Royal Mail plc
19 November 2020

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

ROYAL MAIL plc
RESULTS FOR THE HALF YEAR ENDED 27 SEPTEMBER 2020

Reported measures (£m)[1]	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019	Change[3]
Revenue	**5,671**	5,166	9.8%
Operating (loss) / profit	**(20)**	61	(132.8%)
Profit before tax	**17**	173	(90.2%)
Basic earnings per share (pence)	**1.4p**	15.3p	(13.9p)

Adjusted measures (£m)[1,2]			
Operating profit	**37**	165	(77.6%)
Profit before tax	**18**	146	(87.7%)
Basic earnings per share (pence)	**0.4p**	11.1p	(10.7p)
Net debt	**(1,006)**	(1,372)	

H1 2020-21 Summary:

- Group revenue up 9.8%, driven by strong parcel growth at both Royal Mail and GLS. Group reported operating loss of £20 million; Group adjusted operating profit[2] of £37 million, growth in GLS profit more than offset by loss in Royal Mail.
- Royal Mail performance reflects opportunity from change in business mix:
    - Revenue up 4.9% with parcels up 33.2% partly offset by letters decline of 20.5%;
    - Adjusted operating loss[2] of £129 million (H1 2019-20: profit of £75 million) with costs of mix change (£95 million), COVID-19 (£85 million), voluntary redundancy (£147 million) and international conveyance (£32 million);
    - Adjusted operating loss in regulated business[4] of £180 million, (H1 2019-20: £25 million profit) reflecting the decline in letter revenue;
    - Addressed letter volumes (ex. elections) down 28% and total letter volume down 33%. Parcel volume up 31%;
    - Government COVID-19 support not utilised during the pandemic.
- GLS performance boosted by exceptional volumes and short-term price initiatives in some countries:
    - Revenue up 21.7% and adjusted operating margin 8.9%;
    - Improved performance in focus countries (France, Spain and the US);
    - Operating profit up 84.4% to £166 million.
- Scenario update for FY2020-21:
    - Uncertainty remains, particularly for Q4;
    - Royal Mail revenue now projected to be £380 to £580 million higher year on year. Mix change costs increased to £210 million, cost of COVID-19 £155 million;
    - Royal Mail would be better than break even at adjusted operating profit level if revenues outturn at higher end of scenario;
    - GLS now projected as 21% to 23% revenue growth year on year, with c. 8% adjusted operating margin.

Keith Williams, Interim Executive Chair, commented:
"The growth in online shopping and parcels during the pandemic, combined with our increased focus on delivering more of what customers want, has led to revenue growth of nearly 10% for the Group in the first half, with Royal Mail revenue up nearly 5%. For the first time, parcels revenue at Royal Mail is now larger than letters revenue, representing 60% of total revenue, compared with 47% in the prior period. GLS delivered strong revenue growth

of 21.7%, with adjusted operating margin up by 300 basis points. B2C accounted for 56% of GLS volume in the first half. Across the Group, our people have worked incredibly hard to keep delivering for our customers during these unprecedented times, and I want to thank them for their dedication and commitment.

We have been pushing forward with our transformation in Royal Mail and delivering more new innovations, products and services for our customers. Whilst we have done exceptionally well in terms of revenue and have seen real growth for the first time since privatisation, we have recorded a first half adjusted operating loss of £129 million after restructuring charges of £147 million, and a reported operating loss of £176 million. As anticipated the reduction in letter volumes has had a significant impact on the regulated business which lost £180 million in the first half, and demonstrates the need for change in the Universal Service.

The level of revenue growth in the first half shows we have the right strategy and that Royal Mail can be cash generative and a sustainable, profitable business in the future. But we need to speed up the pace of change in order to create a profitable business in the UK. We are making good progress on the initiatives we set out in June. We are reducing management layers to increase our speed of decision making, directing the business towards those activities which generate quicker payback and focusing our capital expenditure on projects which will improve our customer proposition and increase our efficiency. These initiatives should add to top line growth and generate a saving of around £330 million in operational costs.

Talks with our unions are at an important stage. We have been encouraged by our talks with CWU, which have intensified over the past weeks. With the improved revenue performance, we have focused on how we can deliver efficiency and productivity in a growth environment together, which will enable the business to see the benefits of operational leverage.

We are already working hard to deliver Christmas, recruiting around 33,000 additional flexible workers in Royal Mail over the peak season, and we continue to provide significant support to the Government's COVID-19 testing programme and the distribution of protective equipment.

In GLS our strong footprint, local market presence and operational agility have enabled us to successfully manage the challenges of COVID-19. GLS also benefitted from scale effects, along with successful pricing initiatives in certain markets. Our focus countries – Spain, France and the US - have emerged stronger and our task now is to continue the turnaround, lock-in and build on that success. GLS is well positioned to continue to benefit from the shift to B2C, cross-border growth and evolving customer needs towards more convenience and ease in receiving parcels.

We have updated our scenario for the full year. As parcel volumes at both Royal Mail and GLS have continued to be robust year to date, revenue performance in the scenario has improved. It remains difficult to give precise guidance but parcel growth is expected to remain robust in Q3, with more uncertainty over trends in Q4 due to the development of the COVID-19 pandemic, further recessionary impacts and trends in international volumes."

Business unit financial summary[1,2]

	Revenue			Adjusted operating profit		
(£m)	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019	Change[3]	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019	Change[3]
Royal Mail	**3,828**	3,649	4.9%	**(129)**	75	(272.0%)
GLS	**1,870**	1,537	21.7%	**166**	90	84.4%
Intragroup	**(27)**	(20)	35.0%	**-**	-	-
Group	**5,671**	5,166	9.8%	**37**	165	(77.6%)

1 Reported results are in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.
2 For further details on Adjusted Group operating profit, reported results and Alternative Performance Measures (APMs) used, see section entitled 'Presentation of results and Alternative Performance Measures'.

3 All percentage changes reflect the movement between figures as presented, unless otherwise stated.
4 The Regulated Business is a subset of Royal Mail plc's core UK business, as defined by Ofcom, which excludes certain subsidiaries such as Parcelforce Worldwide, eCourier and the Royal Mail Property unit. It is the regulatory entity which contains the Universal Postal Service network and all the products provided through or in relation to that network. The operating loss of the Regulated Business includes intragroup revenues with eCourier and property rent costs payable to the group's property unit.

Results presentation

A results webcast presentation for analysts and institutional investors will be held at 9:00am today, Thursday 19 November 2020 at www.royalmailgroup.com/results .

A trading update covering the nine months ending 27 December 2020 is expected to be issued in February 2021.

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INTERIM EXECUTIVE CHAIR REVIEW

Whilst the COVID-19 pandemic continues to present challenges for both Royal Mail in the UK and GLS, the first half performance has been above our initial expectations in many areas. In the first six months we have seen stronger growth than expected in parcels at Royal Mail, which has more than offset the decline in letters from a revenue perspective, and for the first time revenue from parcels now exceeds that from letters. However, we have also incurred significant costs due to increased parcel volumes and manual sortation of much of this additional volume through our network, costs related to COVID-19 such as protective equipment, overtime and agency staff, as well as social distancing measures, along with management restructuring costs, which have led to an adjusted operating loss of £129 million in the UK.

We have prepared for our peak period around Christmas, deploying eight temporary parcel sort centres and recruiting around 33,000 flexible workers to help manage peak volumes. Overall we are planning to increase our investment in peak this year by around £100 million, to ensure we maintain quality as we deliver Christmas for our customers and continue to support the Government's COVID-19 testing programme. However, the impact of the pandemic is ever changing and whilst we have contingency plans in place, accurately predicting the volumes and absence rates given the risk of rising COVID-19 infection rates is challenging.

We have been engaged in talks with CWU since July, which have intensified over the past weeks. Our first half performance demonstrates we can capture the revenue opportunity in the market, and deliver a growth agenda to support jobs, which has long been advocated by CWU. There is common ground in this vision, however, we need to reach agreement soon in order to move ahead with our programme that will enable the business to see the benefits of operational leverage and deliver a financially sustainable future.

At Royal Mail, our ambition is to be the leading delivery company in the UK. We have an unrivalled combination of scale, brand, reach and innovation, and are well positioned in the market with B2C (Business to Consumer) and cross-border presenting key growth opportunities. But we need to accelerate the pace of change in order to take advantage of these opportunities, to bring new services to our customers and to capture growth in parcels and beyond.

GLS has seen continued strong growth in parcel volumes in the first half. Our focus on productivity and the actions we've taken on costs, along with successful pricing initiatives in certain markets and the positive leverage from higher volumes, in particular in May and June, has delivered significant margin expansion compared to the same period last year. Our focus countries have emerged stronger and our task now is to lock-in and build on that success. GLS is well positioned to continue to benefit from the shift to B2C, cross-border growth and evolving customer needs towards more convenience and ease in receiving parcels.

It remains difficult to give precise guidance for the rest of the year. We have updated our scenario, first presented in June of this year, to take account of trading year to date and the additional experience we now have of operating during the COVID-19 pandemic. Royal Mail revenue is now projected to be £380 million to £580 million higher year on year, given the continued strength in parcel volume growth, whilst mix change costs have increased to £210 million. The cost of COVID-19 has also increased due to ongoing social distancing measures and an expected rise in absence rates. We have also now included an increase in international conveyance costs. We anticipate Royal Mail would be better than break even, at an adjusted operating profit level, if revenues outturned at the higher end of the scenario. GLS revenue growth in the scenario is now 21% to 23% year on year, with around an 8% adjusted operating margin. Whilst parcel growth is expected to remain robust in Q3, there is more uncertainty over trends in Q4 due to the impact of changes to international postal rates and Brexit on international volumes, and possible further recessionary impacts across our footprint from the COVID-19 pandemic.

Liquidity remains strong, at around £2.0 billion (including undrawn syndicated loan facilities) at 27 September 2020. In-year trading cash inflow in the first half was £219 million. Net debt reduced to £1,006 million (September 2019: £1,372 million; March 2020: £1,132 million)

As we said at the time of our FY2019-20 announcement, we do not expect dividends to be paid in respect of

FY2020-21. Our ambition is to re-commence dividend payments in FY2021-22.

Royal Mail

Operating performance

Revenue grew 4.9%, with parcel revenue growth more than offsetting the decline in letter revenue.

Parcel volumes grew strongly in the first half, driven by an increase in e-commerce activity as customers shopped more online as a result of COVID-19 restrictions. Domestic account parcel volumes, excluding Amazon, were up 51% and Royal Mail Tracked 24®/48® and Tracked Returns® performed strongly with 72% growth year on year. We processed 2.5 million tracked parcels on our busiest day. We were also pleased to be able to support the Government's COVID-19 testing and PPE programmes through the collection and delivery of tens of millions of test kits and hundreds of millions of items of PPE.

International parcel volumes grew over the first six months driven by imports, in particular as China emerged from COVID-19 restrictions and economic activity increased early in the period. However, growth in international volumes weakened as the half progressed, impacted by reduced global air capacity and increased conveyance costs, with export volumes recording a small decline in the period.

Towards the end of the first half the overall parcel volume growth rate slowed, from 37% in the first two months to 31% for the first half in total, due to the gradual relaxation of COVID-19 restrictions in the UK and weaker international volumes.

Parcel revenue grew by 33.2% period on period. We saw a positive product mix over the half, as customers traded up to higher value tracked products and volumes improved in higher value channels.

The initial impact of COVID-19 at the start of the period saw a significant reduction in letter volumes, with addressed letter volumes (ex. elections) 33% lower in the first two months. Addressed Advertising mail, which has a lower average unit revenue (AUR), was significantly impacted. In the first half Addressed Advertising mail volume was down 49% as customer marketing campaigns were delayed or cancelled. In recent months Advertising mail has seen an improvement, as some business activity has resumed. In FY2019-20 addressed Advertising mail accounted for around a quarter of addressed letter volumes (ex. elections), compared to around a fifth in H1 2020-21.

Business mail, which has a much higher average unit revenue compared to Advertising mail, has been more resilient, with a rate of decline in volume of just under half that seen for addressed Advertising mail. Business mail accounted for just over half of addressed letter volumes (ex. elections) in FY2019-20.

For the first half, addressed letter volumes (ex. elections) were 28% lower year on year. Total letter revenue was down 20.5%.

Whilst these dynamics have driven better than expected revenues, the mix change from handling fewer letters and more parcels, and manual sortation of much of this additional volume, increased costs in the period by £95 million.

In addition, costs related to COVID-19 (elevated absence, social distancing, additional protective equipment and other costs) were £85 million in the first six months.

International conveyance costs also increased £32 million due to shortage in airline conveyance capacity as a result of COVID-19.

There was also a voluntary redundancy charge of £147 million in the first half, primarily related to the management restructure announced in June, with a planned reduction of around 2,000 roles.

As a result of these costs, Royal Mail recorded an adjusted operating loss of £129 million in the first half (H1 2019-20: £75 million profit), including voluntary redundancy costs.

The regulated business recorded a loss of £180 million (H1 2019-20: £25 million profit).

Innovation and customer focus
We have sharpened our focus on the customer in Royal Mail in the past six months and streamlined our decision making by bringing together all domestic and international parcels, letters and commercial support services under the newly created role of Chief Commercial Officer.

As part of our commitment to providing a great experience for our customers and delivering greater convenience, following a successful trial in the West of England, our parcel pick-up service - Parcel Collect – is now available nationally. Parcel Collect is a new collection service direct from a customers' door or a nominated safe place. Customers pay for their postage and collection online or via the Royal Mail app. Royal Mail will then collect up to five parcels per address, six days a week. Over 76,000 items have been booked in for collection since launch on the 19 October.

Our new inflight redirections service, launched in June, allows customers to change their delivery after it has been sent. This means customers no longer have to worry about not being in to receive the parcel. In the last month we further enhanced inflight redirections to enable customers to change the delivery day or location to a Post Office or Royal Mail Customer Service Point for them to collect. We continue to improve our Royal Mail app and have extended our age verification service to smaller business customers, for example allowing eBay sellers to send goods that require age verification on the doorstep. Royal Mail offers unparalleled flexibility for customers to send and receive items whenever and wherever they want; through our great and long-standing partnership with the Post Office, online and through our extensive network of postboxes, parcel postboxes and customer service points.

For our Letters customers, we have focused on introducing online platforms to act as a convenient "one stop shop" for advertising and business mail. Our 130,000 plus retail customers can now access advertising and business mail services online via Hybrid Mail, Admailer and dropaleaflet.com. Instead of having to liaise with multiple suppliers to manage the posting, printing and customer targeting of advertising campaigns, they can now do it all in one place. Customers tell us how many items they want to send, upload the artwork and addresses, and we can manage the rest. Central and local Government organisations, insurers, banks and retailers have all starting to use these services.

As part of our digitisation strategy, we are in the advanced stages of plans to include 2D barcodes on our stamps. This is part of our ambition to have a barcode on every mail item that enters our network. This enhancement will help us manage mail volumes more efficiently by providing transparency into our operation. We will update our customers and the market on our rollout plans in due course.

We continue to build a pipeline of new initiatives for both letter and parcel customers. Each is designed to meet the growing customer requirement for more convenient options of sending and receiving letters and parcels, and to meet the increasing demand for more information about their letters and parcels in this digital, information-hungry, age.

We look forward to the publication of Ofcom's User Needs Report before the end of 2020. In anticipation of Ofcom's findings we continue to engage with our customers and stakeholders about how they expect their needs to change in future. These ongoing discussions are reinforcing our view that the best way to ensure the Universal Service continues to meet our customers' needs is to rebalance our service model more towards parcels. It is clear from our conversations with customers that they value and want to retain the 'one price goes anywhere' principle, want more frequent and convenient parcel deliveries, and they still want an affordable next-day letters service. The upcoming Ofcom review of the regulatory framework for the postal market will be vital in securing a platform which permits both the investment required to deliver the USO demanded by the public and for that service to be

delivered sustainably. Any decision on whether substantive change is required is a matter for the Regulator, Government and ultimately Parliament. We would urge Ofcom and the Government to consider swiftly what changes are appropriate given the rapidly changing customer needs and the risks to the financial sustainability of the Universal Service.

Action on costs

As previously announced, we have taken action to speed up decision-making and improve our financial position. Our management restructure will deliver an annualised £130 million cost benefit from FY2021-22, and we have booked a charge of £140 million for this programme, which is within the total voluntary redundancy costs of £147 million in the period. These projects are always difficult as we lose colleagues from the business, but we are on track and we are now reaching the end of an extensive and detailed consultation with Unite CMA, with the bulk of the role reductions taking place in Q4 of the current financial year.

We continue to target £200 million of savings over 2 years in non-people costs and have a strong pipeline of initiatives with £70 million of savings delivered to date. However, keeping non-people costs flat, excluding depreciation, in FY2021-22 vs. FY2019-20 is increasingly challenging given the higher than expected parcel volumes to date and the risk of COVID-19 costs persisting into FY2021-22.

Industrial relations

Royal Mail is at a crucial juncture. We need substantial business change in order to capture the opportunities from the rapidly growing demand for parcels and provide a sustainable and profitable future for Royal Mail.

We have been engaged in talks with CWU since July, which have intensified over the past weeks. The focus has been on pay and how we can work together to accelerate the pace of change to improve our efficiency and productivity, so we can respond to a market that has jumped forward three years in terms of customer behaviour and the changing parcel/letters mix. We have been clear on our programme and the operational changes we need to make, including more regular revisions of our operations and resources across delivery, processing and distribution, our ongoing network change programme (e.g. parcel hubs and van delivery), and continuous improvement across all our offices. We have laid out the benefits to CWU which we believe can be delivered, which will fund future frontline pay increases. Our first half performance demonstrates we can capture the revenue opportunity in the market, and deliver a growth agenda to support jobs, which has long been advocated by CWU. There is common ground in this vision, however, we want to reach agreement soon in order to move ahead with our programme that will enable the business to see the benefits of operational leverage and deliver a financially sustainable future.

As mentioned above, we have been consulting extensively with Unite CMA on our management restructuring programme alongside ongoing constructive discussions about transformation of the business. Our discussions will continue on both fronts in the coming weeks.

We are pleased to see the legislation that will enable our proposed CDC (Combined Defined Contribution) pension scheme progressing through Parliament. We expect the Pension Schemes Bill to pass by Christmas 2020, with further regulations to follow next year. Subject to these necessary regulations and authorisation from the Pensions Regulator, we can then plan for the introduction of our new CDC pension shortly thereafter. We have lobbied successfully with CWU for the introduction of CDC pensions since 2018. This demonstrates what Royal Mail and CWU can achieve when we work together.

Transformation

Whilst we will reduce capital expenditure this financial year and next through a combination of efficiency, cancellation of some projects and deferment of others, we remain committed to our transformation programme and the level of capital expenditure required to deliver it. We recently announced a contract for the installation of four new Parcel Sortation Machines (PSMs) into our operation. Build will commence on the first machine shortly after Christmas and is planned to be operational in late Spring, with the others later in FY2021-22.

Parcel automation has remained at c.33%, although given the significant increase in volumes this has resulted in 166 million more parcels being sorted at least once automatically compared to the prior year. Our North West hub in Warrington, coming into operation in 2022, will begin fit out of the automation equipment in January 2021. In addition, we have commenced construction of our Midlands parcel hub in Daventry, scheduled for completion in 2023. With the capacity to process over 1 million items per day, it will be the largest Royal Mail parcel hub in the UK.

As previously reported, the onset of the COVID-19 pandemic delayed a number of our network trials. Automated Hours Data Capture, our automated clocking in and clocking out system, has equipment installed at 20 sites, with twelve sites live and eight enabled with the technology but not yet operational. We are planning to restart trials and following validation of the benefits, will commence a national rollout to Processing sites during FY2021-22.

Trials of Resource Scheduler, which will deliver greater efficiency in the deployment of resources against planned workload, have been scaled-up to six sites. Trials were suspended with the onset of COVID-19 but work is underway to restart trial activities in Q4 of the current financial year. Following the successful conclusion of trials, we plan to start the national rollout from Q3 2021-22.

We now have 22 dedicated van routes across two trial offices to test separate daily delivery of larger and next day Later Acceptance Time parcels. Routes have been maintained throughout the impact of COVID-19 and we are targeting eight further deployments in the second half (four in Q3 and four in Q4) within the pilot phase. These further pilots will help inform the full national rollout and deployment design for 2021 onwards.

The Future

Looking ahead, we will retain and build on our position as the leading delivery company in the UK by continuing to build on our people, our brand, and our reputation for trust, quality and products.

And we want to go further in future. We want to be seen as the leaders in innovation too. By continuing to build a leaner, more customer-centric, culture in Royal Mail, we will deliver more of the innovations our customers really want and need.

One of the things our customers increasingly want is to be partnering with the most environmentally friendly delivery operator in the industry. Our 'feet on the street' network means that, based on our own analysis, we already offer the lowest reported CO2 per parcel of any major UK delivery operator.

Looking ahead, we have ambitious plans to reduce our environmental footprint further. Royal Mail has committed to becoming a net zero carbon business by 2050. As part of this ambition we are moving towards having a fleet fuelled entirely by alternative fuel. In the first half we launched a new trial - the electric taxi van, based on a London taxi cab – for parcel deliveries, which we are operating across a number of locations in the UK, providing us with extended range and zero emissions. In the second half we will begin trials with a hydrogen van operating in Aberdeen. We will continue to expand our electric vans and our CNG (compressed natural gas) HGV fleets to reduce our emissions and to support the delivery of our environmental ambitions.

We are well positioned in the market, and B2C and cross-border present key growth opportunities. Underpinned by our operations, people and technology, we will simplify our product set and continue to invest in innovation, such as our new Parcel Collect service, to bring services which are relevant to our customers to capture growth in parcels and beyond.

GLS

While the current COVID-19 crisis has brought both additional challenges and extra costs, the market changes accelerated by it have created opportunities. GLS delivered a strong performance in the first half, with growth in almost all markets. Volumes were up 21% in the first six months, driven by international and B2C. International is a key differentiator for GLS with one of the largest ground-based deferred parcel networks in Europe. B2C accounted for 56% of volume in the first half. More recently there have been indications that B2B volume is also

recovering having been negatively impacted by the pandemic.

Revenue increased by 21.7% (20.1% excluding acquisitions). Germany, Italy and France accounted for 53.6% of total GLS revenue (H1 2019-20: 54.9%), with North America contributing 9.6% (H1 2019-20: 9.8%).

Revenues have increased significantly in those GLS companies which already had a relatively high proportion of B2C volumes pre-COVID-19, for example Spain, Europe East and Denmark. Due to the flexibility in our network, GLS has also been able to respond quickly to market developments in other countries where it has a lower proportion of B2C, such as Germany and Belgium. We have also remained focused on B2B customers by maintaining high quality levels.

Actions taken to mitigate the additional costs of higher B2C volumes, included: online drop off permission; contactless delivery; a focus on productivity and last mile efficiency; and pricing initiatives in selected markets led to a strong performance in the first half. Operating profit also benefited from significant volume growth in the early part of the period, particularly during May and June, as more efficient utilisation in processing and line haul helped offset higher unit costs in delivery. All of this resulted in adjusted operating profit in the first half of £166 million (H1 2019-20: £90 million) with margin expansion of 300 bps to 8.9%. Around £36 million of the reported improvement in operating profit in the first half is considered to be one-off in nature due to exceptional volumes, associated positive operational leverage effects and short-term pricing initiatives.

Performance in the first half in previously underperforming "focus countries" - France, Spain and the US - improved. France saw revenue growth of 19.2% and a significant reduction in operating losses from €11 million in the prior period. Volume growth has slowed in recent months compared to the first quarter, but is still robust, driven by international and new customer wins.

Spain continued to perform strongly with revenue growth of 49.5%, driven by B2C volume and positive price / mix. Volume growth has again slowed in recent months but is still strong. Operating profit improved significantly compared with a small loss in the prior year.

In North America the US performance has stabilised and improved versus prior year, with increased management focus and the benefit of the contribution from Mountain Valley Express (MVE) acquired in October 2019. Growth in B2C volumes has resulted in pressure on final mile delivery costs, but synergies in the US line haul network have provided some benefits to offset. In Canada, Dicom revenue declined by 6.5% impacted by lower freight and B2B volumes, although margin improved due to initiatives taken to streamline the cost base to fit with the lower activity level.

GLS is well positioned to achieve further success in its markets and benefit from the shift to B2C, cross-border growth and evolving customer needs towards more convenience and ease in receiving parcels.

Scenario for FY2020-21

Given the uncertainty surrounding the development of the pandemic in the remainder of the year and possible recessionary impacts across our business, which could have a significant influence on parcel volumes, along with a potential impact of Brexit, it remains difficult to give precise second half guidance.

We have updated only our central Scenario, first presented in June of this year as Scenario 1, to take account of trading year to date and the additional experience we now have of operating during the COVID-19 pandemic.

FY2020-21 Scenario (change vs. prior year)

Royal Mail		AGM (September)			Latest view		
		YTD 30/8	FY20-21		H1 (actual)	H2	FY20-21
Letter revenue		(22)%	(17)%		(20.5)%	(12)%	(16)%
Domestic parcel revenue		*37%*	*25%*		*35%*	*35%*	*35%*
International parcel revenue		*17%*	*10%*		*23%*	*7%*	*14%*
Total UK parcel revenue		33%	22%		33.2%	30%	31%
Royal Mail revenue year on year change[1]		£139m higher	£75m to £150m higher		£179m higher	£200m to £400m higher	£380m to £580m higher
Net cost of mix change from Letters to Parcels		£(85)m	£(140-160)m		£(95)m	£(115)m	£(210)m
Cost of COVID-19*		£(75)m	£(120)m		£(85)m	£(70)m	£(155)m
International conveyance costs**					£(32m)	(£30m)	(£62m)

1. Includes elections in 2019-20 (£82 million)
** Costs of elevated absence, social distancing, additional protective equipment and other COVID-19 related costs*
*** The increase in the costs of overseas conveyance on export mail.*

GLS		AGM (September)			Latest view		
		YTD 30/8	FY20-21		H1 (actual)	H2	FY20-21
Revenue Growth		19%	10-14%		22%	20%-24%	21%-23%
Adjusted operating profit margin		8.1%	c. 7%		8.9%	c. 7%	c. 8%

Royal Mail

Letters revenue

In the second half, we expect tighter economic conditions and uncertainty associated with both the economy and Brexit, with the rate of decline projected to slow vs. H1 assuming the current trajectory of business recovery is maintained, driven largely by a partial recovery in advertising mail revenues. This would result in an estimated decline of 12% year on year in the second half.

FY2020-21 letter revenue is therefore estimated to decline 16%, in line with our original scenario from June.

A 1% change from our current projection would impact letter revenues in the remainder of the year by c. £15 million.

Parcels revenue

In the second half, if customer behaviours remain similar to our current experience, we project continued strong growth, with revenues up 30%.

Domestic parcel revenue growth is expected to be 35% in the second half, a result of the second national lockdown, and potential subsequent localised lockdowns, but with significant uncertainty in respect to customer behaviours in Q4.

International parcels revenue growth is expected to drop to 7% in H2, with full year growth of 14%, predominantly driven by the expected impact that Brexit will have on our export parcel market in the final quarter.

A 1% change from our current projection would impact parcel revenues in the remainder of the year by c. £20 million.

Costs

The accelerated growth in parcels requires investment in additional manual sortation resource and incremental logistics costs, resulting in a projected net cost of mix change within our core network of around £210 million. Given our outlook on letters has remained broadly consistent since June, the additional mix costs we might now expect to incur relate to our revised view that parcel growth will be stronger than previously anticipated in the second half.

The implied incremental cost of each percentage point increase in domestic parcel revenue is c.£8 million. This short-term incremental cost illustrates the investment projected to be required to handle and deliver additional volumes before any inflationary cost pressures or efficiencies. This incremental cost is higher in Q3 than at other times of the year since the network is already operating at near capacity, hence it is more difficult to absorb work across the pipeline.

The "one off" costs of COVID-19 include the costs of covering higher than usual absence levels within our core frontline operational network, as well as the provision of protective equipment. These costs also include the costs associated with deployment of social distancing measures. For FY2020-21, these are projected to be around £155 million. COVID-19 "one off" costs have increased since the September update driven by revised absence levels now anticipated following both national and local lockdowns.

The growth in International revenue is associated with material price increases in many markets. This has resulted in revenue growth but also significant increases in the costs of overseas conveyance on export mail.

Royal Mail adjusted operating profit

If Royal Mail revenue outturns at the higher end of the projected scenario range for FY2020-21, we would anticipate adjusted operating profit to be better than breakeven.

GLS

The scenario now shows revenue growth is anticipated to be 20%-24% in the second half and 21%-23% for the full year. Operating profit margin is anticipated to be c.8%, driven by GLS' strong performance in the first half of the year and the recent positive impact of the new lockdown restrictions in several geographies.

The rest of year carries recessionary uncertainty and consequent risk of lower volumes than were observed earlier in the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has considered the principal risks faced by the Group for the remaining six months of the year and has provided an update on those risks as described at pages 62 to 72 of the Royal Mail plc Annual Report and Financial Statements 2019-20:
www.royalmailgroup.com/media/11212/royal-mail-plc-annual-report-and-accounts-2019-20.pdf

COVID-19

The Group continues to face challenges due to the COVID-19 pandemic and the uncertainty as to how this might evolve over the remainder of 2020 and into 2021. Lockdowns imposed by Governments in the UK and Europe and the potential for further lockdowns and / or other restrictive measures to mitigate infection rates creates uncertainty over customer behaviour and the associated impact on our business. COVID-19 is an overarching and interrelated risk rather than a single principal risk.

The Board has considered the key principal risks most significantly affected by the pandemic and provided an update on these as follows:

Principal risk	COVID-19 impact	Mitigating actions
Efficiency	Parcels revenue has now exceeded letters as a result of strong growth during the pandemic in the UK. However, significant costs have been incurred due to the manual sortation of much of this growth and costs relating to COVID-19 such as protective equipment, use of overtime and agency staff, restructuring costs and social distancing measures. Due to the uncertain risks over future infection rates, there are challenges in being able to accurately predict volumes and potential impact on absence rates. A number of network trials were delayed by the onset of the pandemic affecting roll out of key transformation programmes Automated Hours Data Capture and Resource Scheduler. Work is underway to progress these.	We will move forward with our transformation programme, targeting opportunities for efficiency savings with more revisions of the operations, our network change programme and continuous improvement activity. We have signed a contract for the installation of four more Parcel Sorting Machines, the first of which will start shortly after Christmas and the remainder to be completed in 2021-22. We have commenced the construction of our Midlands parcels hub and the North West hub remains on track to come into operation in 2022. We want to restart our trial activity for Automated Hours Data Capture as soon as possible with a plan for national rollout in 2021-22 following successful conclusion of these trials. Dedicated van routes have been maintained during the pandemic at trial sites with further deployments planned in the second half of the year to inform the national roll out.
Customer expectations and Royal Mail's responsiveness to market changes	Royal Mail's letters business performance remains closely aligned to UK economic conditions. For the first half of the year, addressed letter volumes (excluding elections) declined 28% with total letters revenue down 20.5%. This has been offset by strong parcels growth of 31%, revenue of 33.2%, driven by an increase in e-commerce as people shop more online during COVID-19 restrictions. Q4 remains challenging with a possible parcels volume slowdown due to recessionary impacts across our footprint. The impact of Brexit and UPU rates will be key drivers of international volumes in Q4.	We continue to focus on winning and retaining as much of the current parcel growth as possible, with an emphasis on those customers and sectors that represent long term growth opportunities. We will continue to support this with regular service feature developments and continuous enhancements to our digital access and service channels. This includes leveraging parcel technology investments to bring to market new features to improve convenience and customer control in the UK and internationally. Our range of letter products, incentives and offers are designed to demonstrate how mail can help businesses. We will deploy a range of appropriate

		incentives to encourage customers to reconnect with using mail.
Economic and political environment	There was an unprecedented decline in GDP in the three months to June 2020. While the economy has started to recover, the extent to which it will continue to do so is highly uncertain. The rising number of COVID-19 infections across the country, and the increasing use of restrictions, pose a threat to economic recovery. There are a very wide range of views amongst economic forecasters on the potential path for GDP over the next few months. A sharp and sustained economic downturn in our core markets in 2020-21 is expected. As in the UK, economic growth in the Eurozone has declined substantially and the medium-term outlook is highly uncertain.	We have maintained a strong liquidity position, with good levels of cash, limited financial debt and retained access to a £925 million bank syndicate facility. Existing covenants have been waived until March 2022 and replaced with a basic liquidity covenant. We are implementing a range of immediate cost control activities and have enacted a measured reduction in investment in the short term to underpin our financial position. The Group has the ability to access the COVID Corporate Financing Facility (CCFF) of up to £300 million until 19 May 2021 unless an extension is requested from the Bank of England by 31 December.
Our UK Regulatory Framework	COVID-19 has accelerated the shift in volumes from letters to parcels and has underlined the need for us to adapt to the rapidly changing needs of the customer. Our own research has shown that customers want more frequent and convenient parcel deliveries whilst retaining the 'one price goes anywhere' principle and next working day letter service.	We continue to work with Ofcom and Government on the financial sustainability of the Universal Service to ensure it reflects changing consumer and SME needs. We await the outcome of Ofcom's User Needs Review with interest and continue to work with Ofcom regarding our transformation plan which will further improve efficiency and respond to changing customer demands.
Health, safety and wellbeing	Our employees are classified as key workers as we form part of the country's essential infrastructure. We have an important role to play in keeping parcels and mail moving during the COVID-19 pandemic. COVID-19 poses an increased risk to public health and this means that the effectiveness of our controls and processes to protect our employees, contractors, agency workers and members of the public, are even more important.	We continue to prioritise mitigating the risks to our employees, contractors, agency workers and members of the public posed by COVID-19, including enhancing our sick pay policy and updating our operating procedures to limit contact between colleagues and customers. We are responding to changing PHE and WHO instructions and guidance through the development of internal policies, procedures, risk assessments, instructions and guidance. These arrangements are communicated to employees through a dedicated, comprehensive multi-media communications campaign.
Business Continuity and crisis management	COVID-19 and the Government's response to contain the spread of the disease continues to have a significant effect on our UK and International businesses. Royal Mail staff are recognised by Government as key workers, essential to keeping the country connected during this time. We are adapting and responding to the rapidly evolving risks accordingly, in line with our existing Business Continuity Management Framework.	We continue to prioritise the protection of our people, the country and our customers, whilst keeping parcels and mail moving. We actively monitor the evolving COVID-19 threat and have invoked a comprehensive business continuity and crisis management response across the Group in line with our framework. We continue to engage closely with the Government, public health authorities, Ofcom, and customers to implement necessary measures in response to Government, PHE and WHO advice. Steps are being taken to minimise the impact on services as much as possible.

In addition, the Board has considered the key principal risks more generally and provided an update as follows:

Industrial Action
We continue to work with CWU during the COVID-19 pandemic to ensure we achieve our objectives to safeguard the health and wellbeing of our people and the communities we serve; and continue to deliver the best possible service to our customers during the pandemic.

We have been engaged in talks with CWU and these are at an important stage. We have been encouraged by our talks with CWU, which have intensified over the past few weeks. With improved revenue performance, we have focused on how we can deliver efficiency and productivity which will enable the business to see the benefits of operational leverage.

We have been clear on our programme and required operational changes and laid out the benefits to CWU which we believe can be delivered to fund future front line pay increases, capture revenue opportunity and deliver a growth agenda to support jobs.
There is common ground on this vision but we would like to reach agreement with CWU soon in order to move ahead with our programme that will enable the business to see the benefits of operational leverage and deliver a financially sustainable future.

Pensions arrangements
The Pension Schemes Bill, which will enable CDC pension schemes for the first time under UK law, is now currently progressing through Parliament. Once the Bill has received Royal Assent, detailed regulations will need to follow before Royal Mail will be able to introduce its proposed CDC scheme.

Economic and political environment
The deadline in the Brexit Withdrawal Agreement to extend the transition period has now passed and we await the outcomes of the talks between the UK Government and EU regarding trading arrangements post 1st January 2021. The rules which apply to non-EU imports are expected to be extended to EU items at the end of the transition period. Similarly, we would expect the EU to treat UK imports as it does non-EU imports today. The impact on cross-border parcel volumes will depend on the nature of the UK's future trading relationships, and the future EU/UK customs and VAT arrangements.

The biggest operational impact to the Group would be in the Customs clearance process. We believe the immediate risk to our domestic operations is low, we are working to ensure the smooth flow of mail across borders and are well placed to manage the impact of changes to Customs processing.

There is still a great deal of uncertainty regarding the treatment of traffic from the EU to Great Britain and from Great Britain to Northern Ireland. We continue to seek further clarity from Government on whether any changes will be required in the future.

Risks that remain unchanged
The following risks remain unchanged from those disclosed in the 2019-20 Annual Report and Financial Statements:

- Scale up and Grow GLS
- Competition Act investigation
- Capability – talent and strategic workforce planning
- Major breach of information security, data protection regulation and/or cyber attack
- Environment and sustainability

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)
Reported results are prepared in accordance with International Financial Reporting Standards (IFRS) and are set out in the sections entitled 'Presentation of results and Alternative Performance Measures' (APMs) and 'Condensed consolidated financial statements'. APMs used in this report are consistent with the 2019-20 Annual Report. Updates to any APMs are set out in the section entitled 'Alternative Performance Measures (APMs)'.

Group, Royal Mail and GLS reporting periods
The Group and Royal Mail results are for the 26 week period to 27 September 2020. The GLS financial period is the 6 months to 30 September 2020.

Group results

Reported results

Summary results (£m)	**Reported 26 weeks ended 27 September 2020**	Reported 26 weeks ended 29 September 2019
Revenue	**5,671**	5,166
Operating costs	**(5,678)**	(5,044)
Operating (loss) / profit before specific items	**(7)**	122
Operating specific items	**(13)**	(61)
Operating (loss) / profit	**(20)**	61
Non-operating specific items	**(3)**	88
Net finance costs	**(19)**	(19)
Net pension interest (non-operating specific item)	**59**	43
Profit before tax	**17**	173
Earnings per share (basic)	**1.4p**	15.3p

Group revenue increased by £505 million, largely due to higher parcel revenue in GLS and Royal Mail, which more than offset the decline in Royal Mail letters revenue. The Group operating loss before specific items of £7 million, was driven by higher operating costs mainly as a result of COVID-19, the cost of mix change and volume and the previously announced management restructure in Royal Mail. Operating specific items were £13 million and non-operating specific items £3 million.

The cost of the management restructure has not been treated as a specific item, in line with market guidance issued in May 2019, where we communicated that transformation costs (which includes project costs and voluntary redundancy costs) would be part of operating profit. The aim of this change was to simplify the measures reported externally. Further details on specific items are included in the section entitled 'Specific items and pension charge to cash difference adjustment' and Alternative performance measures (APMs).

Profit before tax of £17 million comprises a £133 million loss in Royal Mail (H1 2019-20: £95 million profit) and a £150 million profit in GLS (H1 2019-20: £78 million profit). Basic earnings per share decreased to 1.4 pence. A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results'.

Adjusted results

Summary results (£m)	**Adjusted 26 weeks ended 27 September 2020**	Adjusted 26 weeks ended 29 September 2019	Change
Royal Mail	**3,828**	3,649	4.9%
GLS	**1,870**	1,537	21.7%
Intragroup revenue	**(27)**	(20)	35.0%
Group revenue	**5,671**	5,166	9.8%
Royal Mail	**(3,957)**	(3,574)	10.7%
GLS	**(1,704)**	(1,447)	17.8%
Intragroup costs	**27**	20	35.0%
Group operating costs	**(5,634)**	(5,001)	12.7%
Royal Mail	**(129)**	75	(272.0%)
GLS	**166**	90	84.4%
Group operating profit	**37**	165	(77.6%)
Operating profit margin	***0.7%***	*3.2%*	(250 bps)

Group revenue grew by 9.8% in the period. Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 73.0% (H1 2019-20: 62.8%). Intragroup revenue represents revenue from trading between Royal Mail and GLS, principally due to Parcelforce Worldwide operating as GLS's partner in the UK.

Group operating costs increased by 12.7%. Distribution and conveyance costs includes £27 million (H1 2019-20: £20 million) of intragroup costs from trading between Royal Mail and GLS, principally due to Parcelforce Worldwide operating as GLS's partner in the UK.

Group operating profit margin was down 250 basis points, driven by the lower level of profitability in Royal Mail.

The main factors impacting revenue and operating costs are described in the sections entitled 'Royal Mail' and 'General Logistics Systems (GLS)'.

Specific items and pension charge to cash difference adjustment

(£m)	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019
Pension charge to cash difference adjustment (within people costs)	**(44)**	(43)
Operating specific items		
Regulatory fine	**-**	(51)
Impairment of assets	**(3)**	-
Employee Free Shares charge	**-**	(4)
Amortisation of acquired intangible assets	**(10)**	(10)
Legacy / other credits	**-**	4
Industrial diseases claim cost	**-**	(1)
Other	**-**	5
Total operating specific items	**(13)**	(61)
Non-operating specific items		
(Loss) / profit on disposal of property, plant and equipment	**(3)**	88
Net pension interest	**59**	43
Total non-operating specific items	**56**	131
Total specific items and pensions adjustment before tax	**(1)**	27
Total tax credit on specific items and pensions adjustment	**11**	15

The difference between the pension charge and cash cost (pension charge to cash difference adjustment) comprises the difference between the IAS 19 income statement pension charge rate of 19.7% 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 pension charge to cash difference adjustment was £44 million in the period and is expected to be around £86 million for the full year.

Amortisation of acquired intangible assets of £10 million (H1 2019-20: £10 million) relates to acquisitions in GLS.

The loss on disposal of £3 million (H1 2019-20: £88 million profit) relates to various losses on disposal of property, plant and equipment. The prior period profit largely relates to the land sale of plots B & D and C at Nine Elms.

Non-operating specific items includes a net pension interest credit of £59 million (H1 2019-20: £43 million), which was higher than the prior period due to a higher pension surplus position at 29 March 2020 compared with 31 March 2019.

Net finance costs

Reported net finance costs of £19 million (H1 2019-20: £19 million) largely comprised interest on bonds of £12 million (H1 2019-20: £6 million), interest on a bank syndicate loan facility of £3 million (H1 2019-20: £nil), and interest on leases of £14 million (H1 2019-20: £14 million). This is offset by interest receivable of £13 million (H1 2019-20: £4 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%	456	456	2024
€550 million bond	2.7%	501	501	2026
Bank syndicate loan facility	LIBOR+0.475%	925	-	2025
Total		**1,882**	**957**	

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

Taxation

		26 weeks ended 27 September 2020			26 weeks ended 29 September 2019	
(£m)	**Royal Mail**	**GLS**	**Group**	Royal Mail	GLS	Group
Reported						
(Loss)/profit before tax	(133)	150	17	95	78	173
Tax credit / (charge)	33	(36)	(3)	2	(22)	(20)
Effective tax rate	24.8%	24.0%	17.6%	*n/a*	*28.2%*	*11.6%*
Adjusted						
(Loss)/profit before tax	(142)	160	18	64	82	146
Tax credit / (charge)	24	(38)	(14)	(12)	(23)	(35)
Effective tax rate	16.9%	23.8%	77.8%	*18.8%*	*28.0%*	*24.0%*

The Royal Mail adjusted tax credit of £24 million gives an effective tax rate of 16.9% (H1 2019-20: 18.8%). The effective tax rate on the credit is lower than the UK statutory rate mainly due to an increase in a contingency provision and non-deductible expenditure, which are only partially offset by technology claims.

The GLS adjusted effective tax rate of 23.8% (H1 2019-20: 28.0%) is lower than the prior year mainly due to the improved performance of the US and France and the resulting reduction in non-recognition of deferred tax assets on losses.

The Group adjusted effective tax rate is significantly impacted by the blend of profits and losses. The GLS profits, which are taxable at higher rates, are mostly offset by Royal Mail losses, resulting in a high adjusted effective tax rate on a small net profit.

The Group reported tax charge is £3 million on a reported profit of £17 million. In addition to being impacted by the blend of profits and losses, the tax charge is also impacted by the non-taxable net pension interest income.

Adjusted earnings per share (EPS)

Adjusted basic EPS was 0.4 pence compared with 11.1 pence in the prior period reflecting the trading performance of the Group.

In-year trading cash flow

(£m)	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019
Adjusted operating profit	**37**	165
Depreciation and amortisation	**259**	252
Adjusted EBITDA	**296**	417
Trading working capital movements	**94**	(105)
Share-based awards (LTIP and DSBP) charge adjustment	**3**	3
Gross capital expenditure	**(132)**	(113)
Net finance costs paid	**(24)**	(24)
Research and development expenditure credit	**1**	3
Income tax paid	**(19)**	(29)
In-year trading cash flow	**219**	152

In-year trading cash inflow was £219 million, compared with £152 million in the prior period. This was mainly due to trading working capital inflow (including voluntary redundancy costs) and lower income tax paid, offset by a lower adjusted EBITDA and increased capital expenditure.

Trading working capital inflow of £94 million was £199 million higher than the prior period, largely driven by the accrual of voluntary redundancy costs (mainly for the management restructure).

Income tax paid decreased by £10 million largely due to losses made by Royal Mail and timing of GLS tax payments.

Gross capital expenditure

(£m)	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019
Growth capital expenditure	**(86)**	(83)
Replacement capital expenditure	**(46)**	(30)
Total	**(132)**	(113)

Total gross capital expenditure was £132 million, of which GLS spend was £54 million. Growth capital expenditure in GLS was £14 million higher than the prior period. This is offset by £11 million lower growth capital expenditure in Royal Mail. Replacement capital expenditure was £16 million higher than the prior period predominantly driven by the timing of vehicle purchases and increased spend on upgrading our data platforms. We continue to invest in strategic projects in Royal Mail and GLS, including expanding the GLS network, IT systems, activities supporting data projects, and building our automated parcel hubs.

Net debt

A reconciliation of net debt is set out below.

(£m)	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019
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	**188**	245
In-year trading cash flow	**219**	152
Other working capital movements	**(14)**	(9)
Cash cost of operating specific items	**(2)**	(1)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**2**	5
Acquisition of business interests	**(3)**	(1)
Cash flows relating to London Development Portfolio	**(14)**	99
Purchase of own shares	**-**	(3)
New lease obligation under IFRS 16 (non-cash)	**(38)**	(62)
Foreign currency exchange impact	**(24)**	(21)
Dividends paid to equity holders of the parent Company	**-**	(169)
Net debt carried forward	**(1,006)**	(1,372)

Movements in GLS client cash are included within other working capital. The amount held at 27 September 2020 was £34 million (H1 2019-20: £29 million). The cash cost of operating specific items was an outflow of £2 million consisting of industrial disease settlements and the cash cost of disposals.

Acquisition of business interests of £3m relates to deferred consideration paid following the acquisition of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses in the prior year.

Cash outflow relating to the London Development Portfolio was £14 million, consisting of infrastructure and enabling works costs of £14 million for Mount Pleasant and £1 million for Nine Elms, with a £1 million receipt relating to Nine Elms.

New lease obligations under IFRS 16 of £38 million relates to additional lease commitments that were entered into during the period.

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 £345 million is shown on the balance sheet in respect of the DBCBS. 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, and the first one will be performed as at 31 March 2021.

An IAS 19 pension service charge at 19.7% (£180 million) has been charged to the income statement. The pension charge is greater than the cash contribution rate as the assumed rate of future increases in benefits (4.1%) is greater than the assumed discount rate (1.5%).

The Group has made contributions at 15.6% (£143 million) of DBCBS pensionable pay in respect of the scheme. Members contribute 6% (including Pension Salary Exchange).

Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, current and future RMDCP members in the standard section 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 pre withholding tax accounting surplus of the RMPP at 27 September 2020 was £4,530 million, comprising assets of £12,031 million and liabilities of £7,501 million. The pre withholding tax accounting surplus has reduced by £1,020 million in the period, which is because the scheme's liabilities are linked to changes in real corporate bond yields which fell significantly over the period whereas the scheme's assets are linked to changes in real Government bond yields which only reduced slightly over the period. After the withholding tax adjustment, the accounting surplus of the RMPP was £2,945 million at 27 September 2020. This is an accounting adjustment with no cash benefit to the Group.

The triennial valuation of RMPP at 31 March 2018 was agreed on 19 July 2019. Based on this set of assumptions rolled forward, the RMPP actuarial surplus on a technical provisions basis at 30 September 2020 was estimated to be around £279 million.

The RMPP closed in March 2018 to future accrual in its previous form and the Group makes no service contributions in respect of those liabilities.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Following the purchase of an additional buy-in policy of insurance in 2018-19, substantially all the liabilities of this scheme are now covered by insurance policies. These significantly reduce the potential risk to the Group in respect of this scheme.

These insurance policies are considered assets of the RMSEPP and do not confer any rights to individual members. Based on the rolled forward assumptions used for the 31 March 2018 triennial valuation, the RMSEPP actuarial surplus at 30 September 2020 was estimated to be £7 million (31 March 2020: £9 million). The pre withholding tax accounting surplus at 27 September 2020 was £8 million. The RMSEPP closed in December 2012 to future accrual. The Group makes no regular service contributions.

In accordance with the new 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.

The Trustees are considering the approach to be taken to address the issue of unequal Guaranteed Minimum Pensions (GMPs) in respect of the RMSEPP scheme but estimate that the cost of this will not be material.

Cash pension costs for 2020-21
The Group expects to contribute around £285 million in the 2020-21 financial year in respect of DBCBS and RMPP with employees expected to contribute around £105 million. The Group also expects to contribute around £110 million into the defined contribution plans in the Group. Total employer contributions in respect of all pension schemes will therefore be around £400 million for the year.

Collective Defined Contribution (CDC) scheme and Defined Benefit Lump Sum Scheme (DBLSS)
We have, for some time, been working closely with the CWU and other stakeholders to make CDC a reality for Royal Mail and its people.

The Pension Schemes Bill, which will enable CDC pension schemes for the first time under UK law, is now currently progressing through Parliament. Once the Bill has received Royal Assent detailed regulations will need to follow. Once these, and the authorisation regime that CDC schemes will need to complete, are in place and after any further legislative and regulatory changes have been made, Royal Mail aims to set up the first scheme of this kind in the UK.

Based on current expectations, the CDC scheme will be accounted for as a defined contribution scheme. The DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS. The new arrangements will have fixed employer contributions of 13.6% and employee contributions of 6%. The total annual cost of the proposed scheme to Royal Mail is expected to be broadly similar to the current costs.

Property
We have invested £15 million in the first half of the year on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

Mount Pleasant
Further cash proceeds are to be paid in contractually agreed staged payments in 2020-21, with the final balance of consideration to be paid in 2024. We have received staged payments totalling £84 million to date. All proceeds received up to 2020-21, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works up to that point.

Nine Elms
To date we have received £101 million cash proceeds on formal completion of the sale of Plots B and D to Greystar and £22 million cash proceeds on formal completion of the sale of Plot C to Galliard Homes. We have committed to reinvesting around £30 million for infrastructure works associated with these plots.

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

Dividends
No final dividend was paid for the financial year 2019-20.

Royal Mail

Reported results

Summary results (£m)	**Reported 26 weeks ended 27 September 2020**	Reported 26 weeks ended 29 September 2019
Revenue	3,828	3,649
Operating costs	(4,001)	(3,617)
Operating (loss) / profit before specific items	(173)	32
Operating specific items	(3)	(57)
Operating loss	(176)	(25)
Operating loss margin	*(4.6%)*	*(0.7%)*

The detailed reported results for Royal Mail are set out in the paragraph entitled 'Segmental reported results'. Reported revenue was £179 million higher than the prior period driven by strong parcels growth. The prior period benefitted from the European Parliamentary election mailings. We have seen a substantial shift in our revenue mix from letters to parcels.

The operating loss before specific items of £173 million, is driven by increased people, distribution and conveyance costs as a result of the mix change from letters to parcels, the impact of COVID-19, international conveyance and restructuring costs. Operating specific items of £3 million primarily relates to the impairment of assets. Operating specific items in the prior period largely related to a provision for a regulatory fine of £50 million and associated interest from Ofcom and the Employee Free Shares Charge of £4 million.

Adjusted results

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

Summary trading results (£m)	**Adjusted 26 weeks ended 27 September 2020**	Adjusted 26 weeks ended 29 September 2019	Change
Letters	**1,529**	1,923	(20.5%)
Parcels	**2,299**	1,726	33.2%
Revenue	**3,828**	3,649	4.9%
Operating costs	**(3,957)**	(3,574)	10.7%
Operating (loss) / profit	**(129)**	75	(272.0%)
Operating (loss) / profit margin	***(3.4%)***	*2.1%*	*(550bps)*
Letters volumes (m units)			
Addressed letters	**3,423**	4,912	(30%)
Addressed letters (excluding election mailings)			*(28%)*
Unaddressed letters	**686**	1,244	(45%)
Total letters	**4,109**	6,156	(33%)
Parcels volumes (m units)			
Domestic	**681**	492	38%
International	**125**	121	3%
Total parcels	**806**	613	31%

Royal Mail revenue was up 4.9%. We have seen a substantial shift in our revenue mix with parcel revenue up 33.2%, more than offsetting the letter revenue decline of 20.5%. Parcels revenue now represents 60% of total Royal Mail revenue, compared with 47% in the prior period.

Royal Mail parcel volumes increased by 31%. Royal Mail domestic account parcel volumes, excluding Amazon, were up 51% driven by increased e-commerce sales, resulting from the substantial shift in retail spend from physical stores to online, seen following lockdown. Royal Mail Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 72%. This growth has been supported by the launch of our suite of Inflight Delivery Options, the number one ask from our account sending customers.

Parcelforce Worldwide revenue performance was strong. Volumes increased by 16%, due to increased traffic from our B2C customers resulting from COVID-19, together with some new business wins. We have also experienced significant growth in our import volumes particularly from our partners in Europe.

Our international parcels business experienced revenue growth in the period despite challenging trading conditions at the start of the year. Import volumes were up driven by strong demand for our cross-border offering. Export revenues were higher than the prior period despite a fall in volumes. Cost pressures in overseas delivery and shortage in airline conveyance capacity have increased the cost of exporting parcels. The impact of reflecting these cost pressures in our prices has led to a reduction in contract export parcel volumes. Despite this, consumer and small and medium enterprise traffic has been buoyant during the period driven by heightened e-commerce demand globally.

Total parcel revenue increased by 33.2% reflecting the impact of COVID-19 on mix and volume growth. In account, we saw our higher average unit revenue tracked products grow faster than their untracked equivalents, and customers up trading to our more premium products. In non-account, our online parcel products experienced significant growth, and overall volumes through Post Office Limited (POL) were strong.

Total letter volume decline was 33%. Addressed letter volumes excluding election mailings were down 28%. In addition to ongoing structural decline, letter volume decline has been accelerated by the impact of COVID-19, which has negatively impacted economic activity and ongoing business uncertainty.

The pandemic has significantly impacted Advertising mail and meter traffic. Overall, Advertising mail revenue of £160 million was down 47.8%. Unaddressed letter volumes, which is part of Advertising mail and attracts a much lower AUR than Consumer and Business mail, were down 45% in the period. Business Mail has also been heavily impacted, although less so than Advertising mail. However, stamped traffic, supported by social mailings, and fulfilment mailings continues to be more resilient, holding up well in the face of declines elsewhere.

Total letter revenue decreased by 20.5%.

Adjusted operating costs

(£m)	**Adjusted 26 weeks ended 27 September 2020**	Adjusted 26 weeks ended 29 September 2019	Change
People costs	**(2,774)**	(2,495)	11.2%
People costs excluding voluntary redundancy	**(2,627)**	(2,489)	5.5%
Voluntary redundancy costs	**(147)**	(6)	2350.0%
Non-people costs	**(1,183)**	(1,079)	9.6%
Distribution and conveyance costs	**(434)**	(390)	11.3%
Infrastructure costs	**(381)**	(381)	flat
Other operating costs	**(368)**	(308)	19.5%
Total	**(3,957)**	(3,574)	10.7%

Total adjusted operating costs increased by 10.7%.

Royal Mail adjusted people costs were 11.2% higher, primarily due to the growth in parcel volumes, higher sick absence and agency costs, and the cost of social distancing as a result of the COVID-19 pandemic. Within people cost, we estimate the cost of mix change to be £75 million and the cost of COVID-19 to be £41 million. We have managed to offset some of these cost pressures through savings initiatives. People costs also include assumptions on a 2020-21 frontline pay award which is still under negotiation with CWU and may change once discussions are completed. Any difference between our current assumptions and the final pay agreement will be included in the second half. Transformation costs of £165 million are included in people costs, comprising £18 million of project costs and £147 million of voluntary redundancy costs relating primarily to the management restructure announced in June 2020.

There was a net reduction of 2,430 heads to 139,036 (compared with March 2020).

Non-people costs increased by 9.6%, reflecting the impact of higher volume, COVID-19 and inflationary costs pressures. Within non-people costs, we estimate the cost of mix change to be £20 million (mainly distribution and conveyance) and the cost of COVID-19 to be £44 million (mainly the purchase of protective equipment to safeguard our frontline employees). We have also faced cost pressures in international conveyance costs, driven by the shortage in airline conveyance capacity as a result of COVID-19.

Distribution and conveyance costs increased by 11.3%. This was largely driven by higher domestic and international conveyance costs as a result of volume growth and the impact of COVID-19. Terminal dues were £12 million lower driven by lower export volumes which were partially offset by contracted rate rises. Total diesel and jet fuel costs increased to £83 million (H1 2019-20: £77 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 £186 million in 2020-21 as these impacts continue. This is £21 million higher than our previous expectation, which was communicated in the 2019-20 annual report.

Infrastructure costs were flat in the period. Depreciation and amortisation costs were broadly in line with the prior period. Higher property costs, driven largely by one off cost associated with exiting some of our sites, were offset by lower IT costs in the period.

Other operating costs increased by 19.5%, driven by the purchase of protective equipment to safeguard our frontline employees in response to the COVID-19 pandemic (c. £40 million). To date, we have purchased 19.6 million face masks, 46.9 million pairs of gloves, 3.7 million packets of wipes and 3.6 million bottles of hand sanitiser. POL and compensation costs have also increased driven by parcel volume growth. Transformation project costs of £14 million (H1 2019-20: £20 million) are also included in other operating costs.

Adjusted operating loss

Adjusted operating loss of £129 million, including voluntary redundancy costs, compared to £75 million profit in the prior period. Adjusted operating loss margin of 3.4%, down 550 basis points compared with the first half of 2019-20.

General Logistics Systems (GLS)

Reported results

Summary results (£m)	**Reported 6 months 30 September 2020**	Reported 6 months 30 September 2019
Revenue	**1,870**	1,537
Operating costs	**(1,704)**	(1,447)
Operating profit before specific items	**166**	90
Operating specific items	**(10)**	(4)
Operating profit	**156**	86
Operating profit margin	***8.3%***	*5.6%*

The detailed reported results are set out in the paragraph entitled 'Segmental reported results'. GLS reported revenue grew by £333 million. Operating profit before specific items increased by £76 million. The operating specific items charge of £10 million was due to the amortisation of acquired intangible assets. The prior period charge largely related to the amortisation of acquired intangible assets, partially offset by a £5 million provision release. GLS operating profit was £70 million higher than in the prior period.

Both the reported and the adjusted results for the first half of 2020-21 include 6 months of contribution from the acquisition of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses on 30 September 2019. There is no contribution included in the prior period.

Adjusted results

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

Summary trading results (£m)	**Adjusted 6 months 30 September 2020**	Adjusted 6 months 30 September 2019	Change
Revenue	**1,870**	1,537	21.7%
Operating costs	**(1,704)**	(1,447)	17.8%
Operating profit	**166**	90	84.4%
Operating profit margin	***8.9%***	*5.9%*	*300bps*
(€m)			
Revenue	**2,088**	1,730	20.7%
Operating costs	**(1,903)**	(1,629)	16.8%
Operating profit	**185**	101	83.2%
Volumes (m)	**387**	321	21%

Volumes were up 21%. This growth was driven by COVID-19 as GLS continues to benefit from increased B2C parcel deliveries driven by customers ordering more products online. GLS domestic and international volumes grew in almost all markets.

During the period, the impact of foreign exchange movements increased revenue by £15 million and operating costs by £14 million. Consequently, there was no material foreign exchange impact on adjusted operating profit in Sterling terms.

Revenue increased by 21.7%. Excluding acquisitions, revenue was up 20.1% driven by higher volumes. Revenue growth was achieved in the majority of markets, with significant growth in those markets having an existing greater

B2C exposure such as Spain, Eastern Europe and Denmark. The three major markets (Germany, Italy and France) accounted for 53.6% of total GLS revenue (H1 2019-20: 54.9%), with the North America markets contributing 9.6% (H1 2019-20: 9.8%).

Germany

In Germany, the largest GLS market by revenue, turnover grew by 20.7% driven by B2C growth in domestic and export markets and improved pricing. Operating profits increased, resulting from the scale effect from higher volumes and cost containment measures.

Italy

GLS Italy revenue grew by 12.6% 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 price pressure, which was not fully compensated by lower unit costs.

France

GLS France revenue grew by 19.2%, benefitting from higher volumes, including new customer acquisitions and improved pricing. Significant improvement was achieved, compared with an operating loss of €11 million in the prior period. The results in the first half of the year include net one-off effects from the COVID-19 situation. Nevertheless, initiatives to secure the improvements visible during the period will be pursued.

Spain

GLS Spain continued its positive financial trajectory. Revenue grew by 49.5% in the period, with the strong performance driven by growth in B2C volumes and pricing initiatives. Operating profit improved significantly, compared with a small loss in the prior period. The GLS Spain business is considered stable.

North America

In the US, revenue grew by 13.5% excluding the impact of acquisitions, 15.1% on a constant currency basis. Financial performance has continued to improve, benefitting from the contribution of the acquired MVE business. Profits in the first half were around breakeven, compared with a loss of £3 million in the prior period. Optimisation of the operational set-up to take advantage of synergies provided by the MVE network are ongoing.

GLS Canada revenue declined by 6.5%, 3.0% on a constant currency basis. GLS Canada, being a more heavily focused B2B and freight business, was more significantly impacted by COVID-19 than pure parcel operations in most other GLS markets. Nevertheless, operating profit and margin improved compared with the prior period 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 30.6 % in the period.

Adjusted operating costs (£m)

(£m)	**Adjusted 6 months 30 September 2020**	Adjusted 6 months 30 September 2019	Change
People costs	**(398)**	(353)	12.7%
Non-people costs	**(1,306)**	(1,094)	19.4%
Distribution and conveyance costs	**(1,152)**	(959)	20.1%
Infrastructure costs	**(111)**	(96)	15.6%
Other operating costs	**(43)**	(39)	10.3%
Total	**(1,704)**	(1,447)	17.8%

Total adjusted operating costs increased by 17.8%, or 16.3% excluding acquisitions.

People costs increased by 12.7%, or 9.8% excluding acquisitions.

Non-people costs increased by 19.4%, or 18.4% excluding acquisitions. Distribution and conveyance costs grew broadly line with volume, increasing by 20.1%. Infrastructure and other operating costs increased by 15.6% and 10.3% respectively, including higher depreciation and repairs and maintenance costs, partly offset by lower travel and marketing costs.

Adjusted operating profit

Adjusted operating profit was £166 million. There was no material foreign exchange impact on operating profit in Sterling terms.

Adjusted operating profit margin of 8.9% was 300 basis points higher than the prior period.

Presentation of Results and Alternative Performance Measures (APMs)

Presentation of results

Consolidated reported and adjusted results

The following table reconciles the consolidated reported results, prepared in accordance with IFRS, to the consolidated 26 week adjusted results.

			26 weeks ended 27 September 2020			26 weeks ended 29 September 2019
(£m)	**Reported**	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Revenue	**5,671**	**-**	**5,671**	5,166	-	5,166
Operating costs	**(5,678)**	**(44)**	**(5,634)**	(5,044)	(43)	(5,001)
People costs	**(3,216)**	**(44)**	**(3,172)**	(2,891)	(43)	(2,848)
People costs	**(3,069)**	**(44)**	**(3,025)**	(2,885)	(43)	(2,842)
Voluntary redundancy	**(147)**	**-**	**(147)**	(6)	-	(6)
Non-people costs	**(2,462)**	**-**	**(2,462)**	(2,153)	-	(2,153)
Distribution and conveyance costs	**(1,559)**	**-**	**(1,559)**	(1,329)	-	(1,329)
Infrastructure costs	**(492)**	**-**	**(492)**	(477)	-	(477)
Other operating costs	**(411)**	**-**	**(411)**	(347)	-	(347)
Operating (loss) / profit before specific items	**(7)**	**(44)**	**37**	122	(43)	165
Operating specific items:						
Impairment of assets	**(3)**	**(3)**	**-**	-	-	-
Regulatory fine	**-**	**-**	**-**	(51)	(51)	-
Employee Free Shares charge	**-**	**-**	**-**	(4)	(4)	-
Amortisation of intangible assets in acquisitions	**(10)**	**(10)**	**-**	(10)	(10)	-
Legacy / other credits	**-**	**-**	**-**	4	4	-
Operating (loss) / profit	**(20)**	**(57)**	**37**	61	(104)	165
Non-operating specific items:						
(Loss) / profit on disposal of property, plant and equipment	**(3)**	**(3)**	**-**	88	88	-
(Loss) / profit before interest and tax	**(23)**	**(60)**	**37**	149	(16)	165
Finance costs	**(32)**	**-**	**(32)**	(23)	-	(23)
Finance income	**13**	**-**	**13**	4	-	4
Net pension interest (non-operating specific item)	**59**	**59**	**-**	43	43	-
Profit before tax	**17**	**(1)**	**18**	173	27	146
Tax (charge)/credit	**(3)**	**11**	**(14)**	(20)	15	(35)
Profit for the period	**14**	**10**	**4**	153	42	111
Earnings per share						
Basic	**1.4p**	**1.0p**	**0.4p**	15.3p	4.2p	11.1p
Diluted	**1.4p**	**1.0p**	**0.4p**	15.3p	4.2p	11.1p

Segmental reported results

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

(£m)	**Royal Mail**	**GLS**	**Intragroup Eliminations**	**Group**	Royal Mail	GLS	Intragroup Eliminations	Group
				26 weeks ended 27 September 2020				26 weeks ended 29 September 2019
Revenue	**3,828**	**1,870**	**(27)**	**5,671**	3,649	1,537	(20)	5,166
People costs	**(2,818)**	**(398)**	**-**	**(3,216)**	(2,538)	(353)	-	(2,891)
Non-people costs	**(1,183)**	**(1,306)**	**27**	**(2,462)**	(1,079)	(1,094)	20	(2,153)
Operating (loss) / profit before specific items	**(173)**	**166**	**-**	**(7)**	32	90	-	122
Operating specific items[1]	**(3)**	**(10)**	**-**	**(13)**	(57)	(4)	-	(61)
Operating (loss) / profit	**(176)**	**156**	**-**	**(20)**	(25)	86	-	61
Non-operating specific items[1]	**(3)**	**-**	**-**	**(3)**	88	-	-	88
(Loss) / earnings before interest and tax	**(179)**	**156**	**-**	**(23)**	63	86	-	149
Net finance costs	**(13)**	**(6)**	**-**	**(19)**	(11)	(8)	-	(19)
Net pension interest (non-operating specific item)	**59**	**-**	**-**	**59**	43	-	-	43
(Loss) / Profit before tax	**(133)**	**150**	**-**	**17**	95	78	-	173
Tax credit/(charge)	**33**	**(36)**	**-**	**(3)**	2	(22)	-	(20)
(Loss) / Profit for the period	**(100)**	**114**	**-**	**14**	97	56	-	153

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

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

Alternative Performance Measures (APMs)

APMs are used by Management throughout the Annual Report and Accounts and Financial Review, who consider them to be an important means of comparing performance period on period and are key measures used within the business for assessing Business performance. APMs used in this report are consistent with the 2019-20 Annual Report. Updates to any APMs are set out in the section below.

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)	**26 weeks ended 27 September 2020**	26 weeks ended 29 September 2019
Reported operating (loss) / profit before specific items	**(7)**	122
Depreciation and amortisation	**259**	252
EBITDA	**252**	374
Pension charge to cash difference adjustment	**44**	43
Adjusted EBITDA	**296**	417

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 19.7% (H1 2019-20 19.6%) and the actual cash payments of 15.6% (H1 2019-20 15.6%).

In-year trading cash flow

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

(£m)	**Reported 26 weeks ended 27 September 2020**	Reported 26 weeks ended 29 September 2019
Net cash inflow from operating activities	**359**	279
Adjustment for:		
Other working capital movements	**14**	9
Cash cost of operating specific items	**2**	1
Purchase of property, plant and equipment	**(101)**	(78)
Purchase of intangible assets (software)	**(31)**	(35)
Net finance costs paid	**(24)**	(24)
In-year trading cashflow	**219**	152

Net debt

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

(£m)	**At 27 September 2020**	At 29 September 2019
Loans/bonds	**(957)**	(443)
Leases	**(1,142)**	(1,171)
Cash and cash equivalents	**1,038**	193
Client cash	**34**	29
Pension escrow (RMSEPP)	**21**	20
Net debt	**(1,006)**	(1,372)

Cash and cash equivalents increased by £845 million largely as a result of free cash flow of £188 million (H1 2019-20: £245 million inflow) and proceeds from the €550 million bond issue of £489 million. No dividends were paid in H1 2020-21 (H1 2019-20: £169 million).

Net debt excludes £190 million (H1 2019-20: £189 million) related to the RMPP pension scheme of the total £211 million (H1 2019-20: £209 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

	Notes	**Reported 26 weeks ended 27 September 2020 £m**	Reported 26 weeks ended 29 September 2019 £m
Continuing operations			
Revenue	2,3	**5,671**	5,166
Operating costs[1,2]		**(5,678)**	(5,044)
People costs		**(3,216)**	(2,891)
Distribution and conveyance costs		**(1,559)**	(1,329)
Infrastructure costs		**(492)**	(477)
Other operating costs		**(411)**	(347)
Operating (loss)/profit before specific items[2]		**(7)**	122
Operating specific items[2]			
Regulatory fine		**-**	(51)
Employee Free Shares charge		**-**	(4)
Impairment/legacy (costs)/income		**(3)**	4
Amortisation of intangible assets in acquisitions		**(10)**	(10)
Operating (loss)/profit		**(20)**	61
(Loss)/profit on disposal of property, plant and equipment (non-operating specific item[2])		**(3)**	88
(Loss)/profit before interest and tax		**(23)**	149
Finance costs		**(32)**	(23)
Finance income		**13**	4
Net pension interest (non-operating specific item[2])		**59**	43
Profit before tax		**17**	173
Tax charge	4	**(3)**	(20)
Profit for the period		**14**	153
Earnings per share	5		
Basic		1.4p	15.3p
Diluted		1.4p	15.3p

[1] Operating costs are stated before operating specific items which include impairment/legacy (costs)/income, amortisation of intangible assets in acquisitions, Employee Free shares charge and the Regulatory fine.
[2] Details of Alternative Performance Measures (APMs) are included in the Financial Review.

Condensed consolidated statement of comprehensive income

	Notes	**Reported 26 weeks ended 27 September 2020 £m**	Reported 26 weeks ended 29 September 2019 £m
Profit for the period		**14**	153
Other comprehensive (expense)/income for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**(822)**	312
Withholding tax adjustment relating to defined benefit surplus	6	**358**	(206)
Remeasurement (losses)/gains of the defined benefit surplus in RMPP and RMSEPP	6	**(1,078)**	550
Remeasurement losses of the defined benefit deficit in DBCBS	6	**(126)**	(39)
Deferred tax		**24**	7
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**14**	18
Exchange differences on translation of foreign operations (GLS)		**25**	33
Net loss on hedge of a net investment (€500 million bond)		**(10)**	(13)
Net loss on hedge of a net investment (Euro-denominated lease payables)		**(1)**	(2)
Designated cash flow hedges		**3**	(4)
Losses on cash flow hedges deferred into equity		**(4)**	(2)
Losses/(gains) on cash flow hedges released from equity to income		**12**	(3)
Loss on cross currency swap cash flow hedge deferred into equity		**(6)**	-
Loss on cross currency swap cash flow hedge released from equity to income – interest payable		**4**	-
Loss on cost of hedging deferred into equity		**(1)**	-
Gain on cost of hedging released from equity to income – interest payable		**(1)**	-
Tax on above items		**(1)**	1
Total other comprehensive (expense)/income for the period		**(805)**	326
Total comprehensive (expense)/income for the period		**(791)**	479

Condensed consolidated balance sheet

	Notes	Reported At 27 September 2020 £m	Reported At 29 March 2020 £m
Non-current assets			
Property, plant and equipment		**2,980**	3,120
Goodwill		**399**	390
Intangible assets		**526**	558
Investments in associates		**5**	5
Financial assets	8		
Pension escrow investments		**211**	201
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	6	**2,950**	3,614
Other receivables		**10**	12
Deferred tax assets		**168**	110
		7,249	8,010
Assets held for sale		**139**	25
Current assets			
Inventories		**18**	19
Trade and other receivables		**1,402**	1,282
Income tax receivable		**3**	6
Financial assets	8		
Investments		**-**	30
Derivatives		**2**	5
Cash and cash equivalents		**1,072**	1,640
		2,497	2,982
Total assets		**9,885**	11,017
Current liabilities			
Trade and other payables		**(2,120)**	(2,041)
Financial liabilities	8		
Interest-bearing loans and borrowings		**-**	(700)
Lease liabilities		**(193)**	(201)
Derivatives		**(23)**	(35)
Income tax payable		**(21)**	(5)
Provisions	9	**(248)**	(113)
		(2,605)	(3,095)
Non-current liabilities			
Financial liabilities	8		
Interest-bearing loans and borrowings		**(957)**	(935)
Lease liabilities		**(949)**	(987)
Derivatives		**(21)**	(32)
DBCBS retirement benefit deficit	6	**(345)**	(177)
Provisions	9	**(114)**	(112)
Other payables		**(6)**	(4)
Deferred tax liabilities		**(56)**	(54)
		(2,448)	(2,301)
Total liabilities		**(5,053)**	(5,396)
Net assets		**4,832**	5,621
Equity			
Share capital		**10**	10
Retained earnings		**4,819**	5,625
Other reserves		**3**	(14)
Total equity		**4,832**	5,621

Condensed consolidated statement of changes in equity

	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 period	-	153	-	-	153
Other comprehensive income/(expense) for the period	-	312	18	(4)	326
Total comprehensive income/(expense) for the period	-	465	18	(4)	479
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the parent Company	-	(169)	-	-	(169)
Share-based payments					
Employee Free Shares issue	-	7	-	-	7
Long-Term Incentive Plan (LTIP)	-	1	-	-	1
Deferred Share Bonus Plan (DSBP)	-	2	-	-	2
Purchase of own shares[1]	-	(3)	-	-	(3)
Reported at 29 September 2019	10	4,880	45	2	4,937
Profit for the year	-	8	-	-	8
Other comprehensive income/(expense) for the year	-	810	(15)	(45)	750
Total comprehensive income/(expense) for the year	-	818	(15)	(45)	758
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	-	(75)	-	-	(75)
Share-based payments					
Long-Term Incentive Plan (LTIP)	-	1	-	-	1
Deferred tax on share-based payments	-	1	-	-	1
Reported at 29 March 2020	10	5,625	30	(44)	5,621
Profit for the period	**-**	**14**	**-**	**-**	**14**
Other comprehensive (expense)/income for the period	**-**	**(822)**	**14**	**3**	**(805)**
Total comprehensive (expense)/income for the period	**-**	**(808)**	**14**	**3**	**(791)**
Transactions with owners of the Company, recognised directly in equity					
Share-based payments					
Long-Term Incentive Plan (LTIP)	**-**	**1**	**-**	**-**	**1**
Deferred Share Bonus Plan (DSBP)	**-**	**1**	**-**	**-**	**1**
Reported at 27 September 2020	**10**	**4,819**	**44**	**(41)**	**4,832**

[1] Purchase in respect of employee share schemes.

Condensed consolidated statement of cash flows

	Notes	**Reported 26 weeks ended 27 September 2020 £m**	Reported 26 weeks ended 29 September 2019 £m
Cash flow from operating activities			
Profit before tax		**17**	173
Adjustment for:			
Net pension interest		**(59)**	(43)
Net finance costs		**19**	19
Loss/(profit) on disposal of property, plant and equipment		**3**	(88)
Regulatory fine		**-**	51
Impairment/legacy costs/(income)		**3**	(4)
Amortisation of intangible assets in acquisitions		**10**	10
Employee Free Shares charge		**-**	4
Operating (loss)/profit before specific items[1]		**(7)**	122
Adjustment for:			
Depreciation and amortisation		**259**	252
EBITDA before specific items[1]		**252**	374
Working capital movements		**80**	(114)
Decrease/(increase) in inventories		**1**	(1)
(Increase)/decrease in receivables		**(111)**	19
Increase/(decrease) in payables		**68**	(123)
Net decrease in derivatives		**(16)**	-
Increase/(decrease) in provisions (non-specific items)		**138**	(9)
Pension charge to cash difference adjustment	6	**44**	43
Share-based awards (LTIP and DSBP) charge		**3**	3
Cash cost of operating specific items		**(2)**	(1)
Cash inflow from operations		**377**	305
Income tax paid		**(19)**	(29)
Research and development expenditure credit		**1**	3
Net cash inflow from operating activities		**359**	279
Cash flow from investing activities			
Finance income received		**12**	4
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**2**	5
London Development Portfolio net (costs)/proceeds (non-operating specific item)		**(14)**	99
Purchase of property, plant and equipment		**(101)**	(78)
Purchase of intangible assets (software)		**(31)**	(35)
Payment of deferred consideration in respect of prior years' acquisitions		**(3)**	(1)
Sale of financial assets investments (current)		**30**	-
Net cash outflow from investing activities		**(105)**	(6)
Net cash inflow before financing activities		**254**	273
Cash flow from financing activities			
Finance costs paid		**(36)**	(28)
Purchase of own shares		**-**	(3)
Payment of capital element of obligations under lease contracts		**(91)**	(92)
Cash received on sale and leasebacks		**-**	2
Repayment of loans and borrowings		**(700)**	(1)
Dividends paid to equity holders of the parent Company		**-**	(169)
Net cash outflow from financing activities		**(827)**	(291)
Net decrease in cash and cash equivalents		**(573)**	(18)
Effect of foreign currency exchange rates on cash and cash equivalents		**5**	4
Cash and cash equivalents at the beginning of the period		**1,640**	236
Cash and cash equivalents at the end of the period		**1,072**	222

[1] Details of Alternative Performance Measures (APMs) are included in the Financial Review.

Notes to the condensed consolidated financial statements

1. Basis of preparation

The comparative figures for the 52 weeks ended 29 March 2020 are not the Company's statutory accounts for that financial period. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This condensed consolidated set of unaudited financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union (EU).

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, this condensed consolidated set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the 52 weeks ended 29 March 2020, except for any changes detailed below.

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 downside scenarios and assessed these against committed and undrawn funding facilities of £925 million at 27 September 2020 through the bank syndicate loan facility and other liquid resources available to the Group (cash at bank £385 million and cash equivalent investments of £687 million at 27 September 2020).

The downside scenarios included a continued economic downturn resulting from further COVID-19 restrictions and Brexit; increased competition in the UK parcels sector; and the potential impact of industrial action.

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 the continued suspension of the dividend; reducing variable hours and cost of sales; removing discretionary pay; reducing our internal investment; and reducing our one-off projects.

Consideration was also given to the large fixed cost base required to deliver the Universal Service Obligation in its current form. The downside scenarios were tested to determine whether the Group would remain solvent. The Directors have made their assessment based on the best view of the severe but plausible downside scenarios that the Group might face. If outcomes are significantly worse, the Directors would need to consider what additional mitigating actions would be needed, for example assessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside scenario) is not currently reasonable.

The Group had net current liabilities of £108 million at 27 September 2020, which included £267 million deferred income, representing an obligation to deliver a service, which is not a cash liability. The financial statements have therefore been prepared on a going concern basis, which the Directors consider to be appropriate.

The Directors have a covenant waiver from its bank syndicate which removes the bank syndicate loan facility net debt/EBITDA and EBITDA/interest covenant tests for September 2020, March 2021 and September 2021, but which are replaced by a minimum liquidity covenant of £250 million. The Group still retains access to, but has not used, the COVID Corporate Finance Facility (CCFF), however changes introduced by the Bank of England (which affect all counterparties) have had the following impacts:

1. Basis of preparation (continued)

- Maximum maturity date of 19 May 2021 unless an extension is requested from the Bank of England by 31 December; and
- Facility size has been reduced to £300 million.

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

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.

Presentation of results and accounting policies

In some instances, Alternative Performance Measures (APMs) are used by the Group. This is because Management is of the view that these APMs provide a more meaningful basis on which to analyse business performance, and are consistent with the way that financial performance is measured by Management and reported to the Board. Details of the Group's APMs are included in the Financial Review.

New accounting standards and interpretations in 2020-21

No new UK Accounting Standards, which affect the presentation of these condensed consolidated financial statements, have been issued.

Key sources of estimation uncertainty and critical accounting judgements

The preparation of the condensed consolidated financial statements 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 significant judgements and estimates applied by the Group in these condensed consolidated financial statements are consistent with those applied in the Annual Report and Financial Statements 2019-20.

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.

The key measure of segment performance is operating profit before specific items (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis e.g. excluding specific items and the pension charge to cash difference adjustment, which 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.

Seasonality

Parcel and letter volumes are subject to seasonal variation. The Group's busiest period is from September to December, when there is: typically an increase in marketing mail as businesses seek to maximise sales in the period leading up to Christmas; an increase in parcel volumes as a result of online Christmas shopping; and an increase in addressed letter volumes as a result of the delivery of Christmas cards. During this period, the Group would expect to record higher revenue as greater volumes of parcels and letters are delivered through its networks. It also incurs higher costs, as Royal Mail hires large numbers of temporary workers to assist in handling the increased workload.

2. Segment information (continued)

Other seasonal factors that can affect the Group's results include the Easter period, the number of bank holidays in a reporting period and weather conditions.

During the reporting period, trading has been significantly impacted by COVID-19 restrictions. The Financial Review and Outlook sections provide further details.

26 weeks ended 27 September 2020		**Adjusted**			**Specific items and pension adjustment**		**Reported**
Continuing operations	**Royal Mail £m**	**GLS £m**	**Eliminations[1] £m**	**Group £m**	**Royal Mail £m**	**GLS £m**	**Group £m**
Revenue	**3,828**	**1,870**	**(27)**	**5,671**	**-**	**-**	**5,671**
People costs[2]	**(2,774)**	**(398)**	**-**	**(3,172)**	**(44)**	**-**	**(3,216)**
Non-people costs	**(1,183)**	**(1,306)**	**27**	**(2,462)**	**-**	**-**	**(2,462)**
Operating (loss)/profit before specific items	**(129)**	**166**	**-**	**37**	**(44)**	**-**	**(7)**
Operating specific items							
Impairments	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Amortisation of intangible assets in acquisitions	**-**	**-**	**-**	**-**	**-**	**(10)**	**(10)**
Operating (loss)/profit	**(129)**	**166**	**-**	**37**	**(47)**	**(10)**	**(20)**
Loss on disposal of property, plant and equipment (non-operating specific item)	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
(Loss)/profit before interest and tax	**(129)**	**166**	**-**	**37**	**(50)**	**(10)**	**(23)**
Finance costs	**(28)**	**(7)**	**3**	**(32)**	**-**	**-**	**(32)**
Finance income	**15**	**1**	**(3)**	**13**	**-**	**-**	**13**
Net pension interest (non-operating specific item)	**-**	**-**	**-**		**59**	**-**	**59**
(Loss)/profit before tax	**(142)**	**160**	**-**	**18**	**9**	**(10)**	**17**

26 weeks ended 29 September 2019		Adjusted			Specific items and pension adjustment		Reported
Continuing operations	Royal Mail £m	GLS £m	Eliminations[1] £m	Group £m	Royal Mail £m	GLS £m	Group £m
Revenue	3,649	1,537	(20)	5,166	-	-	5,166
People costs[2]	(2,495)	(353)	-	(2,848)	(43)	-	(2,891)
Non-people costs	(1,079)	(1,094)	20	(2,153)	-	-	(2,153)
Operating profit before specific items	75	90	-	165	(43)	-	122
Operating specific items							
Regulatory fine	-	-	-	-	(51)	-	(51)
Employee Free Shares charge	-	-	-	-	(4)	-	(4)
Legacy (costs)/income	-	-	-	-	(1)	5	4
Amortisation of intangible assets in acquisitions	-	-	-	-	(1)	(9)	(10)
Operating profit	75	90	-	165	(100)	(4)	61
Profit on disposal of property, plant and equipment (non-operating specific item)	-	-	-	-	88	-	88
Profit before interest and tax	75	90	-	165	(12)	(4)	149
Finance costs	(20)	(9)	6	(23)	-	-	(23)
Finance income	9	1	(6)	4	-	-	4
Net pension interest (non-operating specific item)	-	-	-	-	43	-	43
Profit before tax	64	82	-	146	31	(4)	173

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

[2] People costs include £147 million (H1 2019-20: £6 million) in relation to voluntary redundancy costs, including £140 million for the management restructure (see Note 9 for further details).

3. Revenue

This disclosure provides a disaggregation of Group revenue by type. Revenue recognised is net of Value Added Tax and principally relates to the rendering of services derived from contracts with customers.

26 weeks ended 27 September 2020	**Royal Mail £m**	**GLS £m**	**Intragroup revenue[1] £m**	**Group £m**
Letters and other revenue	**1,369**	**-**	**-**	**1,369**
Advertising Letters	**160**	**-**	**-**	**160**
Parcels	**2,299**	**1,870**	**(27)**	**4,142**
Total	**3,828**	**1,870**	**(27)**	**5,671**

26 weeks ended 29 September 2019	Royal Mail £m	GLS £m	Intragroup revenue[1] £m	Group £m
Letters and other revenue	1,617	-	-	1,617
Advertising Letters	306	-	-	306
Parcels	1,726	1,537	(20)	3,243
Total	3,649	1,537	(20)	5,166

[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.

4. Taxation

The Group reported tax charge is £3 million (H1 2019-20: £20 million) on a reported profit before tax of £17 million (H1 2019-20: £173 million). This consists of a tax credit in the UK of £33 million (H1 2019-20: £2 million) on a reported loss before tax of £133 million (H1 2019-20: £95 million profit) and a tax charge in GLS of £36 million (H1 2019-20: £22 million) on a reported profit before tax of £150 million (H1 2019-20: £78 million).

The tax credit in the UK relates to the recognition of a deferred tax asset in respect of the reported loss. The effective tax rate on the credit is higher than the UK statutory tax rate mainly due to there being no tax charge on the 'net pension interest income'. The GLS effective tax rate is higher than the UK statutory tax rate mainly due to higher tax rates in the countries in which it operates.

Details of the adjusted tax results and effective tax rates are provided in the Financial Review.

5. Earnings per share

	26 weeks ended 27 September 2020			26 weeks ended 29 September 2019		
	Reported	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Attributable to equity holders of the parent Company						
Profit from continuing operations (£ million)	**14**	**10**	**4**	153	42	111
Weighted average number of shares issued (million)	**1,002**	**n/a**	**1,002**	1,000	n/a	1,000
Basic earnings per share (pence)	**1.4**	**n/a**	**0.4**	15.3	n/a	11.1
Diluted earnings per share (pence)	**1.4**	**n/a**	**0.4**	15.3	n/a	11.1

[1] Details of Alternative Performance Measures (APMs) are included in the Financial Review.

The diluted earnings per share for the 26 weeks ended 27 September 2020 is based on a weighted average number of shares of 1,002,184,169 (H1 2019-20: 999,572,008) to take account of the potential issue of 1,242,463 (H1 2019-20: 601,714) ordinary shares resulting from the Deferred Share Bonus Plan (DSBP) and 1,574,342 (H1 2019-20: nil) ordinary shares resulting from the Long Term Incentive Plan (LTIP). Management have historically elected to settle this scheme using shares purchased from the market.

The 632,636 (H1 2019-20: 1,029,706) shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

6. Retirement benefit plans

Summary pension information

	26 weeks ended 27 September 2020 £m	26 weeks ended 29 September 2019 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(187)**	(189)
UK defined contribution plan	**(52)**	(47)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(91)**	(88)
Total UK ongoing pension service costs	**(330)**	(324)
GLS defined contribution plan costs	**(4)**	(4)
Total Group ongoing pension service costs	**(334)**	(328)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions[3]	**(143)**	(146)
Defined contribution plans' employer contributions	**(56)**	(51)
UK defined benefit and defined contribution plans' PSE employer contributions	**(91)**	(88)
Total Group cash flows relating to ongoing pension service costs	**(290)**	(285)
Pension charge to cash difference adjustment	**(44)**	(43)

[1] These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 19.7% for the DBCBS (2019-20: 19.6%) of the increase in the defined benefit obligation due to members earning one more half year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting period. Pensions administration costs for the RMPP of £5 million (H1 2019-20: £5 million) and the DBCBS of £2 million (H1 2019-20: £1 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 forms part of the payroll expense and is paid in respect of the DBCBS (15.6%) (2019-20: 15.6%). This includes payments into RMPP pension escrow investments. The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS.

6. Retirement benefit plans (continued)

Accounting and actuarial (deficit)/surplus position (DBCBS, RMPP and RMSEPP)

The plans' assets and liabilities are shown below

	DBCBS Accounting (IAS 19)		DBCBS Actuarial funding		RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding	
	At 27 September 2020 £m	At 29 March 2020 £m	**At 30 September 2020 £m**	At 31 March 2020 £m	**At 27 September 2020 £m**	At 29 March 2020 £m	**At 30 September 2020 £m**	At 31 March 2020 £m
Fair value of plans' assets[4,5]	**967**	730	**959**	735	**12,375**	11,989	**12,433**	11,700
Present value of plans' liabilities	**(1,312)**	(907)	**(935)**	(717)	**(7,837)**	(6,429)	**(12,147)**	(11,116)
(Deficit)/surplus in plans (pre withholding tax payable)[6]	**(345)**	(177)	**24**	18	**4,538**	5,560	**286**	584
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,588)**	(1,946)	**n/a**	n/a
(Deficit)/surplus in plans[7]	**(345)**	(177)	**24**	18	**2,950**	3,614	**286**	584

[4] The difference between accounting and actuarial funding asset fair values arises from the different period end dates used for the valuation of the assets under each method.
[5] An agreement has been made with the Pension Trustee to ringfence certain RMPP employer contributions in an escrow arrangement. These contributions are not considered to be Plan assets as the Trustee does not have any control over the assets.
[6] Any reference to a withholding tax adjustment relates to withholding tax payable on the distribution of a pension surplus.
[7] On an actuarial funding basis, the excess of DBCBS assets over liabilities is as a result of the risk reserve.

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

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

	DBCBS At 27 September 2020	**RMPP and RMSEPP At 27 September 2020**	DBCBS At 29 March 2020	RMPP and RMSEPP At 29 March 2020
Retail Price Index (RPI)	**2.9%**	**2.8%**	2.6%	2.5%
Consumer Price Index (CPI)	**2.1%**	**2.0%**	1.8%	1.7%
Discount rate[8]				
– nominal	**1.5%**	**1.7%**	2.2%	2.2%
– real (nominal less RPI)[9]	**(1.4)%**	**(1.1)%**	(0.4)%	(0.3)%
Constructive obligation for increases	**4.1%**	**-**	3.8%	-

[8] 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 of the change for the DBCBS scheme at 27 September 2020 is an increase in the discount rate of 10 bps at a 15 year duration which results in a £20 million decrease in the defined benefit obligation. For the RMPP the impact as at 27 September 2020 is an increase in the discount rate of 20 bps at a 25 year duration which results in a £390 million decrease in the defined benefit obligation.
[9] The real discount rate used reflects the average duration of the RMPP of around 27 years and the DBCBS of 15 years.

7. Assets held for sale

The balance sheet values for non-current assets held for sale during the reporting period are shown below.

	At 27 September 2020 £m	At 29 March 2020 £m
Property assets held for sale	**139**	25
Total	**139**	25

Non-current assets held for sale of £139 million at 27 September 2020 relate to land and buildings which are expected to be sold within the next 12 months. The carrying value of £139 million at 27 September 2020 mainly relates to separation and enabling works at the Mount Pleasant site (Calthorpe Street plot) prior to its sale to

7. Assets held for sale (continued)

Taylor Wimpey UK Ltd in 2021, and the remaining plots at the Nine Elms Park site.

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

8. Financial assets and liabilities

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 27 September 2020 Carrying amount £m**	**At 27 September 2020 Fair value £m**	At 29 March 2020 Carrying amount £m	At 29 March 2020 Fair value £m
Financial assets						
Cash	1		**385**	**385**	230	230
Cash equivalent investments	1		**687**	**687**	1,410	1,410
Money market funds		FVTPL	**627**	**627**	1,370	1,370
Short-term deposits – bank		Amortised cost	**60**	**60**	40	40
Cash and cash equivalents	1		**1,072**	**1,072**	1,640	1,640
Current asset investments – short-term deposits – bank	1	Amortised cost	**-**	**-**	30	30
Pension escrow investments	1	FVTPL	**211**	**211**	201	201
Trade and other receivables	2	Amortised cost	**1,402**	**1,402**	1,282	1,282
Derivative assets (current)	2	FVTPL	**2**	**2**	5	5
Total financial assets			**2,687**	**2,687**	3,158	3,158

The following table shows the classification, carrying amount and fair value of the Group's financial liabilities.

	Level	Classification	**At 27 September 2020 Carrying Amount £m**	**At 27 September 2020 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)
€500 million bond	2	Amortised cost	**(456)**	**(491)**	(446)	(467)
€550 million bond	2	Amortised cost	**(501)**	**(503)**	(489)	(465)
Obligations under leases (current)	2	Amortised cost	**(193)**	**(193)**	(201)	(201)
Obligations under leases (non-current)	2	Amortised cost	**(949)**	**(983)**	(987)	(982)
Trade and other payables	2	Amortised cost	**(2,120)**	**(2,120)**	(2,041)	(2,041)
Derivative liabilities (current)	2	FVTPL	**(23)**	**(23)**	(35)	(35)
Derivative liabilities (non-current)	2	FVTPL	**(21)**	**(21)**	(32)	(32)
Total financial liabilities			**(4,263)**	**(4,334)**	(4,931)	(4,924)
Net total financial liabilities			**(1,576)**	**(1,647)**	(1,773)	(1,766)

8. Financial assets and liabilities (continued)

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss (FVTPL) and any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

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 periods, in line with Group policy.

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 period. 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 at the balance sheet date. For the €500 million and €550 million bonds, 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.

9. Provisions

Below is a summary of the Group's provisions for liabilities and charges.

	Specific items £m	Other £m	Total £m
At 29 March 2020	(144)	(81)	(225)
Arising during the period:			
Charged in operating costs	**-**	**(172)**	**(172)**
Utilised in the period	**1**	**34**	**35**
At 27 September 2020	**(143)**	**(219)**	**(362)**
Disclosed as:			
Current	**(57)**	**(191)**	**(248)**
Non-current	**(86)**	**(28)**	**(114)**
At 27 September 2020	**(143)**	**(219)**	**(362)**
Disclosed as:			
Current	(57)	(56)	(113)
Non-current	(87)	(25)	(112)
At 29 March 2020	(144)	(81)	(225)

On 25 June 2020 the Company 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, with the largest reductions in senior executive roles and non-operational functions.

Following that announcement and extensive work to shape the new organisational design, a provision has been recognised for £140 million, representing voluntary redundancy compensation and associated costs. A range of possible outcomes for the provision have been considered, due to the assumptions used in respect of the demographic of the population expected to take voluntary redundancy. Sensitivity analysis has been undertaken to determine the impact of a change in these assumptions, for example: over-subscription of certain manager grades; a higher number of leavers than expected as the functional structures evolve; and the age profile of leavers. The range of outcomes from possible changes to any of these assumptions is not considered to be material.

It is expected that the provision will be substantially utilised by the reporting year end date of 28 March 2021.

Other provisions utilised in the period mainly relate to voluntary redundancy in the UK operation.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR FINANCIAL REPORT

The Directors confirm that to the best of our knowledge:

• the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit or loss of Royal Mail plc as required by DTR 4.2.4R; and

• the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Royal Mail plc are as listed in the Royal Mail plc Annual Report and Financial Statements 2019-20.

A list of current Directors is maintained on our corporate website www.royalmailgroup.com.

By order of the Board

Stuart Simpson
Interim Chief Executive Officer of Royal Mail
18 November 2020

INDEPENDENT REVIEW REPORT TO ROYAL MAIL PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 September 2020 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated balance sheet, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 September 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Ian Griffiths
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL
18 November 2020

FORWARD-LOOKING STATEMENTS

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

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

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