listed companies for the last reported financial year during the period they were appointed to the Board.

Executive Director terms of employment (unaudited)

The Executive Directors are employed under service contracts. The dates of these contracts are:

	Date of contract	Notice period from RMG months
Mick Jeavons	10 January 2021	12
Martin Seidenberg	25 June 2020	12
Simon Thompson	10 January 2021	12

The contracts have an indefinite term. These contracts may be terminated by the Executive Director with six months' written notice and the Company can terminate the contract with 12 months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

Relative importance of spend on pay (unaudited)

The table below shows the percentage change in dividends and overall expenditure on people compared with the previous financial year. The Company considers overall expenditure on staff pay in the context of its general finances. For reference, revenue has also been included because this measure represents the income the Company received during the year and provides a clear illustration of the ratio of people costs to income.

	2020-21	2019-20	% change
Dividend per share (pps) – paid in the year	0	24.5	N/A
People costs (£m) ¹	6,470	5,956	9%
Group revenue (£m)	12,638	10,840	17%

1. Group adjusted people costs including £149 million transformation costs in 2020-21 (see page 72 for more commentary). Excludes any pension adjustments.

Comparison of change in Directors' vs employee remuneration (unaudited)

The table below sets out the percentage change in salary, benefits and annual incentives for the Directors of the Board against an average full-time equivalent UK manager between 2019-20 and 2020-21. The relevant disclosure requirement is for this comparison to be made against the employees of the Parent Company. On the basis that Royal Mail plc (the Parent Company) does not employ any staff, we have voluntarily disclosed the comparisons against a UK managerial population (internally graded level 2-9) as the Committee considers this provides a representative comparison.

	Salary/fee % change ¹	Benefits % change	Annual incentive % change ⁵	Commentary
Non-Executive Chair (headline fee level unchanged between 2019-20 and 2021-22)				
Keith Williams	11.9%	–	–	Part year in 2019-20 (when joined the Board). Headline fee unchanged
Executive Directors				
Mick Jeavons	N/A	N/A	N/A	Executive Director from 11.1.21. No comparative period
Simon Thompson	N/A	N/A	N/A	Executive Director from 11.1.21. No comparative period
Non-Executive Directors (headline fee levels unchanged between 2019-20 and 2021-22)				
Maria da Cunha	27.5%	–	–	Part year in 2019-20 (when joined the Board)
Michael Findlay	33.9%	–	–	Part year in 2019-20 (when joined the Board). Wider responsibilities from October 2019
Rita Griffin	-1.5%	–	–	Change in responsibilities in 2019 resulted in lower aggregate fee level in 2020-21
Sarah Hogg	87.1%	–	–	Part year in 2019-20 (when joined the Board). Wider responsibilities from January 2021
Lynne Peacock	141.9%	–	–	Part year in 2019-20 (when joined the Board)
Simon Thompson	-28.9%	–	–	Stepped down as a Non-Executive Director on 10.1.21
Former Directors				
Rico Back	-87.9%	-88.0%	–	Headline salary and benefits unchanged. Reduction as left the Board in May 2020
Stuart Simpson	-11.4%	-88.5%	–	Headline salary and benefits unchanged. Reduction as left the Board in January 2021
Royal Mail Group Limited employees (levels 2-9)	-0.1%	4.2%	0.2%	

1. Non-Executive Director fee levels were unchanged between 2019-20 and 2020-21. The percentage increases (or decreases) above reflect changes in responsibilities e.g. committee memberships, or that the individual was not a Director for the whole of 2019-20.
2. Royal Mail plc is a holding company and does not have any employees. The data above is based on average salary costs for UK-based managers (levels 2-9) of Royal Mail Group Limited. This is considered the most representative comparator group with remuneration that is structured similarly, e.g. all managers are eligible for annual bonuses and are eligible for employee benefits.
3. The salary percentage change is based on employee headcount as of the end of March 2021. The very small reduction from the previous year reflects the decision not to review manager salaries in 2020 and employee headcount changes. The calculation considers the full-time equivalent employee annual salary at March year end plus allowances, such as for temporary promotions, paid during the respective years.
4. Employee benefits are calculated on a per capita basis which includes a) car allowance or a cash equivalent and b) value of the medical cover (including any cash equivalent). The percentage increase in the table has been primarily caused by three factors: a) changes in population, b) changes in employee benefit choices, e.g. cash equivalent amounts are often lower than the value of a benefit in kind, and c) a 4.7% increase in the notional premium of the medical benefit.
5. In recognition of managers' ongoing commitment to the business, a flat rate payment will be made to eligible managers at levels 6-9. No recognition payment will be made to managers at levels 2-5. The Committee decided not to make any payments to managers under the discretionary STIP in respect of 2020-21.
6. Employee data is based on full-time equivalent pay for Royal Mail managers as at 31 March of the relevant year. This data excludes leavers, joiners and employee transfers in or out of Royal Mail during the year to help ensure that data is on a like-for-like basis.
7. Average full-time equivalent UK employee percentage change has been calculated on a mean basis. As the employee population will change yearly and the mean average considers the full range of data, it is expected that this will provide a more consistent year-on-year comparison. Any percentage changes impacted by extremes at either end of the data set will be explained in the supporting commentary.

CEO pay over the last 10 years (unaudited)

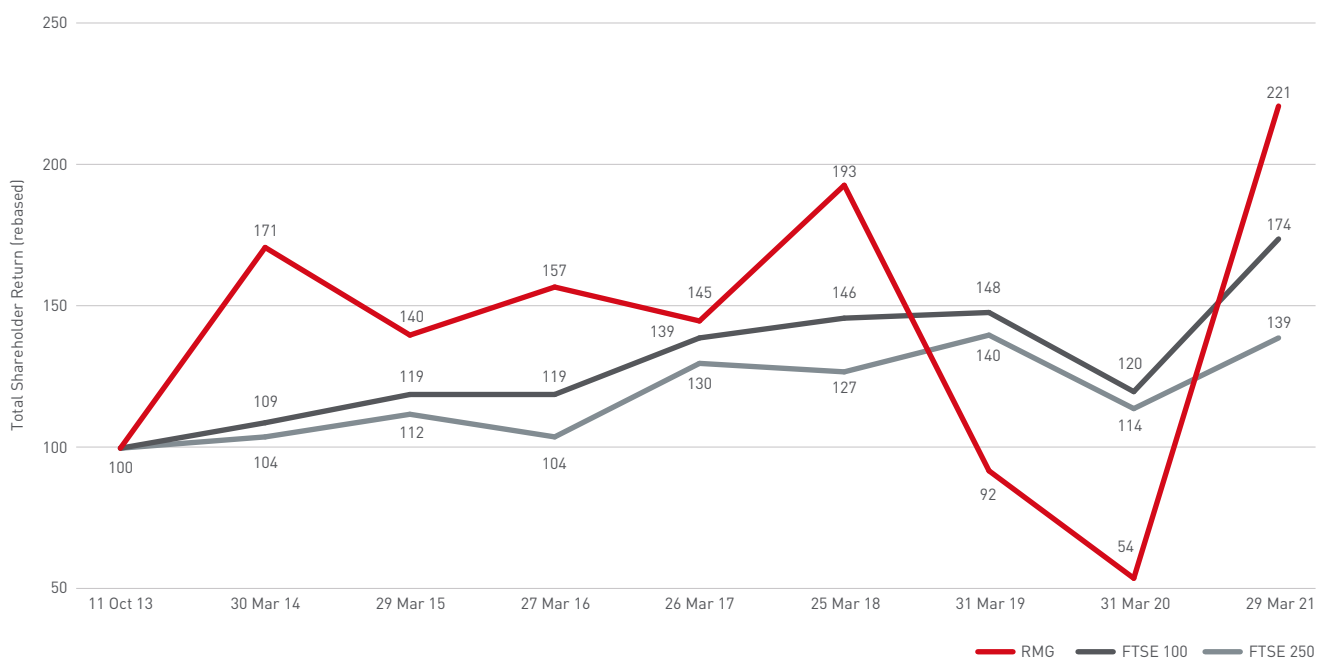
The total remuneration figure for the Group CEO over the last 10 years is shown in the table below. The STIP payout and the LTIP vesting level as a percentage of the maximum opportunity are also shown.

Chief Executive Officer	Financial year	Single figure of total remuneration (£'000)	STIP awarded as % of maximum	Royal Mail LTIP vesting as % of maximum
Rico Back		94	N/A	N/A
Stuart Simpson	2020-21	462	0%	0%
Simon Thompson		136	N/A	N/A
Rico Back	2019-20	868	0%	N/A
Moya Greene	2018-19	647	0%	0%
Rico Back		235	0%	0%
Moya Greene	2017-18	1,790	71%	43%
	2016-17	1,901	80%	46%
	2015-16	1,529	82%	59%
	2014-15	1,522	85%	69%
	2013-14	1,360	77%	100%
	2012-13	1,962	80%	100%
	2011-12	1,107	74%	-

TSR comparison (unaudited)

TSR is the measure of the returns that a company has generated for its shareholders, reflecting both movement in the share price and dividends, which are assumed to be reinvested over a period of time. The graph shows the TSR of the Company, since the date of the first day of trading, relative to both the FTSE 100 Index and the FTSE 250 Index. While the Company is currently part of the FTSE 250, the Company was a constituent of the FTSE 100 Index for part of the period, therefore both indices are shown for comparison.

TSR chart



Policy implementation in 2021-22 (unaudited)

The following tables set out how the Committee proposes to operate the Policy for Executive Directors next year.

Element	Implementation of Policy in 2021-22
Base salary	No change in approach. We will continue to review the salary of each Executive Director annually and will do the same in 2021-22. Current salaries: CEO Royal Mail (Simon Thompson) £525,000 CEO GLS (Martin Seidenberg) EUR580,000 Group CFO (Mick Jeavons) £420,000
Benefits	No change in approach to benefit provision for 2021-22.
Pension allowance	No change in approach and pension allowance remains 13.6% of salary. This is lower than the current employer contribution rate for the majority of the UK workforce (which is 15.6% of salary). However, it is in line with the anticipated contribution rate under the new Proposed Collective Pension Plan.
Short-Term Incentive Plan	No change in maximum STIP opportunity of 150% of salary, split between a cash award of up to 100% of salary and a deferred share award of up to 50% of salary. Target opportunity remains 75% of salary. A minimum of 75% of the targets shall be financial, based on the performance of the business for which the executive is responsible, with the remainder including robust operational KPIs and strategic objectives. The measures are set out below. Targets for these measures will be disclosed retrospectively in next year's Annual Report.
Long-Term Incentive Plan	No change in maximum award of 150% of salary. Awards are granted annually to Executive Directors in the form of a conditional share award. These will vest at the end of a three-year period subject to: <ul style="list-style-type: none"> – The Executive Director's continued employment at the date of vesting. – The satisfaction of the performance conditions. Threshold performance will equate to no more than 25% of the award vesting. The Committee wishes to ensure that any LTIP financial targets are set appropriately in the context of the outlook and progress towards the release of COVID-19 restrictions in the UK. Although the measures have been identified (see section below), the associated targets will be confirmed at the time of grant via stock exchange announcement. The grant of the 2021 LTIP awards is likely to be made no later than August 2021.
Shareholding guideline	200% of salary for Executive Directors. Post-cessation requirement: 200% of salary (or holding at the point of departure) to be held in granted shares for two years after leaving.

Incentive measures 2021-22

Following the changes to the Executive Director population, the Committee has reviewed the performance measures used for 2021-22 STIP and LTIP awards for each Executive Director to ensure that they are appropriate for either a Group, Royal Mail or GLS role. In practice this means there will be separate incentive scorecards for each of the Executive Directors, reflecting their areas of responsibility. Details of the measures and targets (where not considered commercially sensitive) set for 2021-22 awards are provided below.

2021-22 Short-Term Incentive Plan: measures and weightings

The 2021-22 scorecard reflects our strategic priorities. The targets are set annually by the Committee considering the relevant business' annual financial plan, strategy and its priorities for the next few years within the context of the economic environment. The Committee considers financial and operational targets to be commercially sensitive and that it would be detrimental to the Group's interests to disclose them before the end of the financial year. Financial measures make up 75% of each Executive Director's scorecard. Non-financial and strategic measures are assessed by the Committee using a combination of quantitative and qualitative assessment.

Measure	Weighting	Measure type	Targets
CEO Royal Mail – Simon Thompson			
Royal Mail UK operating profit	37.5%	Financial	Disclosed retrospectively.
Royal Mail UK revenue	37.5%	Financial	Disclosed retrospectively.
Health and safety	10.0%	ESG	Reduction in Total Accident Frequency Rate. Target to be disclosed retrospectively.
First Class Quality of Service	7.5%	ESG	Disclosed retrospectively.
Environment	7.5%	ESG	Committee assessment of: <ul style="list-style-type: none"> – Progress around defining and executing a strategy on the sustainable impact of our business. – In-year progress towards environment commitments (evidenced through progress against agreed Board emission targets).
CEO GLS – Martin Seidenberg			
GLS EBITA	75%	Financial	Disclosed retrospectively.
Health and safety	10%	ESG	Successfully develop and implement new health and safety programme across GLS.
Strategic priorities	15%	Strategic priority	Committee assessment of: <ul style="list-style-type: none"> – Satisfactory progress against the Accelerate GLS strategy in 2021-22. – Improvement in external perceived value of GLS (such as through a change in EBIT multiple). – Strengthening of governance standards within GLS.
Group CFO – Mick Jeavons			
Royal Mail UK operating profit	37.5%	Financial	Disclosed retrospectively.
GLS EBITA	37.5%	Financial	Disclosed retrospectively.
Health and safety	10%	ESG	Reduction in Total Accident Frequency Rate (Royal Mail). Target to be disclosed retrospectively.
Strategic priorities	15%	Strategic priority	Committee assessment of: <ul style="list-style-type: none"> – Progress against milestones relating to Royal Mail transformation. – Continuing to optimise financial management and reporting to drive benefits across the Group. – Effective management of Tax and Treasury across the Group including optimising benefits in relation to cash flow.

2021 Long-Term Incentive Plan (unaudited)

The measures that will apply to the 2021 LTIP awards are set out below. The specific targets that will apply to the financial measures are currently under review and will be set out in a stock exchange announcement at the time of grant.

For all elements of the award, threshold vesting will be 25% of the award.

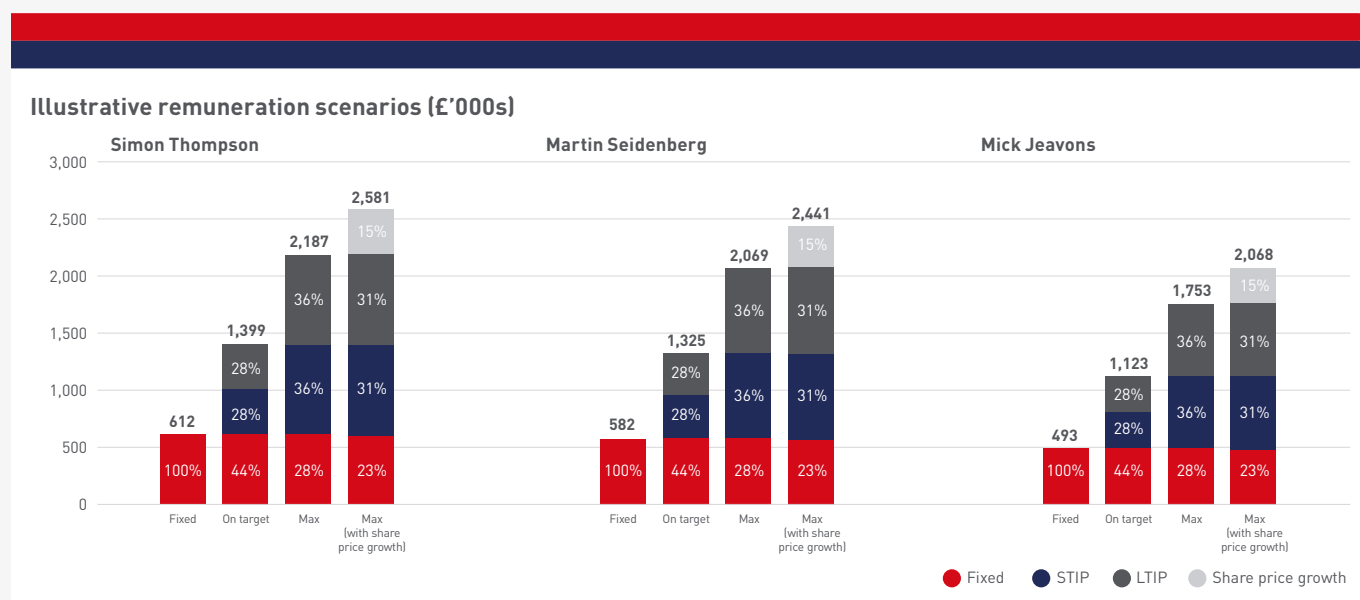
Measure	Simon Thompson (CEO Royal Mail)	Mick Jeavons (Group CFO)	Martin Seidenberg (CEO GLS)
Total Shareholder Return vs FTSE 51-150 (excluding mining and financials) comparator group ²	✓ (40%)	✓ (40%)	✓ (40%)
UK operating profit	✓ (40%)	✓ (20%)	
UK parcels revenue	✓ (20%)	✓ (10%)	
GLS EBITA		✓ (20%)	✓ (40%)
GLS cash flow		✓ (10%)	✓ (20%)
Total	100%	100%	100%

1. Figures in brackets indicate respective weighting.

2. TSR will be measured using a three-month averaging (at the start and end) over a three-year measurement period. Threshold vesting will occur for median ranked performance, rising on a straight-line basis to full vesting for upper quartile performance or above.

Remuneration scenarios under the Policy

The following charts set out the remuneration scenarios under the Policy for the Executive Directors in 2021-22. This includes an indication of maximum remuneration receivable assuming Company share price appreciation of 50% during the relevant performance period for LTIPs.

**Assumptions**

Fixed remuneration: Includes current salary, pension allowance at 13.6% and in the case of the Group CFO and CEO Royal Mail a benefits value of £15,400 and in the case of the CEO GLS a benefits value of EUR21,400.

On target: STIP is 75% of salary (including the deferred element) and LTIP is 75% of salary.

Maximum: STIP is 150% of salary (including the deferred element) and LTIP is 150% of salary under the Policy.

Maximum with 50% share price appreciation: The share price embedded in the LTIP calculation for the 'maximum with share price growth' bar chart is assumed to increase by 50% over the performance period.

No dividend equivalents on share-based incentives have been applied in any of the above scenarios.

Martin Seidenberg's remuneration converted using a rate of GBP1:EUR1.16986 for the purposes of this illustration.

Single figure table – Non-Executive Directors (audited)

£'000	Fees		Other		Total	
	2021	2020 ²	2021	2020	2021	2020
Keith Williams ¹	300	268	0	0	300	268
Maria da Cunha	65	51	0	0	65	51
Michael Findlay ³	75	61	0	0	75	61
Rita Griffin	64	65	0	0	64	65
Sarah Hogg ³	71	35	0	0	71	35
Lynne Peacock	75	31	0	0	75	31
Simon Thompson ⁴	50	71	0	0	50	71

1. Keith Williams' remuneration was unchanged during 2020-21 including for the period when he served as Interim Executive Chair.
2. With the exception of Rita Griffin and Simon Thompson, each of the Non-Executive Director fees in 2019-20 reflect a part year, i.e. they were appointed to the Board during 2019-20.
3. The fees in 2019-20 for Michael Findlay and Sarah Hogg have been restated from those shown last year as they were incorrectly stated last year.
4. Simon Thompson served as a Non-Executive Director until 10 January 2021 and his fees up until this point are shown in the table above.

Non-Executive Director fee levels (unaudited)

Non-Executive Directors are paid an annual fee and additional fees for being Chair or a member of Committees and, if appropriate, other additional time commitments. During 2020-21 the Chair of the Board did not receive any additional fees for membership of Committees. The fees remained unchanged during the year and are set out below.

Non-Executive Director fees

Chair of the Board	£300,000
Base fee	£50,000
Senior Independent Director	£10,000

Committee fees

	Chair	Membership
Audit & Risk Committee	£15,000	£6,000
Remuneration Committee	£15,000	£6,000
Nomination Committee	£0	£4,000
Corporate Responsibility Committee	£10,000	£5,000

Non-Executive Chair of the Board and Non-Executive Director terms of appointment (unaudited)

The Non-Executive Directors are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and reappointment. The fees for new Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment.

One month's notice to terminate the appointment is required by either party. The dates of the Non-Executive Chair of the Board's and Non-Executive Directors' letters of appointment are set out in the following table:

	Date of contract	Unexpired term at 28 March 2021 (months)
Keith Williams	22 March 2019	15
Maria da Cunha	6 June 2019	15
Michael Findlay	6 June 2019	15
Rita Griffin	8 June 2020	28
Sarah Hogg	9 Aug 2019	28
Lynne Peacock	16 September 2019	28

Keith Williams, as Non-Executive Chair of the Board, has a non-executive contract that can be terminated by four months' notice.

Non-Executive Director Policy implementation in 2021-22 (unaudited)

Effective 1 April 2021 the annual fees for the Corporate Responsibility Committee will increase from £10,000 to £15,000 (for the Chair) and from £5,000 to £6,000 (for Members). Additionally, a new annual fee of £10,000 will be introduced for being the Designated Non-Executive Director for engagement with the workforce.

Remuneration Committee (unaudited)

Remuneration Committee members and meetings

The members of the Committee and their attendance at meetings during the 2020-21 financial year is shown on page 109.

Role and focus of the Remuneration Committee

The Committee is responsible for recommending to the Board the Remuneration Policy for Executive Directors and senior management, and for setting the remuneration packages for Executive Directors and members of the respective GLS and Royal Mail Executive Boards.

Committee activities in the year	May	June	July	Oct	Feb	Mar
Directors' remuneration						
Review of the Directors' Remuneration Policy and implementation	✓	✓				
Review of fixed and variable remuneration		✓		✓	✓	
Senior management remuneration						
Contractual terms, recruitment and termination	✓	✓			✓	✓
Review of fixed and variable remuneration	✓	✓	✓			
All employee remuneration						
Group-wide discretionary incentives	✓	✓	✓	✓	✓	✓
Annual salary review approach						✓
Incentive performance measures, targets and outcomes	✓	✓		✓	✓	✓
Frontline reward (including recognition) in Royal Mail	✓	✓		✓		✓
Deep dives: GLS remuneration, Royal Mail pensions			✓	✓		
Reward policies and rules review	✓		✓	✓	✓	
Reward governance						
Review regulatory, investor and market developments	✓		✓	✓	✓	
Remuneration disclosure (such as DRR and gender pay gap)	✓	✓			✓	
Discuss shareholder feedback	✓		✓	✓		
Terms of Reference, Committee evaluation, advisers			✓	✓		✓

In addition, the Committee met in May 2021 to consider (and, where appropriate, approve):

- The draft Directors' Remuneration Report.
- Salary and fixed remuneration for senior executives.
- The extent to which any 2020-21 STIP performance measures had been satisfied, together with individual award levels.
- The measures and associated targets for both a) 2021-22 STIP and b) 2021 LTIP.

Specific priorities for the Committee in the forthcoming year, in addition to its usual scheduled activities, will include:

- Updates on the progress of the launch of the Collective Pension Plan in Royal Mail.
- Reviewing the ongoing alignment between the Group's incentives and any changes in the strategic priorities of GLS and Royal Mail.
- Further considering ESG measures in incentive plans: market practice among other listed companies and future use in Group plans.

Advice to the Remuneration Committee

The Committee takes information and advice from inside and outside the Company. Internal support was provided by the Chief HR Officer, the Director of Reward and Performance, and the Group General Counsel and Company Secretary, and other senior leadership as appropriate. No individual was present when matters relating to his or her own remuneration were discussed.

The Committee seeks advice from independent external advisers as appropriate. Deloitte was initially appointed in October 2018 following a competitive tendering process led by the Committee. Deloitte provided information to the Committee regarding external market trends and other Committee matters during 2020-21. The total fees paid to Deloitte in respect of this advice were £46,235 (2019-20: £91,700). Deloitte also provided tax, technology, internal audit, strategy and business consulting services to the Group during the financial year.

Deloitte is a signatory to the Remuneration Consultants Group Code of Conduct, was appointed by the Committee and reports directly to the Chair of the Committee. The Chair of the Committee meets regularly with advisers without management present. The Committee is satisfied that the advice it receives is objective and independent. There are no connections between Deloitte and individual directors to be disclosed.

Remuneration Committee evaluation

The Committee's performance was evaluated as part of the external evaluation of the Board's effectiveness which took place during the year (see page 97). The evaluation noted the refreshed Committee composition and that the new chairmanship was functioning well. Members of the Committee were all described as highly engaged and knowledgeable on the issue of remuneration.

The key priorities for 2021-22 are to:

- Continue to improve the quality of Committee papers.
- Focus the agenda around priorities identified by Committee members and schedule more discussions on future trends in the regulatory environment.
- Strengthen the insight on remuneration practices in key overseas markets.

Shareholder voting and consideration of shareholder views

We undertook substantial engagement with our shareholders in 2018-19 as part of the development of a new remuneration policy and then again in the run up to the 2020 AGM when we made proposed changes to the policy so that it could be administered effectively in light of the senior management changes announced in May 2020. We are grateful for the feedback and input received over the last 24 months. We were pleased with the strong positive vote received on both our Remuneration Policy and Report in 2020.

The table below shows both the advisory vote on the 2019-20 Remuneration Report at the AGM on 8 September 2020, and the vote on the Remuneration Policy, which was effective from the date of the 2020 AGM for up to three years.

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	641,361,501	99.09%	5,918,385	0.91%	647,279,886	48,806,675
Approval of Remuneration Policy	642,589,878	99.28%	4,659,090	0.72%	647,248,968	48,823,734

We remain committed to ongoing dialogue with our shareholders and taking into consideration shareholder views on our Policy and practices. The Committee Chair and Chair of the Board will continue to maintain contact as required with the Company's key shareholders about relevant remuneration issues.

Lynne Peacock
Chair of the Remuneration Committee
19 May 2021

Directors' Report

The Directors present their Report, together with audited Financial Statements for the year ended 28 March 2021.

This Directors' Report together with the Strategic Report on pages 1 to 81 form the Management Report for the basis of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R and DTR 4.1.8R.

Information incorporated by reference

The following information is incorporated in the Directors' Report by reference and can be found on the pages of this Annual Report as indicated in the table below in relation to Companies Act 2006 section 414C, The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations – Schedule 7:

	Pages
Business model	14 and 15
Strategy for delivering objectives	16 to 23
Results	56 to 81
Financial assets and liabilities	200 to 207
Principal risks	48 to 53
Corporate responsibility	28 to 41
Greenhouse gas emissions and energy reporting	38
Disabled employees	32 and 33
Our people	31 to 33
Diversity	32 and 33
Going concern and viability statement	55
Dividend	5
Corporate Governance Report	82 to 133
Future developments	16 to 23
Statement of Directors' Responsibilities	137
Employee share schemes	195 and 196
Research and development	8 and 9 19 and 20 38 and 39

Listing Rule 9.8.4R disclosures

The location of information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is as follows:

Statement of the amount of interest capitalised	190 and 194
Dividend waivers	134

Dividend waivers

The Trustee of the Royal Mail Share Incentive Plan will not receive any dividends (other than any special dividend declared by the Board) on Free Shares which it has not been possible to award to, or which have been forfeited by, participants in the plan.

Capital

Share capital

As at 28 March 2021, the Company's issued share capital comprised 1,000,000,000 ordinary shares of one penny each as set out in Note 25 to the accounts on page 209. Although a block listing of 5,000,000 shares was undertaken in November 2014, to date no new shares have been issued.

Subject to the Articles of Association (the Articles), any member may transfer all or any of their certificated shares by an instrument of transfer. The Board may decline to register a transfer of any share which is not fully paid.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. Subject to the Articles and any applicable legislation, ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings. A holder of ordinary shares is entitled to one vote per ordinary share held when a vote is taken on a poll.

Employees allocated Free Shares under the Free Shares Offer, or who participate in the Partnership and Matching Plan, whose shares are held in trust by the Trustee of the Royal Mail Share Incentive Plan, are entitled to exercise any voting rights in respect of such shares by instructing the Trustee how to vote on their behalf.

Authority of the Directors to allot shares

At the 2020 AGM, the Company acquired shareholder consent to allot ordinary shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to a maximum nominal amount of £6,666,666 (representing approximately two-thirds of the Company's issued share capital at that time), of which one half may be allotted or made the subject of rights in any circumstances and the other half may be allotted or made the subject of rights pursuant to a rights issue. As at the date of this Directors' Report, no new shares have been allotted pursuant to the 2020 allotment authority. The Directors will be seeking to renew this authority at the 2021 AGM, although the Company has no current plans to exercise such authority if given.

At the 2020 AGM, the Directors were also empowered to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis in connection with pre-emptive offers and, otherwise than in connection with such offers, up to a maximum aggregate nominal amount of £500,000 (representing approximately 5% of the Company's issued share capital at that time). The Directors were also given an additional power to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis up to a maximum aggregate nominal amount of £500,000 (representing approximately 5% of the Company's issued share capital at that time) for use in connection with acquisitions and/or specified capital investments. The Directors will be seeking to renew these powers at the 2021 AGM.

Purchase of own shares by the Company

At the 2020 AGM, the Company was authorised by its shareholders to purchase up to a maximum of 100,000,000 of its ordinary shares. This authority was valid at the end of the Company's financial year and will remain in place until the 2021 AGM when the Directors will seek a similar authority. During 2020-21 the Company has not utilised this authority to purchase any of its own shares.

Directors

Details of the current Directors are included on pages 86 and 87 and information about changes to the membership of the Board during the year is included on page 5.

Appointment and replacement of Directors

The Company's Articles provide that the Company may by ordinary resolution at a general meeting elect any person to act as a Director, provided that, if he or she has not been recommended by the Board, written notice of the proposed appointment is given to the Company in accordance with the Articles and that the Company receives written confirmation of that person's willingness to act as a Director. The Company's Articles also provide that the Board may at any time appoint as a Director any person who is willing to act as such. Unless the Company decides otherwise, the maximum number of Directors permitted is 15.

At every AGM, Directors are required to retire under the Articles if they have: (i) been appointed by the Board since the previous AGM; (ii) been in office at the last two AGMs, but did not retire at either; and (iii) held office with the Company (other than employment or executive office) for a continuous period of nine years or more at the date of the meeting.

Notwithstanding the requirements of the Articles, the Company's current practice is that all its Directors retire at every AGM in line with the recommendations of the Code. Directors who retire from office at the AGM are eligible for reappointment by the shareholders.

In addition to any power of removal conferred by the Companies Act 2006, the Company may by special resolution remove any Director before the expiration of his or her period of office and may (subject to the Articles) by ordinary resolution appoint another person who is willing to act as a Director in his or her place. The Articles also set out the circumstances in which a Director shall vacate office.

Directors' powers

The business of the Company is managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Articles, the Companies Act 2006 and any resolution of the Company.

Directors' interests

Details of the Directors' share interests, and where applicable their connected persons, are set out in the Directors' Remuneration Report on page 124.

Directors' and officers' insurance

The Company also maintains directors' and officers' liability insurance which is reviewed annually.

Substantial shareholding

As at 28 March 2021, the Company had been notified, in accordance with DTR 5, of the following interests amounting to 3% or more of the voting rights in the issued ordinary share capital of the Company.

Shareholder	Number of shares	% Voting rights
Vesa Equity Investment	150,046,143	15.00
Schroder Investment Management	92,668,373	9.2
RWC Partners	66,201,803	6.6
UBS Asset Management	60,235,232	6.0
BlackRock Inc.	51,701,446	5.1
Aberdeen Standard Investments	46,196,278	4.6
Vanguard Group	39,784,696	4.0
Columbia Threadneedle Investments	30,386,690	3.0

During the period between 28 March 2021 and 19 May 2021, being the latest practicable date prior to publication of this Annual Report, the Company received the following notifications in accordance with DTR 5.

Shareholder	Number of shares	% Voting rights
Vesa Equity Investment	156,064,377	15.6

Special rights

There are no persons holding securities that carry special rights with regard to the control of the Group.

Employee Benefit Trust (EBT)

As at 28 March 2021, a total of 572,816 shares (2019-20: 1,029,706 shares) were held by the EBT on behalf of the Company.

Change of control

The following agreements contain provisions permitting exercise of termination or other rights in the event of a change of control of the Company:

- The Mails Distribution Agreement with Post Office Limited provides for the supply of certain services to the Group and allows for a request for renegotiation of terms in the event of a change of control of either party where such change of control is likely to have a material adverse effect on the party not undergoing the change of control.
- The Syndicated Loan Facility with various financial institutions provides the Group with a revolving credit facility for general corporate and working capital purposes. The agreement contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender.

- The €500 million bond issued by the Company in July 2014 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.
- The €550 million bond issued by the Company in October 2019 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Stakeholders

Engagement with UK employees, suppliers and customers

Disclosure on how the Company communicates with its employees, encourages their involvement and achieves a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company is included on pages 26, 31 and 32 and 92 to 94.

Information on how the Company engages with its employees, customers and suppliers, how the Directors have regard to their interests, and the effect of that regard is set out on pages 24 and 25 and pages 92 to 94.

Payment practices

Our Responsible Procurement Code of Conduct sets out how we work with our suppliers and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Department for Business, Energy & Industrial Strategy's website. Information is published on a six-monthly basis.

ESG

Greenhouse gas emissions and energy reporting

Information regarding the Group's greenhouse gas emissions, energy consumption and energy efficiency action required to be disclosed in this Directors' Report can be found on pages 38 and 39.

Other disclosures

Company's Articles

The Articles may be amended by special resolution in accordance with the Companies Act 2006 and are available at www.royalmailgroup.com/en/about-us/governance/.

Branches

As a global Group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates and subject to the laws and regulations of the relevant jurisdictions in which they operate. Further information is included in Note 29 on page 212.

Political donations and expenditure

No form of political donation, or expenditure, was made during the year. The Company intends to continue this policy for the foreseeable future.

Financial instruments

The Group's financial risk management objectives and policies in relation to its financial instruments are summarised in Note 1 on page 164.

Post balance sheet events

There were no post balance sheet events to report in relation to 2020-21.

By Order of the Board

Mark Amsden

**Group General Counsel and Company Secretary
19 May 2021**

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

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework. In addition, the Group Financial Statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable, relevant and reliable.
- For the Group Financial Statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.
- For the Parent Company Financial Statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements.
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the auditor is unaware and that each Director has taken all reasonable steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Directors' Report and the Strategic Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer
19 May 2021

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Independent Auditor’s Report to the Members of Royal Mail plc

1 Our opinion is unmodified

We have audited the Financial Statements of Royal Mail plc (‘the Company’) for the 52 weeks ended 28 March 2021 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, Parent Company Statement of changes in equity, Parent Company balance sheet and the related notes, including the Group accounting policies in Note 1 on pages 154 to 166 and Parent Company accounting policies in Note 1 on page 218.

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 28 March 2021 and of the Group’s profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (‘ISAs (UK)’) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit and Risk Committee.

We were first appointed as auditor by the shareholders on 23 July 2015. The period of total uninterrupted engagement is for the six financial years ended 28 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group Financial Statements as a whole	£18 million (2019-20: £18 million) 4.1% of normalised Group profit before tax averaged over three years (2019-20: 7.5% of normalised Group profit before tax)
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Coverage	95.4% of the total of the profits and losses that made up Group profit before tax (2019-20: 98.0%)
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Risks of material misstatement vs 2019-20

Recurring risks		
Deferred revenue associated with advance customer payments arising from stamps sold	◀▶	
Valuation of certain unquoted pension scheme assets	◀▶	
Valuation of pension scheme liabilities	◀▶	
Recoverability of Parent Company’s investment in subsidiaries and debt due from group entities (Parent Company only)	▼	

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Group	The risk	Our response
<p>Deferred revenue associated with advance customer payments arising from stamps sold £218 million; (2019-20: £185 million) Refer to page 103 (Audit and Risk Committee Report), page 157 (accounting policy) and page 156 (financial disclosures).</p>	<p>Subjective estimate: Revenue is recognised on delivery of letters, not at the point stamps are sold to customers. There can be a considerable delay because stamps held by customers remain valid indefinitely. Therefore, the Group estimates the value of advance customer payments and defers revenue to reflect the value of services still to be performed.</p> <p>As the Group is currently unable to track individual stamps accurately, the calculation and methodology of the advanced customer payments balance is inherently subjective. The calculation is derived from a combination of data sources including ratios based on historic sales data and deferred revenue associated with advance customer payments arising from stamps sold, current sales and volumes trends. The results are challenged by a third-party survey to poll independently a sample of the UK population to assess the value of stamps held. The methodology provides a data range for the stamps in the hands of the public balance. COVID-19 has created unusual stamp buying and usage patterns which are considered by the Directors. The methodology allows for adjustments for unusual trends identified where deemed required.</p> <p>As part of our risk assessment, we determined that the stamps in the hands of the public balance has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount and could be subject to manipulation.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> - Methodology choice: We challenged the Group on the appropriateness of the methodology in place for performing the calculation, including benchmarking the approach against that taken by other global postal service providers. - Methodology implementation: We assessed whether the methodology had been correctly applied and we challenged the need for any adjustments through consideration of possible alternatives. - Independent re-performance: We tested the individual inputs used in the Group's calculation to check the accuracy of the balance. - Challenge of the outcome: We challenged the Group's estimate by generating a range of plausible outcomes using internal and external data sources, potential adjustments and alternative methods of calculating the estimate. With the support of KPMG statistical specialists, we assessed and evaluated the methodology used and recalculated the results produced by the Group's independent third-party specialist and compared the outcomes to assess the appropriateness of the estimate made. - Assessing transparency: We considered the adequacy of the Group's disclosures in respect of deferred revenue associated with advance customer payments arising from stamps sold, particularly in relation to the degree of estimation uncertainty. <p>Our results We found the estimate of deferred revenue to be acceptable (2019-20: acceptable).</p>

Group	The risk	Our response
<p>Valuation of certain unquoted pension scheme assets Refer to page 103 (Audit and Risk Committee Report), page 166 (accounting policy) and page 184 (financial disclosures).</p>	<p>Subjective valuation: Significant estimates are made in valuing certain unquoted pension schemes assets (which comprise properties, equity funds, mutual funds and private fixed income bonds), which are hard to value and make up a significant portion of unquoted pension scheme assets reported on page 184. Small changes in the estimates used to value these assets would have a significant effect on the financial position of the Group.</p> <p>As part of our risk assessment, we determined that the valuation of the unquoted pension scheme assets include a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> – Fund managers' credentials: We assessed the competence, independence and integrity of the Group's actuarial expert and third-party expert fund managers. – Tests of details: We obtained third party valuation confirmations directly from fund managers. We compared those confirmations with unaudited net asset value statements and tested the ability of fund managers to prepare accurate valuations by performing a retrospective review comparing a sample of the net asset value statements available during the year to audited Financial Statements. – Our property valuation expertise: We obtained third party valuations and used our internal valuation specialists to assess the valuation methodology and challenge key assumptions. – Assessing transparency: We considered the adequacy of the Group's unquoted plans' assets disclosures in respect of the accuracy of the asset split by category. <p>Our results We found the valuation of certain pension scheme assets as mentioned above to be acceptable (2019-20 result: acceptable).</p>

Group	The risk	Our response
<p>Valuation of pension scheme liabilities Royal Mail Pension Plan & Royal Mail Senior Executives Pension Plan Defined Benefit Obligation value: £8,139 million, Defined Benefit Cash Balance Scheme value: £1,586 million; (2019-20: Royal Mail Pension Plan & Royal Mail Senior Executives Pension Plan Defined Benefit Obligation value: £6,429 million, Defined Benefit Cash Balance Scheme value: £907 million) Refer to page 103 (Audit and Committee Report), page 166 (accounting policy) and page 181 (financial disclosures).</p>	<p>Subjective valuation: Significant estimates are made in valuing the Group's post retirement defined benefit plan obligations including in particular the discount rate, the inflation assumptions, mortality and pension increase assumptions.</p> <p>Small changes in the assumptions and estimates used to value the Group's pension obligations would have a significant effect on the financial position of the Group.</p> <p>As part of our risk assessment, we determined that the valuation of the Group's pension scheme liabilities include a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount. The Financial Statements (Note 11) disclose the sensitivity of the liabilities to key assumptions estimated by the Group.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> – Benchmarking assumptions: We challenged the key assumptions applied in the calculation of the liability, including the discount rate, inflation rate, mortality and pension increases with the support of our own actuarial specialists to compare key assumptions against market data. – Actuary's credentials: We assessed the competence, independence and integrity of the Group's actuarial expert. – Assessing transparency: We considered the adequacy of the Group's disclosures in respect of the sensitivity of the liability to key assumptions. <p>Our results We found the valuation of the pension obligation to be acceptable (2019-20 result: acceptable).</p>

Group	The risk	Our response
<p>Recoverability of Parent Company's investment in subsidiaries and debt due from Group entities (Parent Company only)</p> <p>Investments (£2,127 million; 2019-20: £2,122 million). Debt due from Group entities – £895 million; (2019-20: £935 million).</p> <p>Refer to page 103 (Audit and Risk Committee Report), page 218 (accounting policy) and page 219 (financial disclosures).</p>	<p>The risk:</p> <p>The carrying amount of the Parent Company's investments in subsidiaries and debt due from Group entities represents 100% (2019-20: 100%) of the Company's total assets.</p> <p>Their recoverability is not at a high risk of significant misstatement. However, due to their materiality in the context of the Parent Company Financial Statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.</p>	<p>We performed the tests below rather than seeking to rely on any of the Parent Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> – Tests of detail: Compared the carrying amount of 100% of investments with the relevant subsidiary's balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. – Assessing subsidiary audit: Assessing the audit work performed on the subsidiary balance sheet and considering the results of that work on the subsidiary's profit and net assets. – Comparing valuations: We compared the carrying amount of the Parent Company's investments to the Group's market capitalisation. <p>Our results</p> <p>We found the carrying amounts of investments and intercompany receivables to be acceptable (2019-20: acceptable).</p>

We continue to perform procedures over Carrying value of Royal Mail UK CGU. However, following improvements in the performance of the Group, primarily as a result of increased parcels revenue, cost reduction programmes, and resolution of recent disputes with its Unions, the risk of impairment of the Royal Mail UK CGU has reduced considerably. We have therefore not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

The accuracy of property lease accounting on transition to IFRS 16 was also reported as a key audit matter in the prior year. However, as the transition period has now ended, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

In the prior year, we reported a key audit matter in respect of going concern. We continue to perform procedures over Going concern. However, following the improvement in the performance of the Group, the projected cash flows prepared by the Directors indicate significantly improved headroom, and as such, we have not assessed this as one of the most significant risks in our current year audit, and it is therefore not separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group Financial Statements as a whole was set at £18 million (2019-20: £18 million).

Materiality is based on normalised profit before tax, averaged over the past three years. For the current year, profit before tax was normalised for the profit on disposal of property, plant and equipment. The item not included in the benchmark was subject to audit procedures by the Group team, and the quantum of this item is disclosed in Note 2 of the Financial Statements. The prior year materiality was based on profit before tax normalised to exclude the regulatory fine, the IFRS 2 charge for Employee Free Shares, the impairment charge in respect of Parcelforce Worldwide and the profit on disposal of property, plant and equipment. Materiality represents 4.1% of the normalised profit before tax measure, averaged over three years, of £437 million (2019-20: 7.5% of normalised PBT of £241 million). The significant increase in profits this year compared to the prior year has led to a reduction in the percentage of the benchmark that materiality represents.

Due to the volatility in the Group's results in recent financial years, as part of our materiality assessment we also considered the scale of the business, the level of judgement and precision within the Group's key accounting judgements, as well as how the level of materiality compares to other relevant benchmarks such as revenue, of which it represents

0.1% (2019-20: 0.2%) and total assets, of which it represents 0.2% (2019-20: 0.2%), where they provide more consistent measures year on year than Group profit before tax.

Materiality for the Parent Company Financial Statements as a whole was set at £3 million (2019-20: £3 million), determined with reference to a benchmark of Company net assets amounting to £2,084 million, of which it represents 0.1% (2019-20: £2,082 million and 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the Financial Statements as a whole.

Performance materiality for the Group and the Parent Company was set at 75% (2019-20: 75%) of materiality for the Financial Statements as a whole, which equates to £13.5 million (2019-20: £13.5 million) for the Group and £2.2 million (2019-20: £2.2 million) for the Parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.9 million, in addition to other identified misstatements that warranted reporting on qualitative grounds. In 2019-20 we reported to the Audit and Risk Committee corrected or uncorrected misstatements exceeding £4.5 million in respect of misstatements which relate solely to classification within the balance sheet, and £0.9 million in respect of all other misstatements, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 23 (2019-20: 24) reporting components, we subjected 4 (2019-20: 4) to full scope audits for Group purposes. The components within the scope of our work accounted for 99.7% of revenue (2019-20: 99.7%), 95.4% of the total of the profits and losses that made up Group profit before tax (2019-20: 98%), and 99.5% of total assets (2019-20: 99.8%). For the residual 19 components (2019-20: 20), we performed an analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £3 million to £15 million (2019-20: £3 million to £15 million), having regard to the mix of size and risk profile of the Group across the components.

On account of travel restrictions in place during the performance of the audit the Group team did not visit the component auditors and instead senior members of the Group audit team held regular video conference meetings with all in scope components. These meetings involved explanation of Group audit instructions, involvement in planning audit procedures, discussing progress updates and emerging findings, reviewing outcomes of testing performed and involvement in discussing audit findings

with component management. The Group audit team reviewed the audit documentation of component audits through various stages of their audits. The Group team also attended the component virtual clearance meetings. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 Going concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's available financial resources and EBITDA/net debt metrics relevant to debt covenants over this period were:

- the impact of the deteriorating economic and market conditions;
- increased competition in the UK parcels sector; and
- the pace of transformation in the UK business.

We also considered less predictable but realistic second order impacts, such as the potential outcome of the contingent liabilities and provisions related to regulatory investigations that could affect demand in the Group's markets.

We considered whether these risks could plausibly affect the liquidity and covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included:

- Critically assessing assumptions in the Directors' base case and severe but plausible downside scenarios relevant to liquidity and covenant metrics, comparing the forecasted operating levels and how these relate to both pre-COVID-19 and COVID-19 levels of performance.
- Comparing past budgets to actual results to assess the Directors' track record of budgeting accurately.
- Inspecting the confirmation from the lender of the level of committed financing, and the associated covenant requirements.
- We considered whether the going concern disclosure in Note 1 to the Financial Statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in Note 1 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in Note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 55 is materially consistent with the Financial Statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit and Risk Committee, Internal Audit and Risk Management, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee minutes.
- Considering remuneration incentive schemes (Royal Mail LTIP and Deferred Share Bonus Plan) and performance targets for Management and Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of Management override of controls, in particular the risk that Management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as deferred revenue in relation to advance customer payments.

On this audit our only fraud risk is in relation to advance customer payments. We do not believe there is a fraud risk related to other revenue streams because the low value, high volume nature of transactions reduces the opportunities for fraudulent activity.

We did not identify any additional fraud risks.

Further detail in respect of deferred revenue associated with advance customer payments arising from stamps sold is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on high risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance Management, those posted with unusual account combinations, those posted by unauthorised users and unusual journals posted to cash and borrowing accounts.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

We discussed with the Audit and Risk Committee and those charged with governance matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our general commercial and sector experience, and through discussion with the Directors and other Management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other Management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level and, a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the Financial Statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the Financial Statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Financial Statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Financial Statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety, anti-bribery and corruption, employment law, PCI compliance, money laundering, foreign corrupt practices, environmental protection, export control, consumer rights act, misrepresentation act, contract law, distance selling regulations, competition legislation and price fixing, and the postal services act as enforced by Ofcom, in recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other Management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

The Competition Act investigation is discussed in Note 6 and we have assessed the disclosures made against our understanding from legal correspondence to help us assess the related implications.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the Financial Statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on pages 54 and 55 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on pages 54 and 55 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the Financial Statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our Financial Statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the Financial Statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the Financial Statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and Financial Statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit and Risk Committee, including the significant issues that the Audit and Risk Committee considered in relation to the Financial Statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the Company. We have nothing to report in these respects.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 137, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

9 The purpose of our audit work and to whom we owe our responsibilities

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

Ian Griffiths (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

15 Canada Square
London
E14 5GL

19 May 2021

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	3	12,638	10,840
Operating costs ¹	4/5	(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 items²		618	217
Operating specific items			
Regulatory fine	6/24	(1)	(51)
Legacy/other items and impairments	6	13	(92)
Amortisation of intangible assets in acquisitions	6	(19)	(19)
Operating profit		611	55
Profit on disposal of property, plant and equipment (non-operating specific item) ²	6	36	89
Profit before interest and tax		647	144
Finance costs	7	(55)	(56)
Finance income	7	17	6
Net pension interest (non-operating specific item) ²	6/11	117	86
Profit before tax		726	180
Tax charge	8	(106)	(19)
Profit for the year		620	161
Earnings per share			
Basic	9	62.0p	16.1p
Diluted	9	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	11	660	(648)
Remeasurement (losses)/gains of the defined benefit surplus in RMPP and RMSEPP	11(c)	(1,998)	1,773
Remeasurement losses of the defined benefit deficit in DBCBS	11(d)	(136)	(3)
Deferred tax associated with DBCBS	8	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	8	(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	12	3,007	3,120
Goodwill	14	378	390
Intangible assets	15	468	558
Investments in associates	16	5	5
Financial assets			
Pension escrow investments	23	212	201
Derivatives	23	5	–
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	11	2,389	3,614
Other receivables	19	100	12
Deferred tax assets	8	153	110
		6,717	8,010
Assets held for sale	18	26	25
Current assets			
Inventories		18	19
Trade and other receivables	19/23	1,640	1,282
Income tax receivable		9	6
Financial assets			
Investments	23	–	30
Derivatives	23	2	5
Cash and cash equivalents	20/23	1,573	1,640
		3,242	2,982
Total assets		9,985	11,017
Current liabilities			
Trade and other payables	21/23	(2,377)	(2,041)
Financial liabilities			
Interest-bearing loans and borrowings	22/23	–	(700)
Lease liabilities	13/23	(197)	(201)
Derivatives	23	(12)	(35)
Income tax payable		(15)	(5)
Provisions	24	(124)	(113)
		(2,725)	(3,095)

	Notes	Reported at 28 March 2021 £m	Reported at 29 March 2020 £m
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	22/23	(895)	(935)
Lease liabilities	13/23	(959)	(987)
Derivatives	23	(36)	(32)
DBCBS retirement benefit deficit	11	(394)	(177)
Provisions	24	(105)	(112)
Other payables		(18)	(4)
Deferred tax liabilities	8	(48)	(54)
		(2,455)	(2,301)
Total liabilities		(5,180)	(5,396)
Net assets		4,805	5,621
Equity			
Share capital	25	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 (see Note 17)					
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 (see Note 17)					
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.

A description of the reserves in the above table is included in Note 25.

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	11	(117)	(86)
Net finance costs	7	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 items¹		618	217
Adjustment for:			
Depreciation and amortisation	12/15	554	516
EBITDA before specific items¹		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	11	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	7	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

	Notes	Reported 52 weeks 2021 £m	Reported 52 weeks 2020 £m
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	10	–	(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	20	1,640	236
Cash and cash equivalents at the end of the year	20	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 and accounting policies

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.

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 for the 52 weeks ended 28 March 2021 were authorised for issue by the Board on 19 May 2021.

Basis of preparation and accounting

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

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.

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 on pages 75-81.

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 Annual 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 on page 54.

1. Basis of preparation and accounting policies (continued)

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.

1. Basis of preparation and accounting policies (continued)

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 11.

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 11.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 21).

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:

1. Basis of preparation and accounting policies (continued)

- 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 a 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 (see Note 6).

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 24.

Accounting policies

Revenue

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

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

In some cases, payment for services may be received in advance for a service that is due to be performed over a longer period of time, for example a 12-month redirection service. In these cases, the payment is initially recognised on the balance sheet as a contract liability (deferred revenue), with revenue recognised on a straight-line basis over the life of the contract, in line with the performance of the service.

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

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

Further details of the major revenue streams in each operating segment are provided below:

1. Basis of preparation and accounting policies (continued)**Royal Mail**

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

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

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

General Logistics Systems (GLS)

Revenue is derived from specific parcel contracts and is recognised when the delivery of an item is complete.

People costs

These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs. These costs are disclosed separately on the face of the income statement.

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers, Parcelforce Worldwide delivery operators and GLS subcontractor costs. These costs are disclosed separately on the face of the income statement.

Infrastructure costs

These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation/amortisation, IT and property facilities management costs. These costs are disclosed separately on the face of the income statement.

Other operating costs

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

Pension charge to cash difference adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge rate of 19.5% (2019-20: 20.8%) for the DBCBS and the actual cash payments agreed with the Trustee of 15.6%. Management is of the view that this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group (see Note 6 and Note 11).

Operating specific items

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

Regulatory fine

In view of the Competition Appeal Tribunal judgement of 12 November 2019, a provision has been recognised in the Financial Statements for a fine of £50 million and associated interest (see Note 6 and Note 24).

Employee Free Shares charge

This relates to accounting charges arising from the granting of free shares to employees (SIP 2016) upon the Government's sale of its stake in the business. This has no direct cash impact on the Group.

Impairment of assets

These costs relate to impairment of a business or CGU (Parcelforce Worldwide in the prior reporting year); goodwill; or specific assets.

Legacy/other items

Legacy items are unavoidable ongoing costs arising from historical events (e.g. industrial diseases provision). Other items include miscellaneous costs e.g. ad-hoc restructuring or credits.

1. Basis of preparation and accounting policies (continued)

Amortisation of intangible assets in acquisitions

These charges, which arise as a direct consequence of the application of IFRS 3 'Business Combinations', are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

Non-operating specific items

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

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

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

Net pension interest

Management separately identifies pension interest income as this is not part of the Group's trading activity and is driven primarily by actuarial calculations.

Share-based payments

The Group operates a number of equity-settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the HMRC approved (Employee Free Shares) Share Incentive Plan (SIP). The scheme is based on non-market conditions and does not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long-Term Incentive Plans vest based on a combination of non-market and market conditions. Share-based payments awarded as part of the Deferred Share Bonus Plan is a deferred share award, granted to Executive Directors at the end of the annual performance period, the grant being of equal value to the Annual Bonus, and subject to continued employment over a three year vesting period. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of each award is measured with reference to the share price upon issue and using the Monte-Carlo simulation model where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest.

The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Income tax and deferred tax

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

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

- Initial recognition of goodwill.
- Initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit and loss.
- Taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

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

Where tax returns remain subject to audit with the relevant tax authorities in the various jurisdictions in which the Group operates, a provision is made for uncertain tax items where the agreed amount could differ materially from Management's estimates. Any such provisions are included within the relevant current and deferred tax carrying amount.

1. Basis of preparation and accounting policies (continued)

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

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

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

Earnings per share (EPS)

Basic EPS from continuing operations is calculated by dividing the profit/loss from continuing operations by the weighted average number of ordinary shares in issue.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares arising from share-based payment schemes. These potential shares are treated as dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations.

Cash Generating Units (CGUs) of the Group

The Group consists of a number of CGUs, each possessing largely independent cash inflows. The UK network, through which millions of letters and parcels pass each day is considered by Management to comprise two separate CGUs due to their distinct, individually identifiable cash flows. These CGUs for impairment testing purposes are Royal Mail excluding Parcelforce Worldwide and Parcelforce Worldwide. Certain other non-core entities are considered to be separate CGUs, albeit these are not material at a Group level.

In GLS, Management consider each country's operations to represent a separate CGU. In relation to the testing of goodwill for impairment however, the operating and financial synergies arising on new business combinations within the GLS group are felt by Management to primarily benefit contiguous parts of the GLS network. For this reason, goodwill arising on new business acquisitions is allocated to one of the four major networks designated as CGUs i.e. mainland Europe, Mountain Valley Express (MVE), US excluding MVE, and Canada.

Impairment test for goodwill and CGUs

In assessing whether there has been an impairment of goodwill, a CGU or in some instances a specific asset, Management determines whether the carrying value is higher than the recoverable amount. The recoverable amount is the higher of a CGU or asset's fair value less costs to sell (realisable value) and value in use. The value in use of the CGU/asset is calculated based on its discounted cash flows. Details of the impairment review of the GLS CGUs are included in Note 14.

Royal Mail excluding Parcelforce Worldwide CGU

At 28 March 2021 the carrying value of this CGU was £1,174 million (2019-20: £1,313 million). The CGU has been assessed for impairment by comparing the carrying value of the CGU to its recoverable amount, assessed as being the 'value in use.' The value in use has been calculated based on the Board's three-year forecast free cash flows, with the assumption that the subsequent years will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of 0.5% (2019-20: nil).

The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU. The Group has conducted sensitivity analysis on the impairment test for each of the key assumptions. This did not identify any plausible outcomes that would require the CGU to be impaired.

Parcelforce Worldwide CGU

As a result of delays in the transformation of the Parcelforce Worldwide business, an impairment review of the Parcelforce Worldwide CGU was undertaken during the prior reporting period. This review identified that the carrying value of the CGU was in excess of its recoverable amount which resulted in all non-monetary assets being written off and a £91 million impairment charge being reported as a specific item within the Royal Mail segment. In the current reporting period Management considers that it is not appropriate to reverse the impairment charge, as the business has still to establish a sustainable financial performance.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing an operating unit that offers different products and serves largely different markets.

The Board monitors the operating results of its main operating units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the 'operating profit before specific items' measure.

1. Basis of preparation and accounting policies (continued)

The reportable operating segments are made up of business units based in the UK - within the Royal Mail segment, along with other parts of mainland Europe, the US and Canada which are the constituent parts of the GLS segment. There is no aggregation of operating segments.

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

There are no differences in the measurement of the respective segments' profit/loss and the Consolidated Financial Statements prepared under IFRS.

Property, plant and equipment

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

The lives assigned to major categories of property, plant and equipment are:

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement (non-operating specific item) in the year that the asset is derecognised.

Gains or losses from the disposal of assets are recognised in the income statement at the point that all significant risks and rewards of ownership are transferred.

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of such impairment reviews, goodwill is allocated to the relevant CGUs, or groups of CGUs, which are expected to benefit from synergies of the combination.

A goodwill impairment loss is recognised in the income statement for the amount by which the carrying value of the related CGU, or group of CGUs, exceeds the recoverable amount, which is the higher of a CGU's net realisable value and its value in use. Goodwill arising on the acquisition of equity-accounted entities is included in the cost of those entities and therefore not reported on the balance sheet as goodwill.

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have a finite useful life, with key strategic assets generally having the longest lives. Those assets with a finite life are amortised over their useful life but are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Development costs capitalised and included as an asset within the Financial Statements have not been treated as a realised loss for the purpose of determining distributable reserves.

1. Basis of preparation and accounting policies (continued)

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

Customer listings	3 to 10 years
Software	3 to 10 years
Brands	1 to 3 years

Investments in associates

The Group's investments in its associate companies are accounted for under the equity method of accounting. Under the equity method, an investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value. The income statement reflects the Group's share of annual post-tax profits from the associates (currently netted off other operating costs as the values are not material enough for separate disclosure).

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared with the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Borrowing costs

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

Non-current assets held for sale

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

Leases

Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IFRS 16, the Group recognises a right of use asset and a lease liability at the lease commencement date for the majority of leases.

The right of use asset is measured initially at cost and is subsequently adjusted for any accumulated depreciation, impairment losses or certain remeasurements of the lease liability.

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate incremental borrowing rate (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. Lease interest is shown within finance costs in the statement of cash flows. The lease liability may also be remeasured where there are changes in future lease payments or changes in the assessment of future extension or termination options.

The Group has elected to apply the exemption from recognising leases for low value assets in line with existing Group policy, or short-term leases (with a lease term of under 12 months) on the balance sheet. The Group continues to recognise lease expenses for these assets on a straight-line basis in the income statement over the lease term.

Where possible, the Group allocates the consideration in each contract between any lease and non-lease components, however, where this is not possible the Group has elected to apply the practical expedient of including all of the contract costs in the calculation of the lease asset and liability recognised as a single lease component.

The Group has lease break options in place for a majority of its property lease agreements. These options provide the Group with greater flexibility in managing the UK estate. These break options have in the main, historically, not been exercised due to ongoing operational requirements. Management have therefore made the decision that the reasonably certain length of the lease is the full lease term, assuming the break option will not be exercised. The only material exceptions to this policy in the reporting year relate to two leases where Royal Mail is reasonably certain that it will enact the break and the leases have therefore been recognised to the break date only. The unrecognised non-discounted cash flows in relation to these leases are £15 million (2019-20: £nil).

The Group adopts a practice of not including extension options in its leases. Where such clauses exist, they are not material.

1. Basis of preparation and accounting policies (continued)

IFRS 16 – incremental borrowing rates (IBR)

The rate inherent in the lease is not readily determinable for the majority of leases previously classed as operating leases under IAS 17 and so an IBR is used. These leases primarily relate to property and motor vehicles.

The IBR is the rate of interest that a lessee would have to pay to borrow, over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

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

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

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

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

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. This loss allowance is calculated by first creating an allowance for identified trade receivables where collection of the full amount is no longer probable, and then applying lifetime expected credit loss (ECL) rates to the remaining unprovided balance. ECL rates have been set by ageing category based on historical loss rates, with adjustments made to reflect forward-looking information where material. In the current year and prior year, considerations around COVID-19 and the macroeconomic situation has resulted in an increase to expected credit losses above our standard provisioning rate.

	2020-21 %	2019-20 %
Not yet overdue	0.10	0.08
Past due not more than one month	1.88	1.86
Past due more than one month and not more than two months	16.55	18.2
Past due more than two months	73.13	75.13

Movements in the loss allowance are recognised in the income statement within other operating costs. At the point that a debt is considered unrecoverable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in the income statement.

Inventories

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

Trade payables

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

The Group operates a supply chain finance arrangement for small and medium suppliers. This form of reverse financing allows suppliers to obtain early access to funding. Suppliers may choose to access payment as soon as their invoices are processed rather than the standard payment terms by paying a financing fee to the scheme provider. The Group pays the provider of the scheme on the due date of the invoices. This scheme does not therefore assist the Group in the management of working capital.

As the scheme has not led to a substantial modification in the terms of the financial liability, the Group continues to treat the amounts owed within trade payables. All cash flows associated with the programme are included within operating cash flows as they continue to be part of the normal operating cycle of the Group. There is no impact on net debt, as amounts owed continue to be reported within trade payables.

The balance owed on the facility at 28 March 2021 was £36 million (29 March 2020: £35 million).

1. Basis of preparation and accounting policies (continued)

Capital management

The Group has established four key objectives for capital management. Details of these objectives are included in the Financial Review.

Financial instruments

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

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at FVTPL, any directly attributable transactional costs. The Group only has financial assets and liabilities measured at amortised cost and derivative assets and liabilities measured at FVTPL, if they are not part of an effective hedge designation.

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

Financial assets measured at amortised cost

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

Financial liabilities measured at amortised cost

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group invests surplus cash in money market funds which hold baskets of cash, cash equivalent and high-credit-rating debt-based securities with short term maturity. These funds are highly liquid and investments can be redeemed either the same day or within a week, so are categorised as cash equivalents on the basis they are a readily available source of cash. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Money market funds are designated as FVTPL, all other cash equivalents are classified as financial assets at amortised cost.

Financial assets – pension escrow investments

Pension escrow investments comprise a Royal Mail Senior Executives Pension Plan money market fund investment and a Royal Mail Pension Plan money market fund investment.

Financial assets – other investments

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

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost. The €500 million and €550 million bonds are measured at amortised cost in Euro and converted to Sterling at the closing spot Sterling/Euro exchange rate.

Derivative financial instruments and hedging programmes

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

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

1. Basis of preparation and accounting policies (continued)

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

Derivatives that do not qualify for hedge accounting are classified as FVTPL and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. Derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement'.

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

Fair value measurement of financial instruments

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

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

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

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

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

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

The Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting year. For the purposes of disclosing the Level 2 fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date. For the €500 million bond, the disclosed fair value is calculated as the closing market bond price converted to Sterling using the closing spot Sterling/Euro exchange rate.

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

Provisions

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

Contingent liabilities

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

Dividends

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

1. Basis of preparation and accounting policies (continued)

Pensions and other post-retirement benefits

Defined benefit pension plan assets are measured at fair value. Listed securities are valued at bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted. Unquoted securities and other pooled investment vehicles are valued using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued using the latest external Royal Institute of Chartered Surveyors (RICS) valuations (under 'Red Book' guidelines) adjusted for any capital expenditure and impairments since that valuation. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions.

Where the economic benefit to be obtained is in the form of a refund, this is recognised less tax expense, in line with IFRIC 14. The Group considers this tax to be a tax other than income tax, i.e. 'withholding tax', and the pension surplus is presented net of this tax on the balance sheet.

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

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

For defined contribution plans, the Group's contributions are charged to operating profit (within people costs) in the year to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Foreign currencies

The functional and presentational currency of Royal Mail plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€), in the US it is the Dollar (US\$) and in Canada it is the Canadian Dollar (CAD).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting year, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRS, are taken directly to the foreign currency translation reserve in equity.

Foreign currency exchange differences arising from translation of the €500 million bond and the Euro-denominated leases (designated as hedges of the net investment in GLS) to closing Sterling/Euro exchange rates are deferred to the foreign currency translation reserve in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss only if GLS was sold.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling during the month of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently, hedge accounting is not claimed for any monetary assets and liabilities except the €550 million bond which is hedged by a cross-currency swap. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

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

2. Segment information

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

A key measure of segment performance is operating profit before specific items. This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see 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
	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	
Continuing operations							
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.

2. Segment information (continued)

52 weeks 2020	Adjusted			Group £m	Specific items, and pension adjustment in people costs		Reported Group £m
	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Eliminations ¹ £m		Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	
Continuing operations							
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. Revenue

	Royal Mail £m	GLS £m	Intragroup revenue ¹ £m	Group £m
52 weeks 2021				
Parcels	5,131	4,040	(51)	9,120
Letters and other revenue	3,111	-	-	3,111
Advertising Mail	407	-	-	407
Total	8,649	4,040	(51)	12,638
52 weeks 2020				
Parcels	3,699	3,161	(41)	6,819
Letters and other revenue	3,409	-	-	3,409
Advertising Mail	612	-	-	612
Total	7,720	3,161	(41)	10,840

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

During the year, around £290 million (2019-20: £290 million) of revenue was recognised which was previously held as a deferred revenue balance at 29 March 2020 (2019-20: 31 March 2019). This balance largely relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' (see Note 21).

4. Operating costs

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

	52 weeks 2021 £m	52 weeks 2020 £m
People costs (see Note 5)	(6,554)	(6,064)
Distribution and conveyance costs		
Charges from overseas postal administrations	(343)	(361)
Fuel costs	(202)	(183)
Infrastructure costs		
Depreciation, amortisation and impairment	(554)	(516)
Charge for property, plant and equipment (see Note 12)	(432)	(412)
Charge for intangible assets (see Note 15) ¹	(122)	(104)

¹ Excludes £19 million (2019-20: £19 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

Other operating costs

Post Office Limited charges	(405)	(351)
Inventory expensed	(53)	(41)

Regulatory body costs

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

	52 weeks 2021 £m	52 weeks 2020 £m
Ofcom administrative charge	(5)	(5)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	(1)	(1)
Total	(6)	(6)

Auditor's fees

	52 weeks 2021 £000	52 weeks 2020 £000
Auditor's fees		
Audit of Group statutory Financial Statements	(1,318)	(1,247)
Other fees to auditor:		
Audit of the accounts of subsidiaries	(1,510)	(1,453)
Review of the interim financial information	(240)	(219)
Regulatory audit	(131)	(128)
Other assurance	(11)	(100)
Total	(3,210)	(3,147)

The 2020-21 fees relate to the services of the Group's appointed auditor KPMG LLP. In addition to the above amounts, KPMG LLP was paid by the respective Trustees £107,500 for the audit of the Royal Mail Pension Plan (2019-20: £102,500) and £30,000 for the audit of the Royal Mail Defined Contribution Plan (2019-20: £29,000).

5. People information

	52 weeks 2021 £m	52 weeks 2020 £m
Wages and salaries	(5,363)	(4,904)
Royal Mail ¹	(4,605)	(4,267)
GLS	(758)	(637)
Pensions (see Note 11)	(683)	(679)
Defined benefit UK	(369)	(397)
Defined contribution UK	(111)	(97)
Defined benefit and defined contribution Pension Salary Exchange (PSE) UK	(194)	(178)
GLS	(9)	(7)
Social security	(508)	(481)
Royal Mail	(424)	(403)
GLS	(84)	(78)
Total people costs	(6,554)	(6,064)

1 People costs include £109 million (2019-20: £28 million) in relation to voluntary redundancy costs, including £93 million for the management restructure.

Defined benefit pension plan rates:

Income statement – DBCBS	19.5%	20.8%
Cash flow – DBCBS	15.6%	15.6%

Defined contribution pension plan average rate:

Income statement and cash flow ²	9.3%	8.6%
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2 Employer contribution rates are 3% for employees in the entry level category and 10% for the majority of those in the standard level category.

People numbers

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

	Full-time equivalents (FTEs) ³				Headcount ⁴			
	Year end		Average		Year end		Average	
	52 weeks 2021	Restated ⁵ 52 weeks 2020	52 weeks 2021	Restated ⁵ 52 weeks 2020	52 weeks 2021	52 weeks 2020	52 weeks 2021	52 weeks 2020
Royal Mail	159,403	148,397	158,194	150,669	137,285	141,466	138,949	142,444
GLS	17,644	15,818	16,618	15,503	21,307	19,306	20,245	19,191
Total	177,047	164,215	174,812	166,172	158,592	160,772	159,194	161,635

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

4 These people numbers are based on permanent employees.

5 The comparative period has been restated to reflect the changes in how FTEs have been calculated. FTE figures now include commercial hours relating to an internal courier business, other staff overtime and scheduled attendance. Administrative FTE working weeks are considered to be 39 hours rather than the 38 in the prior year.

Directors' remuneration

	52 weeks 2021 £000	52 weeks 2020 £000
Directors' remuneration ⁶	(1,503)	(1,964)
Amounts earned under Long-Term Incentive Plans	–	(91)
Number of Directors accruing benefits under defined contribution plans	2	1

6 These amounts include any cash supplements received in lieu of pension, details of the pension contributions are included in the single figure tables of the Directors' Remuneration Report on page 122. The highest paid Director details are included in the single figure tables of the Directors' Remuneration Report on page 122.

6. Specific items and pension charge to cash difference adjustment

	52 weeks 2021 £m	52 weeks 2020 £m
Pension charge to cash difference adjustment (within People costs)	(84)	(108)
Operating specific items:		
Impairment of assets	–	(91)
Legacy/other items	13	(1)
Regulatory fine	(1)	(51)
Amortisation of intangible assets in acquisitions	(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	146	13
Tax credit on certain specific items and the pension charge to cash difference	37	60

The difference between the pension charge and cash cost (pension charge to cash difference adjustment) largely comprises the difference between the IAS 19 income statement pension charge rate of 19.5% (2019-20: 20.8%) of pensionable pay for the Defined Benefit Cash Balance Scheme (DBCBS) from 30 March 2020 and the actual employer cash payments agreed with the Trustee of 15.6%.

Legacy/other items mainly comprise a £16 million release (2019-20: £2 million charge) of the industrial diseases provision, following the publication of guidance on future asbestos-related ill-health claims by the Institute and Faculty of Actuaries (UK Asbestos Working Party (AWP)) in February 2021 (see Note 24 for further details).

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.

The profit on disposal of property, plant and equipment includes £29 million from the disposal of part of the Mount Pleasant site to Taylor Wimpey UK Ltd in March 2021. The remaining £7 million mainly relates to the disposal of plots at the Nine Elms site.

7. Net finance costs

	52 weeks 2021 £m	52 weeks 2020 £m
Unwinding of discount relating to industrial diseases claims provision	(1)	(2)
Other interest payable	(54)	(54)
Bank syndicate loan facility		
Loans and borrowings	(3)	–
Unused facility fees	(1)	(1)
Arrangement fees	(2)	(2)
€500 million and €550 million bonds	(17)	(14)
Interest rate swap costs on €550 million bond	(7)	(3)
Leases	(26)	(30)
Loss on RMPP pension escrow investments	–	(6)
Capitalisation of borrowing costs on specific qualifying assets	4	4
Other finance costs	(2)	(2)
Total finance costs	(55)	(56)
Total finance income – interest receivable on financial assets	17	6
Total net finance costs	(38)	(50)

8. 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

8. Taxation (continued)

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)

8. Taxation (continued)**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

8. Taxation (continued)

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

8. Taxation (continued)

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.

9. 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 on page 62.

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. These plans are for certain senior management and are disclosed in more detail in Note 17.

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 (see Note 25). The Company, however, does not hold any shares in treasury.

10. Dividends

	52 weeks 2021 Pence per share	52 weeks 2020 Pence per share	52 weeks 2021 £m	52 weeks 2020 £m
Dividends on ordinary shares				
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).

11. 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.

11. Retirement benefit plans (continued)**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. See Note 23 to the Financial Statements for further details.

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.

11. Retirement benefit plans (continued)

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 2021⁵.

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 (11(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 plans⁸	(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.

11. Retirement benefit plans (continued)

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.

11. Retirement benefit plans (continued)

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:

Key assumption change	At 28 March 2021		At 29 March 2020	
	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	–

11. Retirement benefit plans (continued)

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. The discount rate and RPI sensitivities are calculated using the mean term of the relevant section to derive the impact of a 0.1% change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 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).

11. Retirement benefit plans (continued)

Risk exposure and investment strategy

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

Investment market movements	<p>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.</p> <p>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.</p>
Interest rates and inflation changes	<p>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.</p> <p>The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than the RMPP.</p> <p>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.</p>
Equity exposure	<p>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.</p> <p>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).</p>
Changes in life expectancy	<p>The RMPP's liabilities are impacted by longer than expected life expectancy, resulting in higher than expected payout levels.</p> <p>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.</p>
Changes in corporate and Government bond yields	<p>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.</p> <p>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.</p>

11. Retirement benefit plans (continued)

Change in estimates (IAS 8)	<p>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.</p> <p>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.</p> <p>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 of 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.</p> <p>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.</p>
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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.

11. Retirement benefit plans (continued)

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

Changes in the value of the defined benefit pension liabilities, 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.

11. Retirement benefit plans (continued)**d) Movement in DBCBS assets, liabilities and net position**

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit deficit 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).

12. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 30 March 2020	4,188	1,257	921	439	6,805
Exchange rate movements	(40)	(16)	(7)	(8)	(71)
Reclassification	(1)	3	2	(3)	1
Modifications	52	1	19	–	72
Additions	202	103	99	33	437
Disposals	(149)	(66)	(43)	(38)	(296)
Reclassification to non-current assets held for sale	(10)	(4)	–	–	(14)
At 28 March 2021	4,242	1,278	991	423	6,934
Depreciation and impairment					
At 30 March 2020	2,034	897	412	342	3,685
Exchange rate movements	(13)	(8)	(3)	(6)	(30)
Modifications	5	–	–	–	5
Charge for the year	218	85	95	34	432
Disposals	(22)	(65)	(39)	(37)	(163)
Reclassification to non-current assets held for sale	–	(2)	–	–	(2)
At 28 March 2021	2,222	907	465	333	3,927
Net book value					
At 28 March 2021	2,020	371	526	90	3,007
At 29 March 2020	2,154	360	509	97	3,120

12. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 31 March 2019	3,008	1,180	763	424	5,375
Adoption of IFRS 16	944	14	83	4	1,045
At 1 April 2019	3,952	1,194	846	428	6,420
Exchange rate movements	23	7	2	5	37
Reclassification ¹	3	9	–	(2)	10
Modifications	15	2	–	–	17
Additions	234	63	126	26	449
Disposals ²	(18)	(19)	(61)	(18)	(116)
Acquisition of business	8	1	8	–	17
Reclassification to non-current assets held for sale	(29)	–	–	–	(29)
At 29 March 2020	4,188	1,257	921	439	6,805
Depreciation and impairment					
At 31 March 2019	1,800	815	377	317	3,309
At 1 April 2019	1,800	815	377	317	3,309
Exchange rate movements	5	4	2	4	15
Reclassification	2	(2)	–	–	–
Charge for the year	213	78	88	33	412
Impairment ³	34	18	–	6	58
Disposals ²	(17)	(16)	(55)	(18)	(106)
Reclassification to non-current assets held for sale	(3)	–	–	–	(3)
At 29 March 2020	2,034	897	412	342	3,685

1 Includes a £10 million balance sheet reclassification from inventories to plant and machinery.

2 Includes £31 million relating to the clear-down of balances relating to certain GLS assets that have been fully depreciated and are no longer in use.

3 Relates to the impairment of the Parcelforce Worldwide CGU.

Depreciation rates are disclosed within Note 1. No depreciation is provided on land, which represents £239 million (2019-20: £232 million) of the total cost of property assets.

The net book value of the Group's property, plant and equipment includes £115 million (2019-20: £231 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £316 million (2019-20: £303 million) in respect of building fit-out.

The £437 million (2019-20: £459 million) additions include £4 million (2019-20: £3 million) borrowing costs capitalised at a rate of 2.5% in relation to specific qualifying assets.

13. 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:

	At 28 March 2021	At 29 March 2020
	Present value of lease payments £m	Present value of lease payments £m
Lease liabilities		
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)
Depreciation 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)
Depreciation charge	(128)	(25)	(55)	(1)	(209)
Total	963	70	229	3	1,265

13. Leases (continued)**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).

14. Goodwill

	2021 £m	2020 £m
Cost		
At 30 March 2020 and 1 April 2019	848	821
Exchange rate movements	(35)	25
Disposal of business	(4)	–
Acquisition of business	–	2
At 28 March 2021 and 29 March 2020	809	848
Impairment		
At 30 March 2020 and 1 April 2019	458	441
Exchange rate movements	(23)	17
Disposal of business	(4)	–
At 28 March 2021 and 29 March 2020	431	458
Net book value:		
At 28 March 2021 and 29 March 2020	378	390
At 29 March 2020 and 31 March 2019	390	380

GLS Europe

The carrying value of goodwill of £378 million (2019-20: £390 million) at the balance sheet date includes £258 million (2019-20: £270 million) in relation to GLS' European network (GLS Europe CGU). The carrying value of the GLS European network is £696 million (2019-20: £787 million). The CGU has been assessed for impairment by comparing the carrying value of the CGU to its recoverable amount, being the CGU's value in use. The value in use has been calculated by discounting cash flows for a five-year period, with the period beyond five years assumed to have a perpetuity growth rate of 0.4% (2019-20: 0.4%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate, which reflects current market assessments of the time value of money and the risks specific to the asset or CGU, of 9.0% (2019-20: 9.0%). The pre-tax discount rate is 12.1% (2019-20: 12.7%). The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU.

14. Goodwill (continued)

GLS US excluding Mountain Valley Express (MVE)

The GLS US businesses represent two separate CGUs, comprising the US West Coast operations (Golden State Overnight Delivery Services Inc. (GSO) and Postal Express Inc. (PEX)), and Mountain Valley Express and Mountain Valley Freight Solutions businesses. In 2018-19, all the goodwill in the GSO/PEX CGU was fully impaired, along with other tangible and intangible fixed assets. The GLS US turnaround plan is progressing well with losses in GSO and PEX reducing further, driven by strong revenue growth.

MVE

The carrying value of goodwill in relation to MVE is £1 million (2019-20: £2 million). An impairment review has been performed comparing the carrying amount of the MVE CGU of £19 million (2019-20: £20 million), to its recoverable amount. The recoverable amount has been calculated by discounting cash flows for a five-year period with the period beyond five years assumed to have a perpetuity growth rate of 0.7% (2019-20: 0.7%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate, which reflects current market assessments of the time value of money and the risks specific to the asset or CGU, of 13% (2019-20: 13.0%). The pre-tax discount rate is 18.1% (2019-20: 18.1%). This impairment assessment identified that the CGU has headroom of £12 million (2019-20: £9 million).

GLS Canada

The value of the goodwill in respect of GLS Canada at 28 March 2021 is £106 million (2019-20: £106 million). The carrying value of this CGU is £195 million (2019-20: £211 million).

To assess the CGU for impairment, the carrying amount has been compared to its value in use which has been calculated by discounting cash flows covering a period of five years with the period beyond five years assumed to have a perpetuity growth rate of 1.8% (2019-20: 1.4%). All cash flows have been discounted to present value using a post-tax discount rate of 8.6% (2019-20: 10%). The pre-tax discount rate is 11.6% (2019-20: 13.6%). Based on these assumptions the value in use was in excess of the carrying value. Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

The remaining goodwill of £13 million (2019-20: £13 million) arising from an aggregation of goodwill on business acquisitions, each being a separate CGU within the Royal Mail segment, is supportable but not material in the context of the Group's total goodwill.

15. Intangible assets

	2021					2020				
	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m
Cost										
At 30 March 2020 and 1 April 2019	24	129	1,087	29	1,269	21	157	1,025	27	1,230
Exchange rate movements	(1)	(2)	(7)	(2)	(12)	3	2	3	1	9
Additions	-	-	54	-	54	-	-	75	-	75
Disposals ¹	-	-	(16)	-	(16)	-	(36)	(16)	-	(52)
Reclassification	-	-	(1)	-	(1)	-	-	-	-	-
Acquisition of business	-	-	-	-	-	-	6	-	1	7
At 28 March 2021 and 29 March 2020	23	127	1,117	27	1,294	24	129	1,087	29	1,269
Amortisation and impairment										
At 30 March 2020 and 1 April 2019	24	41	624	22	711	21	62	495	21	599
Exchange rate movements	(1)	(2)	(5)	(2)	(10)	3	3	2	-	8
Charge for the year	-	13	127	1	141	-	12	110	1	123
Impairment	-	-	-	-	-	-	-	33	-	33
Disposals ¹	-	-	(16)	-	(16)	-	(36)	(16)	-	(52)
At 28 March 2021 and 29 March 2020	23	52	730	21	826	24	41	624	22	711
Net book value:										
At 28 March 2021 and 29 March 2020	-	75	387	6	468	-	88	463	7	558
At 29 March 2020 and 31 March 2019	-	88	463	7	558	-	95	530	6	631

¹ 2019-20 includes £26 million relating to the clear-down of balances relating to certain GLS assets that have been fully depreciated and are no longer in use.

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The net book value of the Group's software assets includes £43 million (2019-20: £60 million) in respect of assets in the course of construction. The £54 million (2019-20: £75 million) additions include £1 million (2019-20: £1 million) of borrowing costs capitalised at a rate of 2.5% (2019-20: 2.5%) in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £133 million (2019-20: £162 million). These assets relate to various IT initiatives taking place across the business. They have an average remaining useful life of six years (2019-20: seven years).

16. Investments in associates

Details of the associates of the Group are listed below. To ensure that the reported share of the results of these companies aligns with the Group's reporting year ended 28 March 2021 (2019-20: 29 March 2020), information provided by each of the respective companies is analysed and an estimate of profit/loss accrued as appropriate.

	Principal activities	Country of incorporation	Reporting date	% ownership 2021	% ownership 2020
Associate company					
JICMAIL Limited	Market research	United Kingdom	31 March	20.0	20.0
Quadrant Catering Limited	Catering services	United Kingdom	30 September	51.0	51.0
Market Engine Global Pty Limited	Software development	Australia	30 June	34.5	34.5

The majority of board membership and voting power to direct relevant activities in Quadrant Catering Limited ('Quadrant') is held by the other investor company. For this reason, it is Management's view that the Group does not have control over Quadrant. It is therefore not considered to be a subsidiary in line with IFRS 10 'Consolidated Financial Statements'.

Quadrant ceased trading with effect from 30 September 2020 and is now in the process of being wound up. It is expected that a final distribution of assets will be made to shareholders by June 2021.

Movements in interests in associates

	2021 £m	2020 £m
Cost		
At 30 March 2020 and 1 April 2019	5	5
At 28 March 2021 and 29 March 2020	5	5

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

17. Share-based payments

Employee Free Shares

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

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

Partnership and Matching Shares

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

At 28 March 2021 there had been 30 (2019-20: 18) such monthly awards and a total of 959,671 (2019-20: 587,056) Matching Shares had been awarded to eligible staff members at a weighted average market price of 252.0 pence (2019-20: 239.8 pence). The vesting period for each award is three years from the award date with all allocated shares to be equity-settled.

A charge to the income statement of £2 million (including a £1 million National Insurance charge) has been made for the year ended 28 March 2021 (2019-20: £4 million charge including a net £3 million National Insurance credit) for all SIP allocations.

A reconciliation of the ordinary shares held in the SIP at 28 March 2021 and 29 March 2020 is shown below.

	Number of shares 2020-21	Number of shares 2019-20
Total shares remaining in SIP at 30 March 2020 and 1 April 2019	68,182,273	75,183,435
Shares sold/transferred out of SIP during the reporting year (fully vested)	(10,390,847)	(2,897,538)
Shares transferred out of SIP during the reporting year ('good leavers') ¹	(4,001,591)	(4,103,624)
Total shares remaining in SIP at 28 March 2021 and 29 March 2020	53,789,835	68,182,273

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

Of the total shares remaining in the scheme, 51,752,858 (2019-20: 65,863,180) have been allocated to current employees. The remaining 2,036,977 (2019-20: 2,319,093) shares are unallocated and have arisen as a result of forfeitures.

17. Share-based payments (continued)**Award of shares under the Long-Term Incentive Plan**

Award year	Grant date	Shares vest from	Fair value/share (pence) Monte-Carlo simulation		Maximum number of potential shares to vest
			Market based conditions	Non-market based conditions	
2018	09/08/2018	09/08/2021	160.0	n/a	nil
2019	08/08/2019	08/08/2022	84.0	100.0	1,373,050
2019	12/12/2019	12/12/2022	211.0	232.0	42,496
2020	27/11/2020	27/11/2023	272.3	309.3	793,855

A charge to the income statement of £2 million (including £1 million for National Insurance) has been made for the year ended 28 March 2021 in relation to all LTIP schemes (2019-20: £2 million, including £nil for National Insurance).

Award of shares under the Deferred Shares Bonus Plan

Award year	Grant date	Shares vest from	Fair value/ share (pence)	Maximum number of potential shares to vest
2018	20/06/2018	20/06/2021	506.5	435,620
2019	18/07/2019	18/07/2021	218.7	708,833
2019	18/07/2019	18/07/2022	218.7	86,875
2020	24/07/2020	24/07/2021	180.0	766,129
2020	24/07/2020	24/07/2022	180.0	766,129
2020	24/07/2020	24/07/2023	180.0	766,129

A charge to the income statement of £3 million (including £nil for National Insurance) has been made for the year ended 28 March 2021 in relation to all DSBP schemes (2019-20: £2 million, including £nil for National Insurance).

18. Non-current assets held for sale

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

	At 28 March 2021 £m	At 29 March 2020 £m
Property assets held for sale	26	25
Total	26	25

Property assets held for sale

Non-current assets held for sale of £26 million (2019-20: £25 million) relate mainly to land and buildings in Royal Mail, principally the remaining plots at the Nine Elms site, which are being actively marketed with a view to a sale within 12 months.

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

19. Trade and other receivables

	At 28 March 2021 £m	At 29 March 2020 £m
Current trade and other receivables		
Trade receivables	1,513	1,165
Accrued income	43	27
Prepayments	84	90
Total	1,640	1,282

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

	2021 £m	2020 £m
At 30 March 2020 and 1 April 2019	(69)	(39)
Receivables provided for during the year	(42)	(64)
Release of allowance	18	14
Utilisation of allowance	13	20
Exchange differences	1	–
At 28 March 2021 and 29 March 2020	(79)	(69)

The Group's approach to loss allowance for bad and doubtful debts is explained in the accounting policies in Note 1.

The age profile of the trade receivables balance is shown below.

	At 28 March 2021 £m	At 29 March 2020 £m
Not yet overdue	1,310	1,039
Past due not more than one month	161	105
Past due more than one month and not more than two months	22	13
Past due more than two months	20	8
Total	1,513	1,165

	At 28 March 2021 £m	At 29 March 2020 £m
Non-current other receivables		
Other receivables	100	12
Total	100	12

The increase in other receivables mainly relates to deferred proceeds in respect of the disposal of part of the Mount Pleasant site to Taylor Wimpey UK Ltd during the year.

20. Cash and cash equivalents

	At 28 March 2021 £m	At 29 March 2020 £m
Cash at bank and in hand	265	209
Client cash	41	21
Cash equivalent investments: Short-term bank and money market fund investments	1,267	1,410
Total	1,573	1,640

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

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

21. Current trade and other payables

	At 28 March 2021 £m	At 29 March 2020 £m
Trade payables and accruals	(1,829)	(1,490)
Advance customer payments (mainly for stamps held, not yet used by customers)	(299)	(294)
Social security	(142)	(128)
Client creditors	(57)	(31)
Capital expenditure payables	(40)	(83)
Other	(10)	(15)
Total	(2,377)	(2,041)

The fair value of trade and other payables is not materially different from the carrying value. The average credit period taken for trade purchases is 40 days (2019-20: 41 days).

The Group operates a supply chain finance arrangement for small and medium suppliers. This form of reverse financing allows suppliers to obtain early access to funding. Suppliers may choose to access payment as soon as their invoices are processed rather than Royal Mail standard payment terms by paying a financing fee to the scheme provider. The Group pays the provider of the scheme on the due date of the invoices, therefore this scheme does not assist the Group in the management of working capital.

As the scheme has not led to a substantial modification in the terms of the financial liability, the Group continues to treat the amounts owed within trade payables. All cash flows associated with the programme are included within operating cash flows as they continue to be part of the normal operating cycle of the Group. There is no impact on net debt, as amounts owed continue to be reported within trade payables.

The balance owed on the facility at 28 March 2021 was £36 million (29 March 2020: £35 million).

22. Loans and borrowings

At 28 March 2021							
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Bank syndicate loan facility	–	925	925	n/a	LIBOR plus 0.475%¹	n/a	2025
€500 million bond – 2.375% Senior Fixed Rate Notes	427	–	427	2.5	Fixed at 2.5%	2024	2024
€550 million bond – 1.25% Senior Fixed Rate Notes	468	–	468	2.7 ²	Fixed at 2.7%²	2026	2026
Total	895	925	1,820	2.6		2025	2025

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

¹ The total margin over LIBOR consists of a 0.40% margin and a utilisation fee of 0.075%. The facility was over two thirds drawn at 29 March 2020 resulting in a utilisation fee of 0.30%.

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

22. Loans and borrowings (continued)

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.170 (2019-20: £1/€1.118). The effective interest rate on the bond of 2.5% (2019-20: 2.5%) consists of the interest coupon of 2.375% (2019-20: 2.375%) plus the unwinding of the discount and fees on issuing the bond of 0.08% (2019-20: 0.08%). The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a gain of €19 million (2019-20: £15 million loss) on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the losses on translation of the net investment in GLS. There was no hedge ineffectiveness in the current or comparative reporting years.

On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25% and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross-currency swap. The combined interest rate of the coupon and the cross-currency swap is 2.7% (2019-20: 2.7%). The €550 million bond is shown net of issue discount and fees and at a closing spot rate of £1/€1.170 (2019-20: £1/€1.118). The effective interest rate on the bond plus the cross-currency swap (2.7%) consists of the interest coupon of 1.25% plus the effects of the cross-currency swap (1.00%) and the unwinding of the discount and fees on issuing the bond (0.40%). The revaluation of the bond is hedged by the cross-currency swap. During the year, a gain of £21 million (2019-20: £nil) on the retranslation of this borrowing was transferred to other comprehensive income, which is offset by the losses on the cross-currency swap. There was no hedge ineffectiveness in the current or comparative reporting years.

In September 2020, the bank syndicate loan facility was extended by one year to September 2025 with the option to extend for a further one year. The bank syndicate loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenants. On 22 June 2020, a covenant amendment was agreed that waived the financial covenants relating to interest (excluding arrangement fees), adjusted net debt and EBITDA until March 2022, replacing them with a quarterly minimum liquidity covenant. It is not anticipated that the Group is at risk of breaching any of these amended obligations.

The waived financial covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3.5:1 and EBITDA to interest (excluding certain arrangement fees) above 3.5:1. The covenant ratios are calculated on an IAS 17 basis for leases. Adjusted net debt consists of net debt less leases capitalised under IFRS 16, plus Letters of Credit (contingent liabilities in respect of the Royal Mail insurance programme, where the possibility of an outflow of economic benefits is considered remote), plus bank guarantees provided to HMRC (in order to facilitate the movement of parcels from Europe efficiently through to our network, where the possibility of an outflow of economic benefits is considered remote) and is adjusted for exchange rate movements during the year. EBITDA is adjusted to deduct operating lease expense on leases capitalised under IFRS 16 and to remove transformation costs and certain specific items (the pension charge to cash difference is not removed). Interest is adjusted to remove interest on leases capitalised under IFRS 16. The Group's leverage ratio at 28 March 2021 is -0.4:1 (2019-20: 0.2:1). The Group's ratio of EBITDA to interest at 28 March 2021 is 84.6:1 (2019-20: 36.0:1). The minimum liquidity covenant requires the Group to maintain at least £250 million of liquidity defined as cash, cash equivalents, current asset investments and undrawn, committed facilities. The Group's liquidity at 28 March 2021 is £2,519 million (2019-20: £1,916 million). Accordingly, the Group comfortably meets the covenants tests within its bank syndicate loan facility agreement.

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

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, were £925 million maturing in September 2025 (2019-20: £225 million maturing in September 2024).

There is no security in place under the bank syndicate loan facility or the bonds.

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

23. Financial assets and liabilities and risk management

The following disclosures are included in this Note:

a) **Classification, carrying amount and fair value of financial assets and liabilities** – Carrying amounts and fair value of each category of financial assets and liabilities.

b) **Movement in liabilities arising from financing activities** – A reconciliation of the opening and closing balances of liabilities arising from financing activities.

c) **Foreign currency risk management** – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

d) **Commodity price risk management** – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

e) **Interest rate risk management** – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

f) **Liquidity risk management** – How Management addresses the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

g) **Credit risk management** – How Management addresses the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

h) **Sensitivity analysis** – How the income statement and balance sheet would have been affected by changes in commodity prices and exchange rates in the reporting year.

a) Classification, carrying amount and fair value of financial assets and liabilities

The following table shows the classification, carrying amount and fair value of the Group's financial assets.

	Level	Classification	At 28 March 2021 Carrying amount £m	At 28 March 2021 Fair value £m	At 29 March 2020 Carrying amount £m	At 29 March 2020 Fair value £m
Financial assets						
Cash	1		306	306	230	230
Cash equivalent investments	1		1,267	1,267	1,410	1,410
Money market funds		FVTPL	1,207	1,207	1,370	1,370
Short-term deposits – bank		Amortised cost	60	60	40	40
Cash and cash equivalents	1		1,573	1,573	1,640	1,640
Current asset investments – short-term deposits – bank	1	Amortised cost	–	–	30	30
Pension escrow investments	1	FVTPL	212	212	201	201
Trade and other receivables	2	Amortised cost	1,640	1,640	1,282	1,282
Derivative assets (current)	2	FVTPL	2	2	5	5
Derivative assets (non-current)	2	FVTPL	5	5	–	–
Total financial assets			3,432	3,432	3,158	3,158

23. Financial assets and liabilities and risk management (continued)

The following table shows the classification, carrying amount and fair value of the Group's financial liabilities:

	Level	Classification	At 28 March 2021 Carrying Amount £m	At 28 March 2021 Fair Value £m	At 29 March 2020 Carrying Amount £m	At 29 March 2020 Fair Value £m
Financial liabilities						
Bank syndicate loans (current loans and borrowings)	2	Amortised cost	-	-	(700)	(701)
Obligations under leases (current)	2	Amortised cost	(197)	(197)	(201)	(201)
€500 million bond	2	Amortised cost	(427)	(460)	(446)	(467)
€550 million bond	2	Amortised cost	(468)	(495)	(489)	(465)
Obligations under leases (non-current)	2	Amortised cost	(959)	(993)	(987)	(982)
Trade and other payables	2	Amortised cost	(2,377)	(2,377)	(2,041)	(2,041)
Derivative liabilities (current)	2	FVTPL	(12)	(12)	(35)	(35)
Derivative liabilities (non-current)	2	FVTPL	(36)	(36)	(32)	(32)
Total financial liabilities			(4,476)	(4,570)	(4,931)	(4,924)
Net total financial liabilities			(1,044)	(1,138)	(1,773)	(1,766)

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of Note 1.

The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from operations and are not considered further in this Note.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

23. Financial assets and liabilities and risk management (continued)**b) Movement in liabilities arising from financing activities**

The following table reconciles the opening and closing balances of liabilities arising from financing activities:

	Interest-bearing loans and borrowings (current) £m	Interest-bearing loans and borrowings (non-current) £m	Obligations under leases (current) £m	Obligations under leases (non-current) £m	Total £m
At 30 March 2020	(700)	(935)	(201)	(987)	(2,823)
Movements through income statement					
Interest payable on financial liabilities	(3)	(20)	-	(26)	(49)
Movements through cash flow					
Finance costs paid ¹	3	20	-	26	49
Repayment of loans and borrowings	700	-	-	-	700
Payment of capital element of lease contracts	-	-	188	-	188
Cash received on sale and leasebacks	-	-	-	(1)	(1)
Other movements					
Reclassification between categories	-	-	(184)	184	-
Increase in lease obligations (non-cash)	-	-	-	(173)	(173)
Effect of foreign currency exchange rates	-	40	-	18	58
At 28 March 2021	-	(895)	(197)	(959)	(2,051)

¹ Finance costs paid of £57 million in the Statement of Cash Flows also includes £7 million interest on cross-currency swaps and £1 million other finance costs.

	Interest-bearing loans and borrowings (current) £m	Interest-bearing loans and borrowings (non- current) £m	Obligations under finance leases (current) £m	Obligations under finance leases (non-current) £m	Total £m
At 1 April 2019	-	(431)	(155)	(1,032)	(1,618)
Movements through income statement					
Interest payable on financial liabilities	-	(17)	-	(30)	(47)
Movements through cash flow					
Finance costs paid ²	-	16	-	30	46
Drawdown of loan facility	(700)	-	-	-	(700)
Bond issue	-	(489)	-	-	(489)
Repayment of loans and borrowings	-	1	-	-	1
Payment of capital element of lease contracts	-	-	172	-	172
Cash received on sale and leasebacks	-	-	-	(6)	(6)
Other movements					
Reclassification between categories	-	-	(218)	218	-
Increase in lease obligations (non-cash)	-	-	-	(156)	(156)
Effect of foreign currency exchange rates	-	(15)	-	(11)	(26)
At 29 March 2020	(700)	(935)	(201)	(987)	(2,823)

² Finance costs paid of £53 million in the Statement of Cash Flows also includes £6 million loss on RMPP pension escrow investments and £1 million other finance costs.

23. Financial assets and liabilities and risk management (continued)

c) Foreign currency risk management

Foreign currency transaction risk

Royal Mail is exposed to foreign currency risk due to interest payments on the €500 million and €550 million bonds, certain obligations under Euro-denominated leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro. It also has some exposure to non-Euro currencies, principally in emerging European markets, to the US Dollar and the Canadian Dollar.

Where possible, exposures are netted internally. Any remaining exposure is hedged using a combination of external spot and forward purchase and sale contracts. Hedging will not normally be considered for exposures of less than £1 million. Hedging is normally confined to 80% of the forecast exposure, where forecast cash flows are highly probable.

The following table shows, for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

Hedge programme	Risk	Percentage of next 12 months' exposure that has been hedged	
		At 28 March 2021	At 29 March 2020
Capital programmes	€/£ exchange rate movements	100%	98%
Overseas postal administrations	SDR/£ exchange rate movements	42%	26%

Royal Mail's obligation to settle with overseas postal administrations is denominated in Special Drawing Rights (SDR) – a basket of currencies which comprise US Dollar, Japanese Yen, Chinese Renminbi, Sterling and Euro. The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

Foreign currency translational risk

The Group's functional currency is Sterling (£). GLS Euro profits are converted at the average exchange rate for the year which can result in reported growth or decline that does not relate to underlying performance. GLS' balance sheet is converted at year-end exchange rates and movements related to foreign currency translation are taken to equity.

The €500 million bond issued in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. Royal Mail also entered into €1 million of Euro-denominated leases during the year (2019-20: €6 million). This similarly acts as a hedge of the net assets of GLS. The remaining net assets of GLS in excess of the €500 million bond and lease payables are not hedged. Foreign currency exchange differences arising from the translation of the net assets of GLS, the €500 million bond and the Royal Mail Euro-denominated lease payables, at closing Sterling/Euro exchange rates, are recognised in the statement of comprehensive income. These exchange differences would be released to the income statement as part of the gain or loss if GLS was sold. During the year, foreign currency exchange gains on the bond of £19 million (2019-20: £15 million loss) and foreign exchange gains on the lease payables of £2 million (2019-20: £2 million loss) were recognised in the statement of comprehensive income. There was no hedge ineffectiveness in the current or prior reporting years.

The €550 million bond issued in October 2019 is perfectly hedged for foreign currency risk by a cross-currency swap.

The net total financial assets and liabilities are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets and liabilities (other than the €500 million and €550 million bonds and £349 million of leases) are held within cash or derivatives.

	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Net total financial assets/(liabilities) at 28 March 2021	89	(19)	(1,090)	(24)	(1,044)
Net total financial liabilities at 29 March 2020	(554)	(43)	(1,141)	(35)	(1,773)

d) Commodity price risk management

Royal Mail is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe – which consumes over 130 million litres of fuel per year – and a jet fuel price risk arising from purchasing air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to manage these exposures.

23. Financial assets and liabilities and risk management (continued)

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

As the GLS business relies on the use of subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS is electricity, which is fragmented across its European bases. In view of the other highly hedged positions, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

e) Interest rate risk management

The Group's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed. At 28 March 2021, there was no external hedge of interest rate risk (2019-20: none). Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The analysis below sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

	At 28 March 2021					
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Fixed rate						
Financial liabilities						
€500 million bond	2.5	-	-	(427)	-	(427)
€550 million bond	2.7	-	-	-	(468)	(468)
Lease obligations	2.2	(197)	(180)	(380)	(399)	(1,156)
Total		(197)	(180)	(807)	(867)	(2,051)
Floating rate						
Cash at bank	-	63	-	-	-	63
Cash equivalent investments – money market funds	0.1	1,207	-	-	-	1,207
Cash equivalent investments – bank deposits	0.2	60	-	-	-	60
Financial assets - pension escrow investments (non-current)	1.1	-	-	21	191	212
Total		1,330	-	21	191	1,542
Non-interest bearing						
Cash at bank or in hand		243	-	-	-	243
Trade and other receivables		1,640	-	-	-	1,640
Trade and other payables		(2,377)	-	-	-	(2,377)
Derivative assets		2	4	1	-	7
Derivative liabilities		(12)	(7)	(11)	(18)	(48)
Total		(504)	(3)	(10)	(18)	(535)
Total financial assets		3,215	4	22	191	3,432
Total financial liabilities		(2,586)	(187)	(818)	(885)	(4,476)
Net total financial assets/(liabilities)		629	(183)	(796)	(694)	(1,044)

23. Financial assets and liabilities and risk management (continued)

At 29 March 2020

	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Fixed rate						
Current asset investment – short-term deposits - bank	1.1	30	–	–	–	30
Financial liabilities						
Bank syndicate loan	0.9	(700)	–	–	–	(700)
€500 million bond	2.5	–	–	(446)	–	(446)
€550 million bond	2.7	–	–	–	(489)	(489)
Lease obligations	2.6	(201)	(187)	(388)	(412)	(1,188)
Total		(871)	(187)	(834)	(901)	(2,793)
Floating rate						
Cash at bank	0.0	116	–	–	–	116
Cash equivalent investments – money market funds	0.6	1,370	–	–	–	1,370
Cash equivalent investments – bank deposits	0.2	40	–	–	–	40
Financial assets – pension escrow investments (non-current)	(0.9)	–	–	–	201	201
Total		1,526	–	–	201	1,727
Non-interest bearing						
Cash at bank or in hand		114	–	–	–	114
Trade and other receivables		1,282	–	–	–	1,282
Trade and other payables		(2,041)	–	–	–	(2,041)
Derivative assets		5	–	–	–	5
Derivative liabilities		(35)	(16)	(3)	(13)	(67)
Total		(675)	(16)	(3)	(13)	(707)
Total financial assets		2,957	–	–	201	3,158
Total financial liabilities		(2,977)	(203)	(837)	(914)	(4,931)
Net total financial liabilities		(20)	(203)	(837)	(713)	(1,773)

Drawings under the bank syndicate loan facility are at fixed rate to maturity (which must be six months or less). At 28 March 2021 there were no drawings (2019-20: £700 million). The total interest-bearing financial assets of the Group (excluding the RMPP and RMSEPP pension escrow investments) of £1,330 million (2019-20: £1,556 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of one day (2019-20: an average maturity of three days). These short-dated financial instruments are maturity-managed to obtain the best value out of the interest yield curve.

Obligations under leases are either unsecured or secured on the leased assets. The average interest rate is 2.2% (2019-20: 2.6%). The average maturity date is more than five years (2019-20: more than five years).

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.

The RMPP pension escrow investment of £191 million (2019-20: £180 million) represents a money market fund investment, established with the agreement of the Pension Trustee for the benefit of members. The RMPP escrow agreement specifies that the funds must be used for the benefit of members, on a basis to be agreed between the Plan Trustee and the Company. The funds are therefore not available to Management for corporate purposes (outside of pension arrangements) and so the RMPP escrow is excluded from net debt.

23. Financial assets and liabilities and risk management (continued)

The RMSEPP pension escrow investment of £21 million (2019-20: £21 million) was established to provide security to the RMSEPP. The next scheduled review point in the agreement is in 2025 and the investment is therefore disclosed as maturing in two to five years. The escrow investment comprises a money market investment of £21 million (2019-20: £21 million). The RMSEPP escrow agreement specifies that the funds will be returned to the Company once they are no longer required for security purposes and therefore the RMSEPP escrow is included within net debt.

f) Liquidity risk management

The Group's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Borrowing facilities are regularly reviewed to ensure continuity of funding. In September 2020, the bank syndicate loan facility was extended by one year to September 2025 with the option to extend for a further one year. The unused committed facilities of the Group of £925 million expire in 2025 (2019-20: £225 million expiring in 2024).

Below is a summary of the gross (undiscounted) contractual cash flows of the Group's financial liabilities. The cash flows for the €500 million and €550 million bonds and non-Sterling-denominated leases represent the undiscounted total amounts payable (interest and nominal repayment) which have been converted to Sterling at 28 March 2021 market forward exchange rates. For derivatives that are settled gross (including the cross-currency swap), these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

	At 28 March 2021						
	Gross loans and borrowings commitments £m	Gross lease instalments £m	Gross trade and other payables £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:							
One year or less or on demand (current)	16	203	2,377	2,596	137	7	2,740
More than one year (non-current)	999	1,204	-	2,203	615	1	2,819
More than one year but not more than two years	16	186	-	202	58	1	261
More than two years but not more than five years	480	414	-	894	53	-	947
More than five years	503	604	-	1,107	504	-	1,611
Total	1,015	1,407	2,377	4,799	752	8	5,559
Less interest	(77)	(251)	-	(328)	n/a	n/a	n/a
Less exchange rate adjustment	(43)	-	-	(43)	n/a	n/a	n/a
Net total	895	1,156	2,377	4,428	n/a	n/a	n/a

23. Financial assets and liabilities and risk management (continued)

At 29 March 2020

	Gross loans and borrowings commitments £m	Gross lease instalments £m	Gross trade and other payables £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:							
One year or less or on demand (current)	719	210	2,041	2,970	101	29	3,100
More than one year (non-current)	1,066	1,192	-	2,258	569	19	2,846
More than one year but not more than two years	17	198	-	215	13	16	244
More than two years but not more than five years	516	426	-	942	39	3	984
More than five years	533	568	-	1,101	517	-	1,618
Total	1,785	1,402	2,041	5,228	670	48	5,946
Less interest	(101)	(214)	-	(315)	n/a	n/a	n/a
Less exchange rate adjustment	(49)	-	-	(49)	n/a	n/a	n/a
Net total	1,635	1,188	2,041	4,864	n/a	n/a	n/a

g) Credit risk management

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that Royal Mail is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, commensurate with the Group's appetite for risk. An analysis of aged debt is included within Note 19.

The Group's exposure to credit risk from other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. At 28 March 2021, 96% (2019-20: 96%) of financial assets were held with AA or above rated counterparties.

GLS operates a decentralised credit management model, with each country responsible for managing the credit risk associated with its customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the respective GLS companies.

None of the financial assets is either past due or considered to be impaired.

h) Sensitivity analysis

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to 2019-20 profit for the year from interest rate risk or commodity price risk (2019-20: Enil risk). Further details of the Group's exposure to commodity price risk can be found in the Financial Review.

The Group has an exposure to the exchange rate risk on translating GLS profits; on trading with overseas postal administrations; on various purchase contracts; and on the interest on the €500 million bond and Royal Mail Euro-denominated leases. The impact of a 10% strengthening of Sterling across all currencies on forecast profits/trade during 2020-21 would be to reduce the Group operating profit by £20 million (2019-20: £2 million). However, changes in exchange rates could also cause other impacts on operating profit, including a change in import/export volumes.

The Group has an exposure to the exchange rate risk on translating GLS net assets into Sterling on consolidation. This is partially offset by an exposure on translating the €500 million bond and Euro-denominated leases into Sterling at each balance sheet date. The impact of a 10% strengthening of Sterling against all currencies at 28 March 2021 would have been to reduce the Group net assets by £45 million (2019-20: £38 million).

24. Provisions

	Charged as specific items			Charged in operating costs				Total £m
	Industrial diseases £m	Regulatory fine £m	Other £m	Voluntary redundancy £m	Property decommissioning £m	Litigation claims £m	Other £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 (see Note 6).

In January 2020, Royal Mail requested permission to appeal the Competition Appeal Tribunal's judgment to the Court of Appeal (CoA) in respect of the Ofcom fine. On 30 March 2020, the CoA granted Royal Mail permission and the hearing took place on 20 and 21 April 2021. On 7 May 2021 the CoA dismissed the appeal. Royal Mail 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 (see Note 6).

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.

24. Provisions (continued)

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)

25. Share capital and reserves

	At 28 March 2021 £m	At 29 March 2020 £m
Authorised and issued		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 572,816 (2019-20: 1,029,706) are held by an Employee Benefit Trust (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury. The EBT is funded by the Company and has been consolidated within these Financial Statements.

Reserves included in the consolidated statement of changes in equity

Foreign currency translation reserve

The Foreign currency translation reserve is used to record the gains and losses arising on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging reserve

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

26. Commitments**Capital commitments**

The Group has commitments of £116 million (2019-20: £52 million) for property, plant and equipment, £nil (2019-20: £26 million) for vehicles and £1 million (2019-20: £nil) for intangible assets, which are contracted for but not provided for in the Financial Statements.

Lease commitments

The Group has £16 million of lease commitments (2019-20: £6 million) relating to leases that have been signed but not yet commenced at the year-end date. The Group has also signed a conditional agreement for a lease that, when completed, is expected to result in the recognition of an £80 million lease liability and right of use asset. These commitments have not been provided for in the Financial Statements.

27. 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 24). 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.

28. Related party information**Related party transactions**

During the reporting year the Group entered into transactions with related parties as follows:

	52 weeks 2021 £m	52 weeks 2020 £m
Sales/recharges to:		
RMPP – Defined benefit pension plan (administration and investment service recharge)	7	6
Mallzee Ltd	1	–
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	(4)	(7)
Amounts owed to:		
Associate undertaking (Quadrant Catering Limited)	–	(1)

Balances outstanding at the reporting year end are unsecured, interest free and settlement is made by cash.

Key management compensation

	52 weeks 2021 £000	52 weeks 2020 £000
Short-term employee benefits	(3,037)	(5,083)
Post-employment benefits	(10)	(30)
Other long-term benefits	(267)	(272)
Termination benefits	(1,233)	–
Share-based payments	(1,339)	(1,004)
Total	(5,886)	(6,389)

Key management are considered to be the Executive and Non-Executive Directors of Royal Mail plc, plus any other Persons Discharging Managerial Responsibilities. Remuneration relates to the period for which they are key management.

28. Related party information (continued)

The ultimate parent and principal subsidiaries

Royal Mail plc is the ultimate Parent Company of the Group. The Consolidated Financial Statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below. The reporting year end for these entities is 28 March 2021 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2021	% equity interest 2020
General Logistics Systems B.V. ¹	Parcel services holding company	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100
Royal Mail Investments Limited	Holding company	United Kingdom	100	100
RM Property and Facilities Solutions Limited	Facilities management	United Kingdom	100	100

¹ GLS' reporting year-end date is 31 March each year. No adjustment is made in the Financial Statements in this regard on the basis that, irrespective of the Group's reporting year-end date (last Sunday in March) a full year of GLS results is consolidated into the Group.

The Company has complied with section 409 of the Companies Act 2006 by including, in these Financial Statements, a schedule of interests in all undertakings (see Note 29).

29. Related undertakings of Royal Mail plc

In accordance with section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 28 March 2021 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail plc Group.

Subsidiary undertakings included in the consolidation

Company name	Share class	% held by Group
Austria		
Traunferstrasse 105A, A-4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	Ordinary shares	100.000
Belgium		
Humaniteitslaan 233, 1620 Drogenbos, Belgium		
General Logistics Systems Belgium N.V.	€100.00 Ordinary shares	100.000
GLS Belgium Distribution S.A/N.V.	€4.27 Ordinary shares	100.000
Canada		
10500, av. Ryan Dorval Quebec H9P 2T7		
Dicom Dedicated Fleet, Inc.	Common shares, no par value	100.000
1055, West Hastings Street, Suite 1700, Vancouver BC V6E 2E9		
GLS Logistics Systems Canada Ltd	Common shares, no par value	100.000
China		
Suite 966, 9F, No.2 bldg, China Central Place, No.79, Jian Guo Rd, Chao Yang District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	–	100.000
Croatia		
10360 Popovec, Varazdinska ulica 116, Croatia		
General Logistics Systems Croatia d.o.o	Ordinary shares	100.000
Czech Republic		
Průmyslová 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic s.r.o	Ordinary shares	100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
General Logistics Systems Express A/S	DKK1,000.00 Ordinary shares	100.000
Finland		
Rydöntie 6, 20360 Turku, Finland		
General Logistics Systems Finland Oy	€50.00 Ordinary shares	100.000
France		
14 Rue Michel Labrousse, CS 93730, 31037 Toulouse Cedex 01, France		
General Logistics Systems France S.A.S	€50.00 Ordinary shares	100.000
GLS Invest France S.A.S	€271.21 Ordinary shares	100.000

29. Related undertakings of Royal Mail plc (continued)

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

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

29. Related undertakings of Royal Mail plc (continued)

Company name	Share class	% held by Group
Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, Netherlands		
General Logistics Systems B.V.	€100.00 Ordinary shares	100.000
Proostwetering 40, 3543 AG Utrecht, Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Holding B.V.	€0.50 Ordinary shares	100.000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100.000
Poland		
Ul. Teczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka zo.o	PLN1,721.00 Ordinary shares	100.000
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	Ordinary shares	100.000
Romania		
3, Str. Stefan cel Mare, Parcul Industrial Selimbar, 557260 Selimbar, Romania		
GLS General Logistics Systems Romania Srl	RON4,000.00 Ordinary shares	100.000
Slovakia		
Budca 1039, 962 33 Budca, Slovakia		
GLS General Logistics Systems Slovakia s.r.o	Ordinary shares	100.000
Slovenia		
Cesta v Prod 84, 1129 Ljubljana, Slovenia		
General Logistics Systems, logisticne storitve, d.o.o.	Ordinary shares	100.000
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		
General Logistics Systems Spain S.A	€60.10 Ordinary shares	100.000
United Kingdom		
185 Farringdon Road, London, EC1A 1AA		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited ²	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Group Limited	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000

2 Limited by guarantee.

29. Related undertakings of Royal Mail plc (continued)

Company name	Share class	% held by Group
Royal Mail Investments Limited	£1.00 Ordinary shares	100.000
RM Finance CAD Ltd	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited (formerly Romec Limited)	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
Romec Enterprises Limited		
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom	£1.00 Ordinary shares	100.000
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000
USA		
9 E. Loockerman Street, Suite 311, Dover, DE 19901, USA		
General Logistics Systems North America Inc.	USD 0.001 common stock	100,000
4000 Executive Parkway, Suite 295, San Ramon, CA 94583, USA		
General Logistics Systems US Interim, Inc	1,000 Shares common stock	100.000
General Logistics Systems USA, Inc	1,000 Shares Common stock	100.000
Postal Express, Inc.	428.57 Shares Common stock	100.000
676, N. Michigan Ave, Suite 3700, Chicago IL 60611		
Dicom JD, LLC. ³	-	100.000
6750 South Longe Street Suite 100 Manteca, CA 95206 USA		
Mountain Valley Express co, Inc	Ordinary shares	100.000
6750 South Longe Street Suite 100 Manteca, CA 95206 USA		
MVE Supply Chain Solutions, Inc ⁴	Ordinary shares	100.000

³ Member managed company.

⁴ Trades under the name Mountain Valley Freight Solutions.

29. Related undertakings of Royal Mail plc (continued)**Associate undertakings**

Company name	Share class	% held by Group
Associates		
Australia		
Level 1, 60 Toorak Road, South Yarra, VIC 3141		
Market Engine Global Pty Limited	AUD1.00 Preference shares	34.474
United Kingdom		
Parklands Court, 24 Parklands, Birmingham Great Park, Rubery, Birmingham, West Midlands, B45 9PZ, United Kingdom		
Quadrant Catering Limited	£1.00 Ordinary A shares	51.000
70 Margaret Street, London, W1W 8SS, United Kingdom		
JICMAIL Limited ²	–	20.000
Investments		
Company name	Share class	% held by Group
Investments		
United Kingdom		
Hayweight House, 5th Floor, 23 Lauriston Street, Edinburgh, Scotland, EH3 9DQ, United Kingdom		
Mallzee Ltd	£0.01 Ordinary shares	19.500
Aviva, Wellington Row, York, North Yorkshire, YO90,1WR		
Voyager Park South Management Company Limited ²	Ordinary shares	5.500

Royal Mail plc

Parent Company Financial Statements

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	Total equity £m
At 31 March 2019	10	2,070	2,080
Profit for the year	–	238	238
Purchase of own shares	–	(3)	(3)
Share-based payments	–	11	11
Dividend paid	–	(244)	(244)
At 29 March 2020	10	2,072	2,082
Loss for the year	–	(3)	(3)
Share-based payments	–	5	5
At 28 March 2021	10	2,074	2,084

Balance sheet

At 28 March 2021 and 29 March 2020

Registered number: 08680755

	Notes	At 28 March 2021 £m	At 29 March 2020 £m
Non-current assets			
Investment in subsidiary	6	2,127	2,122
Trade and other receivables	7	895	935
Total non-current assets		3,022	3,057
Current liabilities			
Trade and other payables	8	(43)	(40)
Net current liabilities		(43)	(40)
Interest-bearing loans and borrowings	9	(895)	(935)
Net assets		2,084	2,082
Equity			
Share capital	10	10	10
Retained earnings		2,074	2,072
Total equity		2,084	2,082

The balance sheet was approved and authorised for issue by the Board of Directors on 19 May 2021 and signed on its behalf by:

Mick Jeavons

Chief Financial Officer

1. Parent Company accounting policies

Accounting reference date

The financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are prepared for the 52 weeks ended 28 March 2021 (2019-20: 52 weeks ended 29 March 2020).

Authorisation of Financial Statements and statement of compliance with FRS 101

The Financial Statements of the Company for the year ended 28 March 2021 were authorised for issue by the Board of Directors on 19 May 2021. The Company is incorporated and domiciled in England and Wales.

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The amendments to FRS 101 issued in March 2018 and effective from 1 January 2019 have been applied.

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in Note 4 to these Parent Company Financial Statements.

Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- (a) The requirements of IFRS 7 'Financial Instruments: Disclosures'¹.
- (b) The requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)¹.
- (c) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers'.
- (d) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding).
- (e) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements'.
- (f) The requirements of IAS 7 'Statement of Cash Flows'.
- (g) The requirements of paragraphs 17 and 18(a) of IAS 24 'Related Party Disclosures' (details of key management compensation and related party transaction amounts).
- (h) The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- (i) The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Changes in accounting policy

The accounting policies are consistent with those of the previous year.

Key sources of estimation uncertainty and critical accounting judgements

Due to the relatively straightforward nature of the Company and its activities, it is Management's view that there are no significant estimates or accounting judgements applied in the preparation of these Financial Statements.

Investment in subsidiary

The investment in subsidiary is stated at cost plus deemed capital contributions arising from share-based payment transactions, less any accumulated impairment losses.

Trade receivables

Trade receivables are recognised at the original invoice amount less an allowance for any non-collectable amounts, including where collection is no longer probable.

¹ Exemption taken as equivalent disclosures are included within the Consolidated Financial Statements of Royal Mail plc.

2. Directors' remuneration

The Directors of the Company are not paid any fees by the Company for their services as Directors of the Company. The Directors are paid fees by other companies of the Group. This remuneration is disclosed in the Group Consolidated Financial Statements (see Note 5).

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by other companies of the Group. This remuneration is disclosed in the Group Consolidated Financial Statements (see Note 4).

4. Income statement

The Company is a non-trading company. The loss for the year of £3 million (2019-20: profit of £238 million) is primarily the net sum of: the £nil dividend (2019-20: £245 million) received from Royal Mail Group Limited; management charges to and from Royal Mail Group Limited; and net interest on the €500 million bond, the €550 million bond and intercompany balances with Royal Mail Group Limited. A profit of £40 million (2019-20: loss of £15 million) on retranslation of the bond liabilities and a loss of £40 million (2019-20: profit of £15 million) on the retranslation of intercompany balances with Royal Mail Group Limited has also been recognised in the year.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiary

	At 28 March 2021 £m	At 29 March 2020 £m
At 30 March 2020 and 1 April 2019	2,122	2,111
Investment in subsidiary – charge for Employee Free Shares/LTIP/DSBP	5	11
At 28 March 2021 and 29 March 2020	2,127	2,122

The investment comprises 100% of the share capital of Royal Mail Group Limited.

7. Trade and other receivables

This balance mainly consists of intercompany loans to Royal Mail Group Limited amounting to the proceeds from the issue of the €500 million bond and the issue of the €550 million bond (see Note 9). The intercompany loan is deemed to be a non-current asset for the year ended March 2021, as the Company's intention at the balance sheet date is that the loans will not to be settled by Royal Mail Group Limited within the next 12 months.

8. Trade and other payables

This balance mainly comprises £34 million (2019-20: £29 million) intercompany payables with Royal Mail Group Limited and £9 million (2019-20: £10 million) external interest payable.

9. Interest-bearing loans and borrowings

In July 2014 the Company issued €500 million 2.375% Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375%. The proceeds raised were loaned to Royal Mail Group Limited. In October 2019 the Company issued €550 million 1.25% Senior Fixed Rate Notes due October 2026 with a fixed annual interest coupon of 1.25%. The proceeds raised were loaned to Royal Mail Group Limited.

10. Share capital

	At 28 March 2021 £m	At 29 March 2020 £m
Authorised and issued		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 572,816 (2019-20: 1,029,706) are held by an Employee Benefit Trustee (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury.

The EBT is funded by the Company and has been treated as an extension of the Company for accounting purposes within these Financial Statements.

Shareholder Information

Annual General Meeting

The 2021 AGM will be held on Wednesday 21 July 2021. Full details of the business to be considered at the meeting and any special arrangements that may be in place in light of the COVID-19 pandemic will be included in the Notice of Annual General Meeting that will be sent to shareholders and published on our website at www.royalmailgroup.com/en/investors/annual-general-meetings/.

Final dividend

The Board is recommending the payment of a one-off final dividend of 10p per share in respect of FY2020-21. This dividend will be paid on 6 September 2021 to shareholders on the register as at 30 July 2021, subject to approval at the 2021 AGM.

Dividend waivers

The Trustee of the Royal Mail Share Incentive Plan (Plan) will not receive any dividends (other than any special dividend declared by the Board) on Free Shares which it has not been possible to award to, or which have been forfeited by, participants in the Plan.

Managing your shares online

Shareholders can register through Shareview, a platform provided by the Company's registrars, to access shareholder information online at www.shareview.co.uk.

This service allows you to:

- Manage your shares online.
- Receive notifications of new shareholder information by e-mail.
- Arrange dividend payments.
- Update personal records.

When registering, you will need to have your shareholder reference number which can be found on your share certificate, dividend voucher or AGM voting documents.

Shareholder fraud

Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares. While they promise high returns, investors usually end up losing their money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. As much as £1.2 billion is lost in investment fraud in the UK each year.

It is strongly advised that you only deal with financial services firms that are authorised by the FCA. You can report a firm or scam by contacting the FCA Consumer Helpline on 0800 111 6768 or using the reporting form at www.fca.org.uk/consumers/report-scam/report-scam-unauthorised-firm.

If you have already bought or sold shares through a 'boiler room', be especially careful as fraudsters are likely to target you again or sell your details to other criminals.

Information for investors

Our website provides information for investors, such as trading updates, share price information, AGM and dividend information, shareholder FAQs and results and reports. The website can be accessed via www.royalmailgroup.com/en/investors/annual-general-meetings/.

If you have any queries relating to your shareholding, you can also email shareholderquestions@royalmail.com.

Company contact details

Registered office

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185 Farringdon Road
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Registered in England and Wales

Company number 08680755

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Director of Investor Relations – John Crosse

Company Secretariat

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Company Secretary – Mark Amsden

Company advisers

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Tel: 0371 384 2656 (from outside the UK: +44 (0)121 415 7086).

Lines are open 8:30am to 5:30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

Independent auditor

KPMG LLP

Corporate brokers

Bank of America

Barclays Bank plc

Forward-Looking Statements

Disclaimers

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

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

Royal Mail plc

