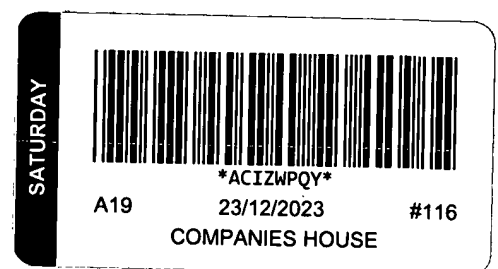


Registered Number 04138203

**Royal Mail Group Limited**  
**Annual Report and Financial Statements**  
**For the 52 weeks ended 26 March 2023**



# Royal Mail Group Limited

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# Royal Mail Group Limited

## Strategic report

Royal Mail Group Limited (the Company) is a wholly owned subsidiary of RMGLS Holdco Limited.

The Company's operating unit comprises Royal Mail's core UK and international, parcels and letter delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands.

Royal Mail's combined letter and parcel delivery network supports the collection, sorting and delivery of parcels and letters. This includes services Royal Mail provides as the UK's designated Universal Service Provider. Parcelforce Worldwide is a express parcel delivery provider.

## Results and dividends

The Company's revenue for the 52 weeks ending 26 March 2023 was £7,418 million (2021-22: £8,525 million). The loss after tax for the same period was £1,107 million (2020-21: £999 million profit). The loss has primarily resulted from a decrease in revenue of c.£1,100 million and an impairment charge of £535 million, offset by lower operating costs of c.£300 million.

### Revenue

Revenue was lower than the prior year, driven by a combination of 18 days of industrial action, economic downturn, weakening retail trends and a return to the structural decline in letters. The prior year also benefitted from elevated test kit volumes as well as some COVID restrictions being in place for part of year, which bolstered parcel volumes.

### Costs

Total people costs reduced by £185 million (3.3%). This included a reduction in year-on-year voluntary redundancy charge of c.£50 million. The prior year included voluntary redundancy charges of c.£80 million, of which c.£70 million was in relation to a restructuring programme in operations, focused on streamlining operational management and improving focus on performance at a local level. In the current year, FTE reductions have been managed by focusing on variable costs and through natural attrition.

The industrial relations environment has had several impacts on people costs:

- We did not undertake planned revisions in delivery or processing during H1. However, revision activity increased in H2, but the delays meant that productivity fell 3.6%.
- Though we saw pay annulments on industrial action days themselves, these were partially offset by the costs incurred in preparing for and recovering from each day of industrial action.

In April 2023, after lengthy negotiations, we were pleased that the CWU's Postal Executive Committee ratified the Business Recovery, Transformation and Growth Agreement (see Royal Mail Strategic Review) and are putting it to a ballot of its members with a recommendation to approve. Total people costs include the 2% pay award for frontline staff that has already been paid, plus the costs of a one-off payment of £500 per person, estimated to cost c. £61m. This represents our best estimate of the costs required for 2022-23 to settle the agreement based on our offer at the balance sheet date of 26 March 2023. This offer remains subject to ratification by CWU members.

People costs also include a number of other 2022-23 inflationary pay pressures such as the flow through impacts of the one hour reduction in the working week implemented in 2021-22, managerial pay deals and increases due to changes in the National Insurance social care levy.

There are no residual COVID costs (2021-22: c.£60 million) however the level of absence remains higher than before COVID. In 2022-23 the average total sick absence rate was 7.5% compared with 8.0% in the prior period. In 2019-20 (excluding any COVID related absence) average total sick absence was 5.87%.

The people cost headwinds outlined above were more than offset by volume related savings associated with revenue decline and sustainable savings delivered through the prior year restructuring programme focused on streamlining operational management and improving focus on performance at a local level.

### Net assets

At 26 March 2023, cash and cash equivalents were £354 million (2021-22: £753 million). Net assets decreased in the year by £1,664 million to £2,629 million, largely due to the loss after tax for the year of £1,107 million and a decrease in the Company's retirement benefit surplus of £766 million.

The Directors do not recommend a dividend (2021-22: no dividend).

# Royal Mail Group Limited

## Strategic report (continued)

### Our strategy

Our strategy to transform Royal Mail into a more efficient and better balanced business to reflect the changing needs of our customers remains the right one. If the business is to deliver sustainable value over the medium and long term we must improve our customer offering, rebuild trust and modernise the business to grow and become more agile and customer focused.

### Five-point plan

- Rightsizing the business.
- Creating the headroom to invest.
- New resourcing models.
- Efficient use of network and assets.
- Building management capability and effectiveness.

The ongoing industrial dispute and our failure to rightsize the business quickly enough to match lower parcel volumes had a significant impact on our first half financial performance and implementation of our strategy. As a result, in November 2022 we launched a five-point plan focused on stabilising the UK business. During the second half we made good progress, detailed below. This progress, together with the changes contained in our proposed agreement with the CWU, gives Royal Mail a chance to compete.

### Our five-point plan

Our five-point plan announced in November 2022 to stabilise the business, focused on:

#### 1. *Rightsizing our business*

- We were successful in rightsizing the business, reducing FTE by 10k as an exit run rate at end of March 2023 vs March 2022, exceeding our target of c.5k, with a much lower voluntary redundancy requirement than originally anticipated.
- Revisions are now completed in all processing and delivery units to align resource to workload. Equalising workload and improving productivity will allow us to improve quality of service for both letters and parcels.

#### 2. *Creating the headroom to invest*

- Tighter cash management enabled us to invest in key change programmes such as automation, despite a £100 million reduction in capital expenditure versus our 2022-23 plan. We also started marketing a property in Royal College Street, in London.

#### 3. *New resourcing models*

- New contracts for new starters have been implemented.
- Under the Business Recovery, Transformation and Growth Agreement, our new attendance and sick pay policies will come into effect in August 2023, if approved by CWU members, to help address ongoing high levels of absence. Lower absence will result in better quality for our customers.

#### 4. *Efficient use of our network and assets*

- On automation we reached 76% parcel automation in March 2023, exceeding our target of 70% by the end of the year, up from 12% in 2018-19 and 50% in 2021-22. We are currently around 80% and expect to achieve our 90% automated target soon after the Midlands Super Hub opening in June 2023.
- Scan in, Scan out technology, or SISO, is deployed in all delivery offices, replacing written sign in/sign out sheets, which enables us to better manage our resource.
- c.346 dedicated parcel hubs are now fully rolled out to enable us to compete in the growing midnight e-commerce order for delivery the next day market which is what both our sending and receiving customers want.
- We have committed to work with the CWU on indoor delivery method changes in Royal Mail. Our delivery offices need to be optimised for parcels as well as letters.

# Royal Mail Group Limited

## Strategic report (continued)

- We will commence a strategic review of the Parcelforce Worldwide business which will consider how we move to an integrated single parcel network, to maximise synergies. The review will include how to utilise our new parcel Super Hubs, the dedicated parcel hubs and Parcelforce Worldwide depots as a single, parcels network covering the entirety of the UK. For large or small parcels, this network will deliver even better quality at a more competitive price, whilst reducing emissions.

### 5. *Building management capability and effectiveness*

- Our new operational management structure is now embedded and delivering improved operational grip.
- We are upskilling our managers through our recently opened Royal Mail Academy.
- Our Trust Score survey has shown our managers' relationship with our frontline team continues to improve, despite the backdrop of the CWU dispute, which demonstrates the advantages of smaller teams, better trained managers and better communication.

### **The Business Recovery, Transformation and Growth Agreement**

The proposed agreement is an important step forward in the turnaround of Royal Mail and, if approved by the CWU membership, represents a good outcome for customers, employees and IDS plc shareholders. It provides a platform for the next phase of stabilising the business whilst continuing to drive efficiency so we can compete in the highly competitive parcels market. The agreement is designed to grow parcel volumes and our share in the market by operating a 24/7 network, including Sundays, and allow Royal Mail to compete on guaranteed next day services and develop a more innovative, customer focused and low carbon product range. Our new infrastructure, combined with the new working practices contained in the CWU agreement, allows Royal Mail to offer a compelling parcel proposition for our customers, whilst aiming to deliver our USO commitments, and will underpin a return to growth and future job security for our colleagues.

A three-year pay deal (from 2022-23 to 2024-25) will provide certainty for our employees and ensure Royal Mail remains the industry leader on pay, terms, and conditions. The proposed agreement includes a 10% salary increase and a one-off lump sum of £500 for CWU grade employees in Royal Mail and Parcelforce Worldwide. This is broken down as follows:

- The previously consolidated 2% pay rise that applied from 1 April 2022;
- A one-off non-consolidated lump sum payment of £500 (pro-rated for part-time employees);
- A consolidated 6% pay rise applying from 1 April 2023;
- A consolidated 2% pay rise applying from 1 April 2024.

The agreement also covers changes to sick pay, attendance standards, ill health retirement, and agreement on revised contracts for new starters (introduced in 2022). It also includes a commitment to no compulsory-redundancies for the life of the agreement.

The offer also includes a profit share scheme over the life of this agreement. Subject to Royal Mail generating an adjusted operating profit in any financial year up to and including 2024-25, 20% of adjusted operating profit will be distributed as a one-off payment to employees.

Whilst not part of the Business Recovery, Transformation and Growth Agreement, the Company also confirmed a one-off lump sum payment expected to be at least £900, payable to all eligible employees of the Company and RM Property and Facilities Solutions Ltd. The Trustee of the Royal Mail Pension Plan (RMPP) has agreed to release to Royal Mail some money that has been held in an escrow, separate to the Pension Plan. RMPP is now well-funded and the Trustee is confident that members' interests are well protected, even after the release of the escrow funds. The release of the escrow funds will only be agreed by the Trustee on the ratification of the Business Recovery, Transformation and Growth agreement.

The infrastructure we need to compete is in place – our Warrington Super Hub is operating to plan, with the Midlands Super Hub having opened in June 2023, on time. We now need to change our ways of working in our delivery offices to realise a return on that investment.

# Royal Mail Group Limited

## Strategic report (continued)

The Business Recovery, Transformation and Growth Agreement, if approved by CWU members, will also enable us to:

- Move to later start times in delivery, from March 2024: This will help Royal Mail respond to the market demand for more next day parcels, reduce our impact on the environment through the removal of 18 domestic flights a day, improve quality of service and create greater capacity to grow.
- Introduce seasonal working patterns: Delivery postmen and women will work 39 hours per week in the peak Christmas season, 35 hours per week in the quieter summer season, and 37 hours for the remainder of the year to better reflect the seasonal variations in letter and parcel volumes. It also means our core team will deliver a greater proportion of our peak orders which will be good for quality.
- Be more efficient at indoor mail preparation: Currently postmen and women spend up to two hours a day sorting mail before their delivery round. Under this agreement we will reduce the amount of time spent sorting by 20-35 minutes, so that more time can be spent delivering to our customers. It also means that our delivery office layout and process will be better for parcels and therefore better for letter quality.

### Our strategic priorities

Despite concentrating our efforts and resources to deliver our five-point plan and the agreement with CWU, we have also endeavoured to progress our medium- and long-term strategic priorities which are focused on improving our customer offering, rebuilding trust and modernising the business to grow and become more agile and customer focused.

### Customer

The first pillar of our strategy is all about the customer: simplifying and improving our customer offering, listening, adapting to what our customers need, and delivering a great service every day.

At the start of the year, we set out plans to get back to achieving our regulatory quality of service targets. We are disappointed to say that we did not achieve this, largely due to the 18 days of industrial action, but also because of high levels of absence. For the full year we delivered 73.7% of first class mail the next working day (81.5% adjusted for the impact of strike action<sup>1</sup>), against our target of 93%. On second class we delivered 90.7% within three working days (95.2% adjusted for the impact of strike action), vs. a 98.5% target. Improving quality is a key focus and we need to change the way we manage absences as well as gear our operations towards better management of larger parcels through our dedicated parcel hubs, and adapting to the change of traffic mix, with more parcels and fewer letters. The Business Recovery, Transformation and Growth Agreement will allow us to do just that, through changes to indoor delivery methods, designed to ensure we can spend more time outdoors delivering for our customers, along with continued revisions to allocate work more fairly and better balance resource with mail volumes. Improving quality will help to underpin the growth of our business, which is an important way for us to generate efficiencies in a network of our scale and make ourselves more competitive.

We also improved our customer offering with delivery of parcels to a safe place, photo on delivery, auto redelivery if customers are out and we continued to enhance and grow Parcel Collect. Upgrades to the functionality of the Royal Mail app mean customers can now book parcel shipments and collections within 60 seconds. Non-account customers using our online channel has grown, with now over 40% of items posted online from around a third at the start of the year.

Despite the industrial disruption, we maintained our number one position on net promoter score for customers sending parcels and were number two for receiving parcels.

We know customers increasingly value a lower environmental impact for their deliveries. Steps to Zero is our environment strategy to achieve net zero by 2040 and reduce our average emissions per parcel to 50gCO<sub>2</sub>e ahead of this date. Over the past two years, we have invested significantly in deploying electric vans and the charging infrastructure to support them. Our electric van fleet programme now has over 4,900 vehicles. These vans operate at over 154 delivery and collection units across the UK. We will also reduce the use of domestic flights, moving volume to rail or road to reduce our environmental impact, enabled by later start times as part of our agreement with CWU.

It is clear that when letter volumes have declined by more than 60% since their peak in 2004-05, in order to be financially sustainable, the Universal Service requires major reform now. Ofcom's own research shows that a five-day (Monday-Friday) letters service would meet the needs of 97% of consumers and SMEs.

<sup>1</sup> Quality of Service - performance adjusted by removing all survey items posted on or due delivery on a strike day or posted during the three recovery days afterwards (parcels) or the five recovery days afterwards (letters).

# Royal Mail Group Limited

## Strategic report (continued)

Being required to provide a service that customers have said they no longer need, at significant structural cost to Royal Mail, increases the threat to the sustainability of the Universal Service. We urge the Government to recognise Ofcom's findings, to enable this change quickly, and work with us to protect the long-term sustainability of the one-price-goes-anywhere Universal Service.

### Trust

Our colleagues are pivotal to the delivery of our mission to own trust at the doorstep. They are the people our customers see every day. Rebuilding their trust to work together to meet ever changing customer needs in an efficient way is key.

During a turbulent year our employee relations climate has been challenging. We have worked hard throughout to engage and maintain the relationships we have with our people. Our focus was to stay connected, keeping the lines of communication open and answer the tough questions being asked.

Despite the challenging industrial relations environment, our Trust score fell by only one point, to 67. Building "Trust" is a key component of our employee strategy and we track progress through a series of "Trust Check-ins" which ran monthly from September 2022 to January 2023. Whilst the aggregate Trust index score fell, scores for questions that assess the relationship our colleagues have with their Managers improved, "My Manager delivers on promises" and "My Manager treats people fairly" improved by +4 and +7 points respectively.

Approximately 7,000 managers attended our new Academy at the Midlands Super Hub in Daventry. The "Beyond" event was a significant investment in our leaders where we provided them with visibility of our strategic plan, our environmental ambitions, the future of the Universal Service Obligation and the key role everyone has to play in its delivery.

To achieve the objectives of the proposed Business Recovery, Transformation and Growth Agreement, joint Royal Mail/CWU recovery and transformation boards will be created, to track progress and flag up any issues requiring urgent resolution. The CWU and Royal Mail have also committed to a joint review to rebuild trust and confidence between the parties and reset our relationship to develop a positive shared approach to joint working, recognising that all employees have a stake in how the business is run and that change can best be delivered with their support.

### Growth

Transforming our network and working practices to adapt to parcels is key to our growth. We need to do this as quickly as possible to ensure we are operating efficiently, and profitably, to make the most of the opportunity we have in the market.

Our state-of-the-art North-West Super Hub opened in June 2022, with the capacity to sort over 800,000 parcels a day. Our Midlands Super Hub, based in Daventry, opened in June 2023.

In addition to the new Super Hub, this year we also installed 12 parcel sorting machines in mail centres across the country. At the end of March 2023, the total number of machines in operation was 36, three less than our initial target of 39 as we optimised our rollout. We exceeded the major milestone of 70% automation in parcel sortation by the end of the year – we are currently around 80% – and are on track to reach 90% by end of 2023-24.

We also expanded our Sunday delivery service which saw growth of over 60% in volumes year on year, excluding test kits.

We have a significant opportunity in the next day delivery market, using our Tracked 24@ product. The proposed Business Recovery, Transformation and Growth Agreement enables more flexibility to deliver more next day parcels. Later-start times allow for parcels to come into our network later in the day, with dedicated parcel hubs and a "Single Parcel Network" approach leveraging both Royal Mail and Parcelforce Worldwide networks.

### The future

Royal Mail has many strengths – our trusted brand, our trusted people, our hyper local network, low CO2 per delivery and a strong portfolio of products and services.

The coming year 2023-24 will be one where we start to rebuild Royal Mail. If we can work together with the CWU to deliver the change we need, the business can be successful, grow in the parcels market, and provide job security for our people.

# Royal Mail Group Limited

## Strategic report (continued)

### Measuring performance

The Company's financial performance is measured as part of the KPIs within the International Distributions Services plc Group consolidated financial statements, using IFRS-based financial statements, but adjusted for specific and underlying items that distort the consolidated reported results of the IDS plc Group. These financial KPIs are not therefore disclosed in these Financial Statements.

Details of the Company's non-financial KPI are provided below.

Non-financial KPI		Performance in 2022-23	Performance in 2021-22
<b>Lost Time Accident Frequency Rate (LTAFR)</b>	<p>Targets a continually improving safety culture for employees, customers and communities.</p> <p>Measured as the total number of accidents resulting in an absence on the next day or shift, per 100,000 hours worked<sup>1</sup>.</p>	<p>LTAFR of 0.79 increased by 46% compared with 2021-22.</p> <p>Total accident frequency rate (TAFR) also increased from 2.26 to 2.76. This was driven by an increase in falls outdoors when working off-site and an increase in dog attacks. Slips &amp; trips increased by 24% which are more likely to lead to absence than dog attacks (our other highest impacting accident type).</p>	<p>LTAFR of 0.54, a 38% increase compared with 2020-21.</p>

<sup>1</sup> Refers to direct employees only.

In the IDS plc Annual Report and Financial Statements 2022-23, which was approved on 22 May 2023, the LTAFR for 2022-23 was incorrectly stated as 0.73 and the TAFR for 2022-23 was incorrectly stated as 2.56. This change does not affect the assurance process undertaken by Bureau Veritas and the LTAFR data above is assured.

# Royal Mail Group Limited

## Strategic report (continued)

### Principal Risks and Uncertainties

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

Risk	Status	Controls and actions to mitigate
<b>1. Industrial action – High risk</b>		
<p><b>There is extensive trade union representation across our workforce, with strong and active trade unions.</b></p> <p><b>One or more material disagreements or disputes could result in widespread localised or national industrial action.</b></p> <p><b>Industrial action would continue to cause material disruption to our business and would result in an immediate and potentially ongoing significant loss of revenue. It may also affect Royal Mail's ability to restore Quality of Service levels and meet targets prescribed by Ofcom, which may lead to enforcement action, fines and loss of customers.</b></p>	<p><b>Stable risk</b></p> <p>During the course of the year, the CWU balloted its members in July and August 2022 and February 2023 on pay, change and job security, all of which resulted in a majority in favour of industrial action. Between August and December 2022, there were 18 days of industrial action, which have had an estimated adverse direct net impact on adjusted operating profit.</p> <p>In April 2023, following lengthy talks, including facilitation by Acas and Sir Brendan Barber, a Business Recovery, Transformation and Growth Agreement was reached and ratified by the CWU's Postal Executive Committee. The CWU will now ballot its members with a recommendation to approve the agreement. However, there remains a risk of industrial action until the agreement is approved by CWU members, or if other disputes arise in the future.</p> <p>Any further industrial action would cause significant damage to the business, necessitate further job losses and make the deal unaffordable.</p> <p>Going forward, there are risks over the improvement of industrial relations to ensure effective execution of the agreement and business transformation.</p>	<ul style="list-style-type: none"> <li>Operational contingency plans during industrial action.</li> <li>Joint implementation of the Business Recovery, Transformation and Growth Agreement.</li> <li>Rollout of a modern and collaborative framework to allow quicker decisions, trials and change implementation.</li> <li>Joint review of the Royal Mail/CWU relationship supported by appropriate expertise where required.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>2. Failure to reduce our operational cost base (previously 'Failure to reduce our cost base') – High risk</b>		
<p><b>We must become more efficient and agile to compete effectively in the parcel and letter markets.</b></p> <p><b>The successful delivery of Royal Mail strategy relies on the reduction of our operational cost base whilst managing wider economic pressures and the industrial relations environment in Royal Mail to deliver productivity benefits across all areas of the business.</b></p> <p><b>Failure to reduce operational costs while at the same time delivering high-quality services could result in a loss of customers, market share and revenue.</b></p>	<p><b>Stable risk</b></p> <p>Royal Mail has a significant fixed cost base, with high operational gearing. Further declines in parcel and letter revenue and volumes during the year, due to macro-economic pressures, high inflation, a squeeze on consumer spending and a prolonged dispute with the CWU, has placed further pressure on our cost base.</p> <p>While the Royal Mail delivery network provides a strong competitive position, particularly in the combined delivery of letters and small parcels, it is not currently optimised for the increased demand for flexible acceptance times and larger parcels. In addition, the high fixed labour cost structure makes it difficult to flex the cost base when sales volumes are down.</p> <p>Effective working relationships with the CWU and Unite/CMA are key to the delivery of our transformation and efficiency benefits. The dispute with the CWU (see Risk 1) significantly impacted progress in 2022-23 on operational unit revisions designed to right size the operation over a three-year flight path.</p>	<ul style="list-style-type: none"> <li>• In Royal Mail, there is a five-point plan and a number of initiatives in place to stabilise the business and drive efficiency whilst delivering high quality service. These include:</li> <li>• Implementing short-term measures to improve operational performance, reducing headcount to right size the business and a programme of revisions including dedicated parcel routes.</li> <li>• Establishing parcel hubs and improving automation in mail centres to increase throughput and reduce costs per parcel.</li> <li>• Trialling a new framework to deliver operational improvements at a greater pace, such as removal of letter sortation frames within delivery offices.</li> <li>• Use of digital tools to align scheduled and actual hours to match variation in workload throughout the year and scan-in/scan-out technology across the delivery network.</li> <li>• Improving network efficiency including introducing later start times and longer spans and a strategic review of the parcels network including optimising synergies with Parcelforce Worldwide.</li> <li>• The effective implementation of the Business Recovery Transformation and Growth Agreement is key in delivering operational efficiencies.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>3. Economic and political environment – High risk</b>		
<p><b>Macro-economic conditions and/or the political environment across our markets may adversely affect the Company's ability to control costs and maintain and grow revenue due to reducing volumes or by driving customers to adopt cheaper products or formats for sending letters and parcels.</b></p>	<p><b>Stable risk</b></p> <p>Recovery of the global economy post-pandemic has been slowed by high inflation and upward pressure on commodity prices caused by the Russia-Ukraine war and further lockdowns in China. Economic growth is expected to remain low until 2024 in most of the markets across the Royal Mail business.</p> <p>Weakening consumer confidence and demand due to a squeeze on household incomes and discretionary spending has impacted revenue growth.</p> <p>Prolonged fiscal tightening in Royal Mail markets, including tax policy revisions, could increase our costs or further impact consumer confidence, which could affect parcel and letter volumes.</p>	<ul style="list-style-type: none"> <li>• Ongoing monitoring of the economic and wider external environment across all of our markets.</li> <li>• Executing a five-point plan and efficiency programme to stabilise the Royal Mail business and build resilience into its operating model (see Risk 2).</li> <li>• Implementing sustainable pricing/surcharge opportunities across Royal Mail that do not inhibit value growth.</li> <li>• Reviewing the liquidity position on a regular basis, implementing short-term measures to conserve cash including capex reduction and raising cash through asset disposals/leasing arrangements (see Risk 12).</li> <li>• Ongoing monitoring of the political landscape and regular engagement with politicians and policy makers, as appropriate.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>4. Major breach of information security, data protection regulation and/or cyber-attack – High risk</b>		
<p><b>Due to the nature of our business, we collect, process and store confidential business, operational and personal information. As a result, we are subject to a range of laws, regulations and contractual obligations around the governance and protection of various classes of data to protect our customers, employees, and suppliers.</b></p> <p><b>In common with all major organisations, we are the potential target of cyber-attacks that could threaten the confidentiality, integrity and availability of data, systems and trigger material service and/or operational interruption.</b></p> <p><b>Also, a major breach of information security, data protection laws and regulations and/or cyber-attack could adversely impact our reputation, resulting in financial loss, regulatory action, business disruption and loss of stakeholder confidence.</b></p>	<p><b>Stable risk</b></p> <p>Given the evolving nature, sophistication and prevalence of cyber threats and an increasing reliance on technology and data for operational and strategic purposes, this continues to be a principal risk.</p> <p>We recognise that in a business with around 125,000 people who use data and devices to deliver our services and process large quantities of documentation, there is a possibility of human error in the protection of data.</p> <p>Royal Mail's International business experienced a cyber incident in January 2023 that impacted export mail items. Upon discovery of the incident, immediate action was taken, a comprehensive investigation initiated and relevant authorities were notified and engaged. The international business products and services were restored iteratively over several weeks. Work is ongoing to learn lessons and improve the business' cyber resilience.</p> <p>We continue to invest in our cyber capabilities, recognising that an ongoing multi-year programme that targets the highest priority areas is required to bring this risk within the tolerance levels of the Company's risk appetite.</p>	<ul style="list-style-type: none"> <li>• Continually investing in cyber resilience including enhancing our cyber control capabilities across our technology estate to protect our customers, employees, services and assets.</li> <li>• Strengthening our preparedness to quickly detect and respond to threats before they become incidents, including ransomware.</li> <li>• Improving assurance of organisational and technical measures, including disaster recovery and assessment of third-party supplier controls.</li> <li>• Promoting good behaviours and stressing the importance of maintaining vigilance through regular communication, training and awareness across our workforce.</li> <li>• Encouraging an open and prompt reporting culture so appropriate remedial action can be taken as soon as possible.</li> <li>• Data privacy and protection policies and compliance framework, which includes assessment and monitoring of data risks and controls across all our operations.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>5. Customer expectations and our responsiveness to market changes – High risk</b>		
<p><b>Failure to deliver against existing and changing customer needs and expectations (including quality of service) could impact the demand for our products and services.</b></p> <p><b>Our success at growing new areas of business is dependent on identifying profitable and sustainable areas of growth and having in place appropriate structures to support transformation.</b></p>	<p><b>Stable risk</b></p> <p>The decline in the economic environment (see Risk 3) and the cost-of-living crisis, together with the impact of industrial action in Royal Mail (see Risk 1) have impacted consumer confidence and spending, which has adversely affected parcels and letters revenue in Royal Mail.</p> <p>This risk recognises that societal expectations continue to change rapidly and demand is continuing to grow for high-quality, convenient and sustainable deliveries that are competitively priced.</p>	<ul style="list-style-type: none"> <li>• We are responding to market changes and becoming more customer centric.</li> <li>• Leveraging its footprint as the sole designated Universal Service Provider and growing doorstep services such as Parcel Collect.</li> <li>• Focusing on restoring quality of service.</li> <li>• Driving new product development and simple digital services.</li> <li>• Increasing tracked services and barcoding of products.</li> <li>• Moving to a 24/7 parcel service with Sunday deliveries.</li> <li>• Growing new areas of business and expanding service offerings.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>6. Talent: workforce for the future – Moderate risk</b>		
<p><b>Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate skills and expertise across the Company.</b></p> <p><b>In Royal Mail, workforce planning could be adversely impacted by an ageing workforce and a reduction in available workforce due to socio-economic factors and demographic change.</b></p> <p><b>A high level of employee trust and engagement is essential if we are to deliver Royal Mail's transformation and growth strategy.</b></p>	<p><b>Stable risk</b></p> <p>The Royal Mail transformation programme and structural market change is changing the nature of some roles and creating the need for new and different skills.</p> <p>In Royal Mail, there has been upward pressure on risk in the year as a result of elevated levels of attrition and recruitment challenges in head office roles resulting from the decline in business performance, the industrial action and sustained pressure on personnel.</p> <p>Longer-term strategic workforce planning and next generation talent also continues to be a key area of talent risk for Royal Mail, driven by these same factors and an already stretched and highly competitive labour market.</p> <p>This pressure has eased following the reduction in industrial action and the Business Recovery, Transformation and Growth Agreement being reached and ratified by the CWU's Postal Executive Committee.</p>	<ul style="list-style-type: none"> <li>• Developing a Future Leader Framework that will provide an understanding of leadership capabilities at all levels.</li> <li>• Creating a 'Talent Ecosystem' to enable internal mobility, provide opportunities for career progression and improve succession planning.</li> <li>• Developing an Employee Value Proposition and employer brand.</li> <li>• Accelerating diversity, equity and inclusion (DEI) initiatives to improve DEI across Royal Mail's teams.</li> <li>• Implementing a future workforce plan aligned with the business' strategy and the commercial outlook.</li> <li>• Introducing next generation employee change initiatives.</li> <li>• Improving employee communications through the use of digital tools and increasing the number of regular trust and employee engagement surveys.</li> </ul>
<b>7. Failure to secure USO reform – Moderate risk</b>		
<p><b>Without reform, the continuing structural decline in addressed letter volumes and broader changes in the parcels market pose significant risks to the financial sustainability of the USO. Royal Mail has made a request to Government to make a permanent change to legislation to move to a five-day letter service (Monday to Friday).</b></p>	<p><b>New risk</b></p> <p>According to Ofcom, a financially sustainable Universal Service should be able to achieve an EBIT margin of 5-10%. Since privatisation in 2013, the Universal Service network has only achieved this twice. Letter volumes have declined by more than 60% since their peak in 2004-05. Reforming the Universal Service is essential if Royal Mail is to have a sustainable future.</p> <p>Ofcom's 2020 User Needs research showed that a five-day (Monday to Friday) letter service would meet the needs of 97% of consumers and SMEs (in comparison to 98% of consumers and 97% of SMEs for the current six-day service).</p> <p>The previous 'UK Regulatory Framework' risk has been removed as the framework has now been set by Ofcom for the next five years.</p>	<ul style="list-style-type: none"> <li>• Work with Government, and Ofcom, on the case for change, with support of our unions.</li> <li>• A five-day letter service would meet the needs of the majority of consumers and SME and any change would not significantly impact them. Royal Mail is working with those most impacted to proactively manage potential future change.</li> <li>• Run an employee engagement programme on the opportunities that change presents.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>8. Climate change and environmental management (previously 'Environment and sustainability') – Moderate risk</b>		
<p><b>Climate change is a global threat and, in common with all major organisations, it poses a number of risks and opportunities. We have identified priority physical and transition risks that could impact our businesses.</b></p> <p><b>Transition risks: As our customers and stakeholders seek to adapt to climate change, demand is increasing for more sustainable products and services. The cost of operations could increase as we adapt to government and regulatory changes (including potential carbon taxes) to progress towards net zero emissions and air quality targets for towns and cities.</b></p> <p><b>Physical risks: An increase in the frequency of extreme weather events may result in disruption to operations and impact our ability to meet customer expectations, the USO or other contractual requirements. We may also see cost inflation as a result of resource scarcity, increased operational costs and required investment to protect the business and our people from extreme weather events.</b></p> <p><b>We must also ensure that we continue to meet all existing environmental legislation and regulation, and prepare for emerging requirements to avert the risk of reputational damage, increased costs and potential fines.</b></p>	<p><b>Stable risk</b></p> <p>Demonstrating leadership on environmental issues, including the impact of our activities, is the right thing to do. It is also essential if we are to achieve competitive advantage, create value and deliver our strategy.</p> <p>Delivering a sustainable network has been embedded in Royal Mail strategy for some time and we have increased our focus in this area. Royal Mail environmental strategies will help us reduce our environmental footprint and play our part in the transition to a low-carbon future while offering a wide range of green solutions to our customers.</p> <p>We are committed to implementing the TCFD recommendations and have made progress during the year on our ongoing TCFD implementation project.</p>	<ul style="list-style-type: none"> <li>• ESG Principles are aligned to the ESG issues that matter most to our businesses and stakeholders.</li> <li>• Executing environmental strategies across Royal Mail, including accelerated ambitions for decarbonisation to reach zero emissions before 2050 in support of the Paris Agreement.</li> <li>• Investing in zero- and low-emission vehicles and installing efficient equipment across our property estate.</li> <li>• Improving network efficiency, including rationalising the property estate and investment in innovative technologies to reduce energy and fuel consumption.</li> <li>• Monitoring the impact of extreme weather events on operations and across our property estate to determine suitable preventive and precautionary measures.</li> <li>• Engaging our people in our efforts to become more efficient and reduce our use of natural resources.</li> <li>• Reducing our energy and water consumption and reducing the amount of waste we generate.</li> <li>• Monitoring compliance with environmental legislation and regulation.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>9. Actual or suspected breaches of material law and/or regulation – Moderate risk</b>		
<p><b>Failure to comply with relevant material laws and regulations that apply to our business, including competition, anti-bribery, regulatory conditions imposed by Ofcom (including quality of service (QoS) targets), trade sanctions and corporate governance. Actual or suspected breaches could result in financial loss, fines, regulatory enforcement action, criminal charges, debarment and/or reputational damage impacting our ability to operate and grow.</b></p>	<p><b>Stable risk</b></p> <p>There continues to be a focus on controls in relation to material laws and regulations for which the Company must comply.</p> <p>Royal Mail's appeal against the Competition Appeal Tribunal's judgment to uphold Ofcom's decision to fine it £50 million has now concluded. The fine and interest (c.£52 million) were paid to Ofcom on 10 August 2022.</p> <p>The stay on Whistl's related damages claim has been lifted and initial pleadings have been exchanged between the parties. Royal Mail believes Whistl's claim is without merit and will defend it robustly.</p> <p>In December 2022, Ofcom concluded that under the particular circumstances prevailing during the 2021-22 regulatory period, it would not be appropriate to find Royal Mail in breach of its USO QoS targets. Royal Mail's current year USO QoS performance has been below Ofcom's regulatory targets, Management is actively engaging with Ofcom to explain why current performance is below target due to unprecedented circumstances.</p> <p>Following publication of our USO QoS for 2022-23, Ofcom has now opened a full investigation.</p>	<ul style="list-style-type: none"> <li>• Policies, regular training and guidance to colleagues to raise awareness of risks, required mitigation and expected standards of conduct.</li> <li>• Regular assessment of risks and advice by specialist lawyers and compliance/regulatory professionals.</li> <li>• Horizon scanning to prepare for legislative changes and developing policies and processes to address them.</li> <li>• Monitoring of compliance and provision of assurance.</li> <li>• Fostering a culture where colleagues can speak up so we can promptly address any issues and stop them happening again.</li> <li>• Engagement with Ofcom and USO QoS monitoring and restoration activity.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>10. Business continuity and operational resilience – Moderate risk</b>		
<p><b>We may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Company, our customers and our supply chain. This could also impact on the ability of Royal Mail to meet its regulatory obligations.</b></p>	<p><b>Stable risk</b></p> <p>Royal Mail is classified as a critical part of national infrastructure and also has a responsibility to provide sustained and continued postal services under the USO.</p> <p>Lessons learned from the COVID pandemic response have informed revisions to our crisis management plans, which have been further tested during the year by the industrial action in Royal Mail and the cyber incident earlier this year (see Risk 4).</p>	<ul style="list-style-type: none"> <li>• Regularly review business continuity and crisis management governance including lessons learned.</li> <li>• Deploy a strategic crisis and resilience governance structure and response teams to ensure an integrated resilience approach.</li> <li>• Implement tactical arrangements to support operational contingency plans and incident management.</li> <li>• Plans to align crisis management with critical IT systems and test disaster recovery plans.</li> <li>• Developing business impact assessments to map systems and interdependencies of critical products and services.</li> <li>• Developing cross-functional business continuity plans aligned to critical products and services.</li> <li>• Regular horizon scanning and threat assessments.</li> </ul>

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>11. Health, safety and wellbeing – Moderate risk</b>		
<p><b>A health and safety incident or global health crisis could result in the serious injury, ill health or death of our people, third parties (including contractors) or members of the public. An incident, near miss or health and safety breach may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and/or reputational damage.</b></p>	<p><b>Stable risk</b></p> <p>The health, safety and wellbeing of our people, customers and members of the public is of paramount importance.</p> <p>We have many employees, including seasonal staff and agency workers. We also operate a very large fleet of vehicles, a significant real estate footprint and employ a large number of contractors and interact extensively with members of the public. A large proportion of our people spend most of their time working outdoors, on foot or driving, where the environment is unpredictable and can be more difficult to control.</p> <p>Whilst health and safety risks can be assessed and controlled, the risk of harm to people cannot be eradicated.</p> <p>Whilst rates are declining, there continues to be high long-term employee absence. Management, in conjunction with the CWU, is making changes to attendance policies and sick pay to enable a step change in performance.</p>	<ul style="list-style-type: none"> <li>• Policies, directives, procedures and systems, supported by tailored training and awareness programmes to embed a compliance culture and engage our employees in safety improvement.</li> <li>• Board and ESG Committee monitoring of health and safety performance metrics.</li> <li>• Refreshed programme of focused audit activity in Royal Mail commenced in Q4.</li> <li>• Extensive employee health and wellbeing policies and programmes to support absence and return to workplace.</li> <li>• Continuing to streamline and simplify the various health and safety systems in place to enhance their effectiveness.</li> <li>• Deploy Company-wide measures to protect and support our employees, ensuring necessary safety precautions, in line with guidance and provision of wellbeing support.</li> <li>• Monitor and review measures in place to assist in risk control and accident prevention, including undertaking appropriate investigation following incidents and near misses.</li> </ul>
<p><b>Failure to manage the health, safety and wellbeing of our people could lead to reputational damage, loss of employee goodwill and financial losses through increased sickness absence, lower productivity, and failure to deliver the USO, civil action or criminal prosecution.</b></p>		

# Royal Mail Group Limited

Risk	Status	Controls and actions to mitigate
<b>12. Failure to manage liquidity – Low risk for IDS plc but represents a material risk for Royal Mail Group Ltd</b>		
<p><b>There is a risk that the Group fails to secure ongoing access to finance.</b></p> <p><b>The decline in the macro-economic environment, high inflation and impact of industrial action has adversely affected Royal Mail's sales volumes and revenue. This has driven operating losses and trading cash outflows in that subsidiary. As a result, there is a risk that the Royal Mail fails to secure ongoing access to finance and/or is unable to manage working capital and cash to support the ongoing running of, and investment in the Royal Mail business.</b></p>	<p><b>New risk</b></p> <p>IDS plc management has taken effective action to preserve Group liquidity, including the amendment of the covenants associated with the syndicated £925 million bank loan facility in order to secure access to that facility in the event of further downside risk, together with the agreement of bridging finance to support the refinancing of the Euro500m bond in June 2024.</p> <p>The difficult trading circumstances and industrial dispute last year have been damaging to Royal Mail. Significant operational changes and improvements required in Royal Mail are fundamental to its turnaround and to restore profitability. Approval of the CWU agreement is fundamental to the delivery of the business plan.</p> <p>The IDS plc Board will keep under review whether it is appropriate to provide support to Royal Mail and has asked that Royal Mail takes all reasonable steps to finance the necessary transformation and turnaround from its own resources.</p>	<p>Royal Mail Group Ltd:</p> <ul style="list-style-type: none"> <li>• Delivery of Royal Mail turnaround plan and focus on efficiency programmes.</li> <li>• Cash conservation measures and prioritisation of capital expenditure.</li> <li>• Raising of cash through real estate asset disposals and exploring leasing options.</li> <li>• Implementing sustainable pricing changes and initiatives to recover revenue.</li> </ul> <p>IDS Group plc:</p> <ul style="list-style-type: none"> <li>• Ongoing monitoring of Royal Mail's performance.</li> <li>• Royal Mail access to Group resources subject to satisfactory progress against business plan and/or to meet short term working capital requirements.</li> <li>• Ongoing review of capital allocation and priorities.</li> </ul>

# Royal Mail Group Limited

## Strategic report (continued)

### Financial risk management objectives and policies

#### Interest rate risk

The Company's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed. At 26 March 2023, there was no external hedge of interest rate risk (2021-22: none). Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

#### Foreign currency transaction risk

The Company is exposed to foreign currency risk due to interest payments on the €500 million and €550 million bond-related loans from International Distributions Services plc; certain obligations under Euro-denominated leases; trading with overseas postal administrations; and various purchase contracts denominated in foreign currency. The €500 million from International Distributions Services plc was novated to the Company's immediate parent RMGLS Holdco Limited in settlement of the euro-denominated, bond-related loan from the Company to RMGLS Holdco Limited.

Where possible, exposures are netted internally. Any remaining exposure is hedged using a combination of external spot and forward purchase and sale contracts. Hedging will not normally be considered for exposures of less than £1 million. Hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable but will be increased to 100% in certain circumstances where there is more certainty (e.g. for capital programmes where there is contractual liability).

#### Foreign currency translational risk

The Company's functional currency is Sterling (£). The loan from International Distributions Services plc relating to the €500 million bond issued in July 2014 (prior to its novation); the loan from International Distributions Services plc relating to the €550 million bond issued in October 2019; €9 million (2021-22: €24 million) Euro-denominated leases; and the bond-related €487 million loan (2021-22: €487 million), prior to its novation, to RMGLS Holdco Limited (the immediate parent company), are revalued at closing Sterling/Euro exchange rates, and the gains/losses recognised in the income statement.

The €550 million bond-related loan from International Distributions Services plc is fully hedged by the Company for foreign currency risk by a cross-currency swap. The gains/losses on this bond are offset by gains/losses on the revaluation of the cross-currency swap. During the year, foreign currency exchange losses on the bond-related loans of £52 million (2021-22: £23 million gains) and foreign exchange losses on the lease payables of £1 million (2021-22: £1 million gains) were largely offset by foreign exchange losses of £26 million (2021-22: £11 million losses) on the loan to RMGLS Holdco and foreign exchange losses of £26 million (2021-22: £12 million losses) on the cross-currency swap and were recognised in the income statement.

#### Commodity price risk

Royal Mail is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe – which consumes around 140 million litres of fuel per year – and a jet fuel price risk arising from purchasing air freight services. The Company's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses forward commodity price swaps to mitigate this risk by entering into a combination of US Dollar and forward currency purchase or Sterling contracts to manage these exposures as it sees fit.

In addition, the Company is exposed to the commodity price risk via its requirement to purchasing electricity and gas. The Company's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers and using forward commodity price swaps in Sterling.

Included within derivative assets as at 26 March 2023 are diesel and jet contracts and gas contracts which have been designated as hedge instruments. The diesel and jet hedges are for 228 million litres of fuel (2021-22: 324 million litres) with a net derivative asset value of £12 million (2021-22: £72 million). The gas hedges are for 19 million therms of gas (2021-22: 24 million therms) with a net derivative liability value of £4 million (2021-22: £32 million net derivative asset). The movement in the fair value of these three hedged programmes of £5 million loss (2021-22: £119 million gain) has been recognised in other comprehensive income and hedge ineffectiveness of £1 million loss (2021-22: £4 million gain) has been recognised within other operating costs.

#### Credit risk

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that Royal Mail is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, commensurate with the Company's appetite for risk. An analysis of aged debt is included within Note 17.

# Royal Mail Group Limited

## **Strategic report (continued)**

The Company's exposure to credit risk from other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. At 26 March 2023, 84% (2021-22: 77%) of financial assets were held with AA or above rated counterparties.

Apart from trade and other receivables, none of the financial assets is either past due or considered to be impaired.

### **Liquidity risk**

The Company's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused committed facilities of the Company's ultimate parent company IDS plc at 26 March 2023 of £925 million expire in 2026 (2021-22: £925 million expiring in 2026). See the going concern disclosure in Note 1 to the Financial Statements for further details.

# Royal Mail Group Limited

## Strategic report (continued)

### ESG Review

In line with the IDS plc Group as a whole, the Company seeks to be an integral, trusted and valued part of every community, operating in a responsible and sustainable way. Demonstrating leadership across the broad ESG agenda is also essential to achieving a competitive advantage and creating value for stakeholders.

### Our ESG approach

In recognition of the impact our operations have on society and the continuing growth in demand for sustainable products and services, our ESG Principles are built around the issues that are most relevant to our stakeholders and our businesses. These Principles, which are set out below, encapsulate our commitment to operate in a sustainable way and support several United Nations Sustainable Development Goals (SDGs).

Royal Mail undertakes regular materiality assessments to ensure that its ESG programmes continue to take account of the areas stakeholders consider most important. Information about Royal Mail's most recent materiality assessment and further detail about its ESG programme, are included in the IDS plc ESG Report, which is available at [www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance](http://www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance).

### Our ESG Principles

Our ESG Principles underpin Royal Mail's strategy, which aims to create stakeholder value and achieve sustainable growth. It focuses on the topics identified by our stakeholders as being material while supporting a number of UN SDGs.

### Environment

We aim to operate in an environmentally responsible way, focused on reducing the impacts associated with our operations, and playing our part in the transition to a low-carbon future.

### Social

We aim to deliver economic and social benefits for our people, our customers and the communities we serve. As the UK's Universal Service Provider, we are in a unique position to play an active part in the UK economy.

### Governance

We endeavour to act with integrity and transparency in the interest of our stakeholders, ensuring we have effective mechanisms in place to deliver our business operations in a responsible manner. Our stakeholders trust us to deliver for them. Maintaining that trust, and operating with integrity, are fundamental to protecting our valued place in society.

## Environment

### Supporting the transition to a low-carbon future

Royal Mail's environmental strategy includes pathways, targets and mitigating actions that will help us reduce our environmental footprint and play our part in the transition to a low-carbon future while offering a wide range of green solutions to our customers. The metrics and targets associated with their implementation are set out below.

### Decarbonising Royal Mail

We recognise the need to take decisive steps to help tackle the global climate emergency and prepare our business for a low-carbon future. We aim to take a leadership role in our industry's transition and to support the implementation of the Paris Agreement.

Royal Mail is the UK's greenest delivery option for letters and parcels<sup>1</sup>. The business is currently awaiting validation by the Science Based Targets initiative (SBTi) of its target to reduce Scope 1 and 2 emissions by 50% by 2030, reduce Scope 3 emissions by 25% by 2030 and reduce Scopes 1, 2 and 3 emissions by 90% by 2040, in alignment with the latest climate science and a 1.5°C decarbonisation pathway.

On its route to net zero, Royal Mail (excluding Parcelforce Worldwide) also aims to reach an average of 50g CO<sub>2</sub>e per parcel delivered, a c.75% reduction compared with 2020-21. Largely as a result of its final-mile foot delivery model, Royal Mail's average reported CO<sub>2</sub>e per parcel through its domestic network is currently 218g CO<sub>2</sub>e. In comparison, the reported emissions of its industry competitors are between c.300g and 500g CO<sub>2</sub>e per parcel (based on publicly reported data).

As part of its 'Steps to Zero' environmental strategy, Royal Mail will:

- Optimise its distribution network and modernise its vehicles to reduce transport fuel emissions.
- Improve the energy efficiency of its buildings, making space for more parcel automation and technology.
- Transform its operations and behaviours to embrace circularity by enabling re-use models and reducing single-use items.

<sup>1</sup> Based on reported CO<sub>2</sub>e per parcel.

# Royal Mail Group Limited

## Strategic report (continued)

- Use its size, scale and reputation to play a positive role in championing sustainability initiatives in its industry, for its workforce and customers.

During the year, as a result of updates to the Royal Mail business plan 2023-24, investments in initiatives to support the environmental strategy were scaled back. However, these have not impacted the ambitions and targets detailed in the adjacent panel.

### Carbon ambitions and targets

Net zero by 2040 across Scopes 1, 2 and 3 at UK operations, aligned to 1.5°C, the latest climate science<sup>2</sup> and science-based target standards.

To 2040 our targets are:

GHG emissions	90% reduction in Scope 1, 2 and 3 emissions
Renewable electricity	100% by 2022
Zero-emission final mile	100% by 2035
Company cars	100% zero emission by 2030

Royal Mail will achieve this target by increasing its use of low- and zero-emission transport alternatives, including rail, while minimising the use of domestic air freight. Royal Mail will also decarbonise its network and buildings.

<sup>2</sup> We report our carbon emissions in line with the GHG Protocol Corporate Standard. The standard classifies a company's GHG emissions into three scopes. Scope 1 emissions are direct emissions from sources that are owned or controlled, including combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity, heat, steam and cooling purchased for own use. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. We use the latest conversion factors from the UK Government (source: [www.gov.uk/government/collections/government-conversion-factors-for-company-reporting](http://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting)).

## Social

### Delivering economic and social benefits

Our IDS plc Group's purpose – connecting customers, countries and companies – positively impacts society. We aim to be an integral, valued and trusted part of every community that our service reaches. Social issues are also important to our stakeholders, including our approach to health, safety and wellbeing, engagement, diversity and inclusion.

### Creating a safe and healthy work environment

We want to create a safe and healthy working environment for our people. Our goal is to ensure a workplace where everyone is free from injury and enjoys good physical and mental health.

A strong health and safety culture is key to safeguarding our people and customers. We want to ensure that everyone understands their role and how they can protect themselves and others from harm. As we move forward, increasing the priority given to safety through proactive leadership and management will be essential if Royal Mail is to further strengthen compliance to standards and continue to provide a safe working environment.

In autumn 2022, Royal Mail carried out a full review of its safety function to determine the structure and resource needed to deliver a full audit programme for 2023-24 and maintain health and safety support across all of its sites. The recruitment of an additional 28 team members is underway. This will double the size of the field team and enable the business to further improve its standards. Royal Mail's Health and Safety policy, which is available at [www.internationaldistributionservices.com/en/sustainability/governance/policies](http://www.internationaldistributionservices.com/en/sustainability/governance/policies), is implemented through the business' integrated Safety, Health and Environment (SHE) management system. This provides the framework for managing risk, improving performance and maintaining a safe, healthy and environmentally responsible workplace.

# Royal Mail Group Limited

## Strategic report (continued)

In the year, Royal Mail also took steps to ensure the continued robustness of its safety measures, including the rollout of a new risk-based safety audit methodology supported by next-day managerial coaching to ensure that actions are fully understood and compliance is maintained. This approach reinforces the importance of compliance to standards as a foundation for improving safety culture and safety performance. The business also deployed a new off-site risk assessment system via posties' handheld scanners to improve the management of significant off-site risks, such as dog attacks.

Upskilling managers has remained a priority for the field safety team. As part of a wider training programme, managers in Royal Mail's delivery function undertook a combination of classroom and web-based training in key safety topics such as risk management, culture, inspection, and accident investigation.

Royal Mail continues to support the wellbeing of its people with an extensive range of programmes and tools. Practical guidance is provided within the business' three main health and wellbeing programmes:

- 'Feeling First Class' to promote proactive health management.
- 'Stamp Out Aches and Pains' to raise awareness of musculoskeletal health.
- 'Because Healthy Minds Matter' to reduce stigma, normalise conversations about mental health and signpost to support.

In October 2022, Royal Mail launched *Help@hand*, a new confidential wellbeing platform that provides all Royal Mail colleagues and their immediate family with fast, free, direct access to health and wellbeing support. This includes a remote GP service with an unlimited number of free video consultations with private GPs 24/7, 365 days a year. Instant employee assistance for any life, money or wellbeing issue remains available 24/7 for all colleagues through the business' Employee Assistance Programme (EAP). The EAP is free, independent, and provides confidential helpline and online services.

Royal Mail has also expanded its Let's Talk Menopause campaign through a dedicated working group that aims to help raise awareness, listen and signpost colleagues to support while normalising menopause conversations.

In February 2023, Royal Mail launched its new partnership with British Heart Foundation. A key strand of the partnership will be to support the heart health of Royal Mail's employees and train 100,000 colleagues in CPR. Further information about the partnership is included in the Royal Mail ESG Report, which is available at [www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance](http://www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance).

## Health and safety performance

Royal Mail strives to continuously improve its health and safety performance and monitor and report key safety metrics regularly to the Board and the ESG Committee.

Royal Mail also monitors and reports its road traffic collisions frequency rate (RTCFR) as a key safety performance metric. In 2022-23 RTCFR reduced by 2.7% compared with the previous year. During the year, there was a strong focus on improving compliance to vehicle checks through the launch of a simplified checklist on posties' handheld scanners. Royal Mail celebrated a ten-year partnership with road safety charity Brake and again supported the charity's annual road safety week 'Safe Roads for All' which aims to raise drivers' awareness of vulnerable road users.

Royal Mail is working hard to reduce the number of collisions colleagues are involved in. All road traffic accidents are investigated by a manager. Serious and fatal accidents are investigated by a safety professional and these incidents have a separate protocol which guides our investigations, reports and the actions we take. The business liaises closely with the police where necessary and carries out detailed investigations to establish root cause(s) and, where possible, determine what lessons can be learned. Details of serious and fatal incidents and resulting investigations are also shared with the Board.

In 2022-23, Royal Mail's sickness absence level was 7.50% (2021-22: 7.98%). As part of the recent negotiator's agreement with our main union, a new approach to pay and attendance standards has been agreed.

## Employee engagement

Royal Mail's aim to own 'Trust at the Doorstep' by being brilliant for customers and establishing trusted relationships everywhere, including with its employees, faced a number of challenges in 2022-23. Industrial action has significantly impacted the business and it has not always provided the service its customers and society need and expect.

Ongoing dialogue with colleagues across the Royal Mail business has been more important than ever and employee trust check-in surveys have continued to be conducted on a monthly basis. In total, over 47,000 colleagues have participated in these surveys and provided valuable feedback on a range of issues.

As at the date of this Annual Report and Financial Statements, Royal Mail's annual Big Trust Survey was not yet open.

# Royal Mail Group Limited

## Strategic report (continued)

### Rewarding people fairly

We believe Royal Mail provides the best terms and conditions for workers in our industry in the UK. Fair employment conditions are the foundation of how Royal Mail does business. It offers permanent employees a competitive salary, paid holiday and a good pension.

In 2022-23, UK postie's basic pay was 33% more than the UK National Living Wage (NLW) for the same period. All temporary workers receive at least the NLW, with the majority receiving hourly pay above the Real Living Wage.

### Providing development opportunities

Royal Mail aims to provide the tools, knowledge and resources for its people to have fulfilling careers, and it offers learning and development opportunities to colleagues at all levels of the organisation. In 2022-23, it invested £8.4 million in learning and development equivalent to 30,000 days compared with £6 million and 23,000 days in 2021-22.

In July 2022, Royal Mail launched The Academy, which is designed to develop the next generation of leadership talent at every level. It will equip managers with industry-leading skills to accelerate Royal Mail's transformation to better meet the changing demands of its customers. One of The Academy's key development programmes is the Diamonds programme, which is designed to strengthen the succession pipeline by identifying potential future leaders earlier in their careers and support the progression of female senior leaders. The programme is focused on equipping delegates with the future-focused skills needed to create a high-performance culture across Royal Mail and currently 32% of its participants are women. A further leadership development programme specifically tailored to support the progression of female operational colleagues into leadership opportunities is currently in development.

Through The Academy, the business also aims to create a new culture of growth, innovation and learning to boost Royal Mail's reputation as an employer of choice. Employees can access The Academy, both virtually and via in-person classroom learning, which takes place at the training centre in the new Daventry-based Midlands Super Hub.

Further information on Royal Mail's training and development initiatives is included in the Royal Mail ESG Report, which is available at [www.internationaldistributionservices.com/en/sustainability/reporting-and-performance](http://www.internationaldistributionservices.com/en/sustainability/reporting-and-performance).

### Working with our unions

A productive and cooperative working relationship with our unions is a core part of our strategy. We recognise two unions: the Communication Workers Union (CWU) and Unite/CMA. Around 91% of our operational and administrative grade employees are members of CWU. Around 99% of our people are covered by agreements with these two unions.

In April 2023 we were pleased that the CWU Postal Executive Committee ratified the Business Recovery, Transformation and Growth Agreement and are putting it to a members' ballot with a recommendation to approve. Details of the agreement are included on page 4.

### Diversity, equity and inclusion (DEI)

We strive to create an inclusive, fair, respectful and accessible working environment across the Company. To achieve this, Royal Mail has developed a DEI strategy relevant to its markets and business.

Royal Mail's DEI strategy underpins the business' ambition to build trust by developing a workforce that reflects the broad diversity of the communities it serves. The business' DEI strategic priorities are to:

- Increase diversity across Royal Mail to create a workforce that reflects its society.
- Transform its generational profile.
- Be a force for good by partnering with others to lead the way in social mobility.
- Build an environment of inclusion, fairness and accessibility for all.
- Focus on creating vibrant and inclusive national networks open to everyone.

To support implementation of its DEI strategy, Royal Mail has set diversity targets as detailed below.

# Royal Mail Group Limited

## Strategic report (continued)

### 2025 diversity targets

	Position at 26 March 2023 (%)	Target position March 2025 (%)
Female representation (all levels)	20%	25%
Female representation (levels 1-6)	26%	33%
Ethnic minority (all levels)	13%	15%
Ethnic minority representation (levels 1-6)	7%	11%
Youth representation (frontline below level 6)	6%	18%

During the year Royal Mail has continued to implement initiatives to retain, develop and hire female senior leaders. These initiatives include investment in leadership development programmes to support the progression of female senior leaders (see previous page), ensuring that balanced candidate shortlists are created, where possible, and increasing oversight of the recruitment process to drive the best diversity outcomes.

Royal Mail's Women's Steering Group and the One Royal Mail DEI Action Group are currently working together to develop a clear roadmap for increasing female representation at all levels. Other employee networks operate across the business and also play a critical role in supporting the needs of colleagues and amplify the colleague voice.

Around 13% of Royal Mail employees are from an ethnic minority background. Royal Mail is a signatory to Business in the Community's (BITC) Race at Work Charter, and actively participates in BITC's internal and external Mentoring Circles programme. This programme offers its ethnic minority colleagues an opportunity to maximise their full potential through mentorships by senior colleagues within the organisation and across multiple industries.

Royal Mail remains committed to supporting disabled applicants and colleagues at all stages of the employee cycle. The business provides training, career development and promotion opportunities, and operations managers complete Disability and Reasonable Adjustments training to ensure that they are confident and effective in supporting colleagues with disabilities. Support and training are provided for colleagues with existing disabilities and for those who have become disabled during their employment. Royal Mail is proud to be part of the UK's Disability Confident scheme and achieve Disability Confident Employer Status.

Further information on Royal Mail's DEI strategy and progress made during the year is included in the Royal Mail ESG Report, which is available at [www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance](http://www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance).

### Gender pay gap

We believe all our people should be rewarded fairly for their work, regardless of gender. For Royal Mail for 2022, the total average pay for male and female employees continues to be broadly the same, with the mean pay gap now at 1.4% and 3.1% in favour of male employees when measured on a median basis. The Royal Mail 2022 Gender Pay Gap Report is available at [www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance](http://www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance).

### Supporting our communities

Royal Mail seeks to be an integral, valued and trusted part of every community in which it operates. In 2022-23, the business contributed £3.3 million to good causes and charitable schemes. This included match giving for colleague fundraising and the cost of its Articles for the Blind service. In addition, Royal Mail colleagues raised £2.17 million for charity.

Royal Mail builds on the economic and social impacts of its operations by investing in strategic partnerships and finding ways to use its heritage and business assets to contribute to society. The business' community investment strategy is structured into three key areas:

- Leveraging its national scale:** In February 2023, British Heart Foundation became Royal Mail's national charity partner. The four-year partnership aims to raise £2 million and encourage the business' employees to volunteer and support British Heart Foundation on a pro bono basis. Money raised will be used to fund the new Community Hearts programme, which aims to deliver CPR training for one million young people, fund community defibrillators across the UK and develop accessible heart health information for the nation.

# Royal Mail Group Limited

## Strategic report (continued)

- **Using its local presence:** As Royal Mail employees are present in every community across the UK, the business is uniquely placed to support the search for missing people. Since 2014, Royal Mail has posted alerts from the charity Missing People to its posties via their handheld scanners. This year marks the 30-year anniversary of the charity Missing People and the business will be working with the charity through 2023 on a number of other initiatives to celebrate and raise awareness around this issue.
- **Unlocking potential through education:** Royal Mail is a supporter of the National Literacy Trust's Vision for Literacy pledge, which aims to close the UK literacy gap and boost social mobility.

Royal Mail continues to support the Disasters Emergency Committee (DEC) by providing a dedicated PO Box which enables the UK public to respond to national appeals for overseas disasters. Ongoing appeals include the Ukraine Crisis Appeal and, more recently, the Turkey and Syria Earthquake Appeal. In 2022-23, the DEC directly raised a combined total of £199 million, with 9.4% (equivalent to £18.9 million) being received via the PO Box.

### Serving our customers

Despite working hard to minimise the disruption caused in the UK by industrial action during the year, we have not always provided the service our customers and society need and expect. We did not achieve our regulatory quality of service targets largely due to the industrial action, but also because of high levels of absence. Improving quality is a key focus.

### Protecting human rights

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

Building awareness of modern slavery forms part of Royal Mail's induction and compliance training, which is mandatory for all managers.

Royal Mail continues to focus on assessing supply chain risks in relation to modern slavery and human trafficking and is exploring options for certification of third-party suppliers for correct employment standards and signposting them to modern day slavery training materials.

Our Modern Slavery Act Statement is available at [www.internationaldistributionsservices.com/sustainability/reporting-and-performance](http://www.internationaldistributionsservices.com/sustainability/reporting-and-performance).

## Governance

### Operating responsibly

Maintaining stakeholders' trust by operating with integrity is essential if we are to succeed and generate long-term value.

The Company implements policies and frameworks and business specific strategies, policies and processes that are tailored to the needs of the Royal Mail business and its stakeholders. Information about key policies, including the IDS plc Group's ESG Policy Statement, can be found in the IDS plc 2022-23 Annual Report and Financial Statements. The Group's ESG Policy Statement is available at [www.internationaldistributionsservices.com/en/sustainability/governance/policies](http://www.internationaldistributionsservices.com/en/sustainability/governance/policies).

The IDS plc Group ESG Committee provides Board-level oversight of the implementation of its ESG Principles across the Group.

The Royal Mail Group Limited Board, supported by a dedicated ESG function, is responsible for ensuring effective execution of the Company's ESG strategy and alignment of targets, policies and procedures with the Group's ESG Principles and ESG Policy Statement.

IDS plc Group assesses the risks and opportunities arising from social and environmental issues relevant to the Group at least once a year and use its risk management framework to determine their criticality.

# Royal Mail Group Limited

## Strategic report (continued)

### Our ethical standards

We aim to foster a culture based on honesty, integrity and openness. The overarching business policies that set out our approach to responsible conduct in our business and supply chain are outlined below. A copy of the policy is available at [www.internationaldistributionservices.com/en/sustainability/governance/policies](http://www.internationaldistributionservices.com/en/sustainability/governance/policies).

Royal Mail employees have access to policies and guidance via the People App, intranet or its communications channel, MyRoyalMail. Royal Mail operates a comprehensive ethics and compliance training programme. All employees are required to undertake training relevant to their role and managers are required to complete compliance refresher training annually which includes an attestation of the Royal Mail Business Standards. The completion rate for this annual training for 2022-23 was 99.2%. Colleagues, contractors, agency and casual workers, suppliers, business partners and the public are encouraged to report any suspected policy breaches through the business' confidential whistleblowing process.

Royal Mail's procurement vision is to deliver value to its business and stakeholders whilst protecting them from risks. The business is committed to embedding high standards of social, ethical and environmental conduct across its supply chain. Royal Mail's approach to responsible procurement also covers the timely payment of suppliers. Its latest Payment Practices report (which was published in October 2022) showed the percentage of invoices paid in 61 days or more was 3% (October 2021: 2%).

Royal Mail was targeting 50 high-risk suppliers and subcontractors reporting self-assessments or third-party sustainability audits via Sedex by year end 2022-23. As at 26 March 2023, 43 suppliers were active on the system and Royal Mail is continuing to work with Sedex to expand coverage, including launching an onboarding support programme to identify and sign up more suppliers.

### Reporting standards

We are committed to being as open and transparent as possible about our business. Our ESG reporting meets:

- The disclosure requirement Global Reporting Initiative (GRI) Standards (Royal Mail – Comprehensive option).
- Our obligations as a signatory to the United Nations Global Compact.

We engaged Bureau Veritas to provide assurance over reported non-financial performance indicators and related assertions. Its assurance covers environmental indicators and metrics used to monitor culture, such as health and safety, sickness absence and diversity. Assurance was performed in accordance with the ISAE 3000 (Revised) and ISAE 3410 standards, and further information, including the assurance statements, is available at [www.internationaldistributionservices.com/en/sustainability/reporting-and-performance](http://www.internationaldistributionservices.com/en/sustainability/reporting-and-performance).

Policy	Scope
Group ESG Policy Statement	Sets out our ESG strategy, governance and commitments, including our support for the United Nations (UN) Global Compact and Universal Declaration of Human Rights.
Royal Mail Business Standards	Outlines the behaviours Royal Mail expects from its employees, and others working on its behalf. The standards are about doing the right thing, following the law, acting honourably and treating others with respect. They help the business' employee to do the best job for its customers, keep its people safe and protect its reputation.
Royal Mail Ethical Business Policy: Anti-Bribery & Corruption, Conflicts of Interest, Prevention of the Facilitation of Tax Evasion	Sets out Royal Mail's approach to minimising the risk of bribery and corruption, and the facilitation of tax evasion taking place in any part of our business. The business has a strict zero-tolerance policy towards non-compliance with all applicable anti-bribery, corruption, money laundering, terrorist financing and tax evasion laws. It requires employees to follow all internal procedures to prevent bribery, corruption, conflicts of interest, money laundering, terrorist financing and the facilitation of tax evasion, as well as processes for setting up new commercial arrangements with suppliers, customers and other business partners.
Royal Mail Sustainable Procurement Code (the Procurement Code)	Outlines the environmental, social and ethical commitments and behaviours Royal Mail expects from its suppliers and aims to ensure that the business only engages suppliers that meet its standards. This code, which is based on the UN Global Compact Principles, requires Royal Mail's suppliers to adhere to the UN Declaration of Human Rights, which is part of the business' commitment to implementing the UN Guiding Principles on Business and Human Rights. Royal Mail requires its suppliers to communicate the Procurement Code in full to all relevant employees within their organisations.

# Royal Mail Group Limited

## Strategic report (continued)

### Task Force on Climate-related Financial Disclosures (TCFD)

The Company's parent company, International Distributions Services plc (IDS plc) has provided TCFD information relevant to the Company in its 2022-23 Annual Report and Financial Statements as outlined below.

#### TCFD Statement

IDS plc Group recognises climate change as a key global threat, and one that poses particular risks and opportunities for its businesses. Identifying these risks and opportunities enables the Group to enhance the resilience of the businesses and take advantage of the opportunities it may offer.

IDS plc Group is committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board. During the year it continued to make progress against these recommendations and has formally embedded the management of climate-related risks and opportunities into its governance and risk management framework. However, it has further work to do to implement the guidelines in full and meet the expectations of the Financial Reporting Council (FRC).

In accordance with Listing Rule 9.8.6R(8), the IDS plc Annual Report is consistent with seven TCFD recommendations and partially consistent with four of the recommended disclosures. In assessing IDS plc Group's consistency, it has followed the 'Guidance for all sectors'.

The areas where it is not yet fully consistent with the recommendations can be found in the IDS plc 2022-23 Annual Report and Financial Statements.

# Royal Mail Group Limited

## Strategic report (continued)

### Section 172 statement

Our stakeholders are integral to the Company's success. Our engagement with our stakeholders helps us understand what matters to them. It builds trust, fosters stronger relationships and ensures that we provide the products and services customers need, which helps drive the Company's long-term success.

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

In relation to the decisions taken during the period ended 26 March 2023, and up until 23 June 2023, the Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172 of the Companies Act 2006.

An example of a principal decision made by our Board during the year, and the stakeholder issues and section 172 matters considered as part of the decision-making process, is set out below. We define 'principal decisions' as decisions which are material or strategic to the Company, and/or significant to any of our stakeholders. In each case, given the materiality and importance of these matters, the relevant management team made recommendations to our Board for consideration.

#### Universal Service Obligation

In November 2022 the International Distributions Services plc Board approved the making of a request to the Secretary of State for Business and Trade to reform the Universal Service. Royal Mail wants to move from a six- to a five-day-a-week letter service under the USO, whilst continuing to improve parcel services. As part of this, Royal Mail remains committed to the 'one-price-goes-anywhere' service on a range of letters and parcels to all addresses across the country. In reaching this decision the Board considered the following matters:

- **Customers:** To secure Royal Mail's long-term survival, it must operate a sustainable business model based on customer demand; that means delivering more parcels and fewer letters. Ofcom's User Needs Review showed that a five-day (Monday to Friday) letters service would meet the needs of 97% of consumers and SMEs. In relation to those customers who could be affected by the change, for example magazine publishers, it was noted that Royal Mail was working to manage the change and mitigate the impact.
- **The long-term interests of the Company and all its stakeholders:** According to Ofcom, a financially sustainable Universal Service should be able to achieve an EBIT margin of 5-10%. Since privatisation of the Group in 2013, the Universal Service network has only achieved this twice. Letter volumes have declined by more than 60% since their peak in 2004-05. Reforming the Universal Service is essential if Royal Mail is to have a sustainable future.
- **Employees:** A reformed USO would enable Royal Mail to grow in a more financially sustainable way, which would support job security in the long term. Moving to a Monday to Friday letter service, and focusing on parcels at weekends, would create an opportunity to offer employees different working patterns, including more Saturdays off.

#### Industrial relations

In September 2022, following five months of talks, including two dispute resolutions procedures, no agreement had been reached with the CWU to resolve ongoing damaging industrial action. In light of these circumstances, the International Distributions Services plc Board agreed that Royal Mail should review or serve notice on Agenda for Growth protections and other union agreements and work with the CWU to move to a more modern industrial relations framework. In coming to this decision the Board considered the following matters:

- **The long-term interests of the Company and all its stakeholders:** During the first half of 2022-23 Royal Mail made an adjusted operating loss of £219 million. To enable the business to succeed in a highly competitive market, it must adapt much faster to changing customer demands. However, the CWU had blocked any meaningful discussion on the proposed change agenda and had not put forward any viable alternative plans. Accordingly, to secure Royal Mail's long-term survival, a more modern industrial relations framework was required to enable the business to become more agile and compete more effectively.

# Royal Mail Group Limited

## Strategic report (continued)

- **Customers:** Royal Mail needs to adapt much faster to changing customer demands in a highly competitive market. The ongoing industrial action had significantly impacted Royal Mail's customers and the decision to serve notice on Agenda for Growth protections and other union agreements was a means of breaking the impasse and enabling Royal Mail to move ahead at pace. At the same time, the Board recognised that the action could cause further short-term disruption for customers, however, to secure the long-term survival of Royal Mail, it was the best course of action.
- **Employees:** Rebuilding the trust of Royal Mail's employees and working with them to deliver transformation is an essential part of the business' growth strategy. In the long term, serving notice on Agenda for Growth protections and other union agreements to establish a more modern industrial framework, which would help secure Royal Mail's survival and its ability to offer long-term job security, was considered to be in the best interests of the business' employees. By taking steps to modernise agreements and ways of working with the CWU, it would allow Royal Mail, amongst other things, to retain its position as the best employer in its industry, with the best pay, pensions and conditions.



**Mick Jeavons**

Director

Royal Mail Group Limited

Registered Number: 04138203

Registered Office: 185 Farringdon Road, London, EC1A 1AA

23 June 2023

# Royal Mail Group Limited

## Directors' report

The Directors present the Annual Report and Financial Statements of the Company. These Financial Statements relate to the 52 weeks ended 26 March 2023 (2021-22: 52 weeks ended 27 March 2022).

### Directors and their interests

The following have served as Directors of the Company during the period ended 26 March 2023 and up to the date of approval of these Financial Statements, unless otherwise stated:

Mick Jeavons

Mark Amsden

Simon Thompson (Resigned on 12 May 2023)

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

Except for Mark Amsden, the Directors above were also Directors of International Distributions Services plc, the Company's ultimate parent company for the reporting year, and as such their disclosable interests in International Distributions Services plc are all declared in the financial statements of that company.

### Research and development

During the year no material research and development activities were undertaken.

### Political donations

There were no political donations during the year (2021-22: £nil). The Company intends to continue its policy of not making such donations for the foreseeable future.

### Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the auditor is unaware and that each Director has taken all reasonable steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Indemnity of Directors

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

### Cautionary statement regarding forward-looking information

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

### Going concern

These Financial Statements have been prepared on a going concern basis. The Directors have reviewed business projections to consider business cash flows under different trading scenarios that could reasonably take place during the year under review. Note 1 to the Financial Statements provides a detailed review of the Company's going concern assessment.

### Statement of Corporate Governance Arrangements

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018, Royal Mail Group Limited (the Company) has, as part of the wider International Distributions Services plc Group (the Group), applied the principles of the UK Corporate Governance Code 2018 (the Code) for the financial period ended 26 March 2023.

The Group places a high value on good governance and promotes the highest levels of governance throughout the organisation. Full details of how the Group applied the Code can be found in the International Distributions Services plc Annual Report and Financial Statements 2022-23, which are available on the International Distributions Services plc website.

# Royal Mail Group Limited

## Directors' report (continued)

### Statement of employee engagement

Whilst Royal Mail Group Limited is the employing entity, the principal route by which the Directors of the Company effect engagement of the Company are the process and practices of the parent Company, International Distributions Services plc.

An extensive colleague engagement programme exists which includes:

- The annual Big Trust survey, regular pulse surveys, Employee Voice Forums and People Panels.
- Two-way dialogue with employees through the Workplace platform, which was extended to all employees in 2021 to enhance the effectiveness of employee engagement.
- Face-to-face programmes to enhance colleagues' understanding of our strategy.
- Sharing of information through internal communication channels including Courier magazine, Royal Mail TV and Workplace.

The Group granted free shares to employees upon privatisation and also runs a Partnership and Matching Share Scheme which are both designed to align employees' interests with performance through share ownership.

### Auditor

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

### Strategic report

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

### Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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

# Royal Mail Group Limited

## Directors' report (continued)

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## By Order of the Board



### Mick Jeavons

Director

Royal Mail Group Limited

Registered Number: 04138203

Registered Office: 185 Farringdon Road, London, EC1A 1AA

23 June 2023

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

### Opinion

We have audited the financial statements of Royal Mail Group Limited ("the Company") for the 52 week period ended 26 March 2023 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the Basis of preparation and accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 26 March 2023 and of its loss for the 52 week period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that the Company's ability to continue as a going concern is reliant on the intent of the ultimate parent undertaking, International Distributions Services plc, both in regards of nonrepayment of the outstanding loan and the provision of ongoing financial support, should it be required, which are outside the control of the Company. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

### Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company, or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated above, they have also concluded that there is a material uncertainty related to going concern.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- Continuing Industrial Action with the CWU leading to further strike action;
- Reducing parcel and letter volume across the UK business;
- Widespread inflationary increases and the impact of that on consumer behaviour as well as the impact across all cost captions; and
- Underperformance on transformation targets needed to return to profitability.

We also considered less predictable but realistic second order impacts, such as the potential outcome of the contingent liabilities relating to regulatory investigations.

Given the level of financial resources, and the risks inherent in the cash flows, particularly the achievement of transformation, our evaluation of the Directors' going concern assessment was of particular significance in our audit.

Our procedures included critically assessing assumptions in base case and downside scenarios, considering the forecasted operating levels and how these relate to historic performance. We also compared past budgets to actual results to assess the Directors' track record of budgeting accurately. Since the entity may need financial support from the ultimate parent undertaking (International Distributions Services plc), we assessed the risk that this support would not be available. We inspected letters received by the Directors indicating the group's intention to provide this support should certain conditions be met, examined financial statements to assess its ability to provide this support over the period of the audited entity's going concern assessment, and assessed the business reasons why the group may or may not choose to provide this support.

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

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

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

### **Fraud and breaches of laws and regulations – ability to detect**

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors and Internal Audit and Risk Management, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Considering remuneration incentive schemes (Royal Mail LTIP and Deferred Share Bonus Plan) and performance targets for management and the Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as deferred revenue in relation to advance customer payments.

On this audit we do not believe there is a fraud risk related to revenue recognition because we do not deem there to be sufficient opportunity to fraudulently adjust revenue, namely due to the high volume and low value of transactions.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to seldom used accounts, round sum journals posted in period 12, post close journals and unusual journals posted to revenue, cash and borrowing accounts.
- Evaluated the business purpose of significant unusual transactions
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias, including assessing the estimate of deferred revenue associated with advance customer payments for bias.

#### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements and inquiry of the Company's regulator, Ofcom

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety, anti-bribery and corruption, employment law, PCI compliance, money laundering, foreign corrupt practices, environmental protection, export control, consumer rights act, misrepresentation act, contract law, distance selling regulations, competition legislation and price fixing, and the postal services act as enforced by Ofcom, in recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the Whistleblower claim discussed in note 29 we assessed disclosures against our understanding from legal correspondence.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

#### **Strategic report and Directors' report**

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

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

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

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

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

### **Directors' responsibilities**

As explained more fully in their statement set out on page 32, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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

**Andrew Bradshaw (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor



*Chartered Accountants*  
*15 Canada Square*  
*Canary Wharf*  
*London*  
*E14 5GL*  
*23 June 2023*

# Royal Mail Group Limited

## Income statement for the 52 weeks ended 26 March 2023

	Notes	52 weeks 2023 £m	52 weeks 2022 £m
<b>Continuing operations</b>			
Revenue	2	7,418	8,525
Operating costs <sup>1</sup>		(8,000)	(8,339)
People costs	3	(5,372)	(5,557)
Other operating costs	4	(2,628)	(2,782)
<b>Operating (loss)/profit before specific items</b>		<b>(582)</b>	186
Operating specific items	5/6	(482)	(158)
<b>Operating (loss)/profit</b>		<b>(1,064)</b>	28
Profit on disposal of property, plant and equipment (non-operating specific item)		6	73
<b>(Loss)/profit before interest and tax</b>		<b>(1,058)</b>	101
Income from investments	8	12	842
Finance costs	9	(49)	(50)
Finance income	9	14	1
Net pension interest (non-operating specific item)	22 (c)(d)(e)	105	64
<b>(Loss)/profit before tax</b>		<b>(976)</b>	958
Tax (charge)/credit	10	(131)	41
<b>(Loss)/profit for the year</b>		<b>(1,107)</b>	999

<sup>1</sup> Operating costs are stated before operating specific items which include: costs/revenues in respect of impairments and legacy/other items.

# Royal Mail Group Limited

## Statement of comprehensive income for the 52 weeks ended 26 March 2023

	Notes	52 weeks 2023 £m	52 weeks 2022 £m
<b>(Loss)/profit for the year</b>		<b>(1,107)</b>	999
Other comprehensive income/(expense) for the year from continuing operations:			
<b>Items that will not be subsequently reclassified to loss or profit:</b>			
Amounts relating to pensions accounting		<b>(488)</b>	414
Withholding tax receivable/(payable) on distribution of RMPP and RMSEPP surplus	22	413	(181)
Remeasurement (losses)/gains of the defined benefit surplus in RMPP and RMSEPP	22(c)(d)	(1,285)	457
Remeasurement gains of the defined benefit deficit in DBCBS	22(e)	378	172
Deferred tax	10	6	(34)
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Designated cash flow hedges		<b>(70)</b>	83
(Losses)/gains on cash flow hedges deferred into equity		(2)	117
Gains on cash flow hedges released from equity to income		(85)	(24)
Losses released from equity to the carrying value of non-financial assets		2	2
Gain on cross-currency swap cash flow hedge deferred into equity		22	2
(Gain)/loss on cross-currency swap cash flow hedge released from equity to income – interest payable		(26)	8
Gain on cost of hedging deferred into equity		2	-
Gain on cost of hedging released from equity to income – interest payable		(1)	(1)
Tax on above items	10	18	(21)
<b>Total other comprehensive (expense)/income for the year</b>		<b>(558)</b>	497
<b>Total comprehensive (expense)/income for the year</b>		<b>(1,665)</b>	1,496

# Royal Mail Group Limited

## Balance sheet At 26 March 2023

	Notes	At 26 March 2023 £m	At 27 March 2022 £m
<b>Non-current assets</b>			
Property, plant and equipment	11	1,886	2,331
Intangible assets	13	167	341
Investments in subsidiaries and associates	14	375	370
Financial assets – pension escrow investments	15	208	213
Financial assets – derivatives		3	30
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	22	1,957	2,723
Other receivables	23	6	38
Deferred tax assets	10	-	122
		<b>4,602</b>	<b>6,168</b>
Assets held for sale	24	4	-
<b>Current assets</b>			
Inventories	16	32	26
Trade and other receivables	17	724	1,214
Income tax receivable		13	35
Financial assets – investments		-	70
Financial assets – derivatives		23	74
Cash and cash equivalents	18	449	831
		<b>1,241</b>	<b>2,250</b>
<b>Current liabilities</b>			
Trade and other payables	19	(1,837)	(2,407)
Lease liabilities	12	(142)	(146)
Financial liabilities – derivatives		(13)	(8)
Bank overdrafts	20	(95)	(78)
Provisions	21	(122)	(171)
		<b>(2,209)</b>	<b>(2,810)</b>
<b>Net current liabilities</b>		<b>(968)</b>	<b>(560)</b>
<b>Total assets less current liabilities</b>		<b>3,638</b>	<b>5,608</b>
<b>Non-current liabilities</b>			
Other payables		(2)	(2)
Lease liabilities	12	(784)	(819)
Financial liabilities – derivatives		(22)	(36)
DBCBS retirement benefit deficit	22	(145)	(390)
Provisions	21	(56)	(68)
<b>Net assets</b>		<b>2,629</b>	<b>4,293</b>
<b>Equity</b>			
Share capital	26	-	-
Retained earnings		2,633	4,227
Other reserves	26	(4)	66
<b>Total equity</b>		<b>2,629</b>	<b>4,293</b>

The Financial Statements were approved by the Board of Directors on 23 June 2023 and signed on its behalf by:



**Mick Jeavons**  
Director  
Royal Mail Group Limited  
Registered Number 04138203  
Registered Office: 185 Farringdon Road, London, EC1A 1AA

# Royal Mail Group Limited

## Statement of changes in equity for the 52 weeks ended 26 March 2023

	Notes	Share capital £m	Retained earnings £m	Hedging reserve £m	Foreign currency translation reserve £m	Other reserve £m	Total equity £m
<b>At 28 March 2021</b>		-	3,745	(14)	(3)	4	3,732
<b>Profit for the year</b>		-	999	-	-	-	999
<b>Other comprehensive income for the year</b>		-	414	83	-	-	497
<b>Total comprehensive income for the year</b>		-	1,413	83	-	-	1,496
Transactions with owners of the Company, recognised directly in equity							
Distribution of RMGLS Holdco Limited to IDS plc		-	(781)	-	-	-	(781)
Dividends paid	27	-	(158)	-	-	-	(158)
Employee Free Shares issue		-	1	-	-	-	1
Long-term incentive plan (LTIP)		-	2	-	-	-	2
DSBP		-	1	-	-	-	1
Transfer of realised profit		-	4	-	-	(4)	-
<b>At 27 March 2022</b>		-	4,227	69	(3)	-	4,293
<b>Loss for the year</b>		-	(1,107)	-	-	-	(1,107)
<b>Other comprehensive expense for the year</b>		-	(488)	(70)	-	-	(558)
<b>Total comprehensive expense for the year</b>		-	(1,595)	(70)	-	-	(1,665)
Employee Free Shares issue		-	1	-	-	-	1
LTIP		-	1	-	-	-	1
Tax charge on share-based payments		-	(1)	-	-	-	(1)
<b>At 26 March 2023</b>		-	2,633	(1)	(3)	-	2,629

# Royal Mail Group Limited

## Notes to the Financial Statements

### 1. Basis of preparation and accounting policies

The following accounting policies apply throughout Royal Mail Group Limited ('the Company').

#### Accounting reference date

The financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are made up to the 52 weeks ended 26 March 2023 (2021-22: 52 weeks ended 27 March 2022).

#### Authorisation of Financial Statements and statement of compliance with FRS 101

The Financial Statements of the Company for the period ended 26 March 2023 were authorised for issue by the Board of Directors on 23 June 2023. The Company is incorporated and domiciled in England and Wales.

These Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and in accordance with applicable accounting standards.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of International Distributions Services plc. The consolidated Financial Statements of International Distributions Services plc are available from [www.internationaldistributionservices.com/results](http://www.internationaldistributionservices.com/results).

#### Basis of preparation

The Company has applied FRS 101 for all years presented. The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the period ended 26 March 2023.

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

- (a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment* (details of the number and weighted average exercise prices of share options and how the fair value of goods or services received are determined)<sup>1</sup>.
- (b) The requirements of IFRS 7 *Financial Instruments: Disclosures*<sup>1</sup>.
- (c) The requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement* (disclosure of valuation techniques and inputs used for fair value measurements of assets and liabilities)<sup>1</sup>.
- (d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*.
- (e) The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding).
- (f) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*.
- (g) The requirements of IAS 7 *Statement of Cash Flows*.
- (h) The requirements of paragraph 17 and 18(a) of IAS 24 *Related Party Disclosures* (details of key management compensation and related party transaction amounts).
- (i) The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- (j) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

<sup>1</sup> Exemption taken as equivalent disclosures are included in the consolidated Financial Statements of International Distributions Services plc.

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

### Going concern

The Financial Statements have been prepared on a going concern basis. As support from IDS Plc is not guaranteed as it is subject to progress against the business plan, this represents a material uncertainty at 23 June 2023 that could cast significant doubt upon the Company's ability to continue as a going concern.

As outlined below, the occurrence of the downside potential risks, including further industrial action and the ability to obtain additional funding either through property disposals, or from the IDS plc Group are all outside the control of the Company and could cast significant doubt upon the Company's ability to continue as a going concern. The Financial Statements do not include adjustments that would result if the Company was unable to continue as a going concern.

In their assessment of going concern, for the 12 months from date of signing the financial statements and for which support from IDS Plc is available (the going concern assessment period), the Directors have reviewed both the current business projections and a severe but plausible downside scenario and assessed these against cash and cash equivalents of £354 million. In addition, as at 26 March 2023, the Company potentially has access (subject to approval of the IDS plc Board) to an undrawn bank syndicate loan facility of £925 million.

The Company has modelled two scenarios referred to below as the Base Case and the Downside Case. The Base Case takes into account the Board's and management's views on the anticipated impact and recovery from industrial action which took place during 2022-23, across the going concern period.

The key inputs and assumptions underlying the Base Case include the economic impact driven by the ongoing macro-economic headwinds but does not assume any further industrial action taking place. It also assumes the benefits associated with the activity to restore quality of service and transform the business are realised, resulting in a more efficient operation that meets customers' changing needs. There are material real estate asset disposal proceeds included in the business plan but the sale of these properties are uncommitted at the approval date of the Financial Statements, as such they have not been included in management's going concern assessment of its Base Case and Downside Case.

The Downside Case included a consideration of deteriorating economic and market conditions, a slower pace of transformation and the impact this has on cost control, and the potential impact of further industrial action.

Further details of the scenario modelled are as follows:

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Scenario: Deteriorating economic and market conditions.

Assumptions: Delayed revenue growth in the business plan and decline in operating margins

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Scenario: Increased competition in the UK parcels sector including changes in consumer expectations and/or market disruption.

Assumptions: Lower parcel revenues and failure to deliver new product offerings.

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Scenario: Potential impact of industrial action or incurring costs to avoid it.

Assumptions: Lower operating profit as a result of industrial relations and delay to win back lost customers.

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Scenario: Delays in relation to the Royal Mail transformation plan.

Assumptions: Delays in budgeted cost efficiencies being realised.

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Scenario: Cyber-attack triggering material service and/or operational interruption.

Assumptions: Cyber breach impacting revenue collection.

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Scenario: Increase in attrition of key roles

Assumptions: Recruitment costs, interim resource and higher salaries.

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Although we consider the risk of further industrial action has significantly decreased following agreement with the CWU, and announcement of the ballot which is due to take place between 22 June and 11 July 2023, it is still plausible.

The Base Case projections (after excluding property proceeds) indicate that the Company would be reliant on support from IDS plc to maintain liquidity. Whilst the IDS plc Board has for some time maintained that it will not cross-subsidise the Company and has asked that all reasonable steps are taken to finance the necessary transformation and turnaround from the Company's own resources, including the disposal of some real estate assets, it has indicated support would be available subject to appropriate progress with the business plan in order to meet short-term working capital needs or to cover unavoidable delays in realising asset disposal proceeds.

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

The severe but plausible Downside Case applies a further stress to the Base Case to model further deteriorating economic and market conditions, and further industrial action in the event that the pay deal agreed with the CWU in April 2023 does not receive ratification by employees in July 2023. In the Base Case (which excludes any uncommitted property proceeds) and severe but plausible Downside Case, the Company would require financial support from IDS plc in order to maintain sufficient liquidity. In the Base Case this support from IDS Plc would be available to meet short-term working capital or to cover unavoidable delays in realising asset disposal proceeds. In the event of the Downside Case materialising, the Board will regularly consider the appropriate level of additional liquidity that will be available to Royal Mail Group Limited. Like any investor, the holding company will require a positive investment case in order to continue to provide financial support.

The Directors, having reviewed both the Base Case and Downside Case projections, have a reasonable expectation that the Company will continue to operate for a minimum of 12 months from the date of approval of these Financial Statements. Those projections are dependent on IDS plc, the Company's ultimate parent company, providing access to Group resources, and on IDS plc and its immediate parent company RMGLS Holdco Limited, not seeking repayment of the loans currently due to them, which at 26 March 2023 amounted to £486 million and £130 million respectively.

The IDS plc Board has indicated that they do not intend to (and will not instruct RMGLS Holdco Limited to) seek repayment of the loans in the next 12 months and that IDS Plc will provide support to the Company, subject to appropriate progress with the business plan. As support from IDS Plc is not guaranteed, as it is subject to progress against the business plan, this represents a material uncertainty at 23 June 2023 that could cast significant doubt upon the Company's ability to continue as a going concern.

### Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these Financial Statements are consistent with those in the Financial Statements for the 52 weeks ended 27 March 2022, along with the adoption of new and amended accounting standards with effect from 28 March 2022 as detailed below:

#### New and amended accounting standards adopted in 2022-23

##### Annual improvements to IFRS 2018-2020

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

This amendment requires that sales proceeds recognised before the related item of property, plant and equipment (PPE) is available for use are recognised in profit or loss together with the costs associated with the items sold, rather than by adjusting the cost of the item of PPE. This amendment is not expected to have a material impact on the Company.

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

This amendment clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. This amendment is not expected to have a material impact on the Company.

###### *IFRS 3 (Amended) – Reference to Conceptual Framework*

The amendments update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Further, the amendments add an exception to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21. The amendments also clarify existing guidance for contingent assets. The Company is ensuring that the accounting business combinations takes account of this improved guidance.

#### Accounting standards issued but not yet applied

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

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

IAS 8 (Amended) – Definition of Accounting Estimates

IAS 12 (Amended) – Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction IFRS 17 – Insurance Contracts

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

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

### Sources of estimation uncertainty and critical accounting judgements

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

### Significant accounting estimates

#### Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or changes in assumptions will be reflected in the Company's consolidated statement of comprehensive income. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP and DBCBS pension plans are included within Note 22.

- Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Company applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. For the main classes of assets:
- Equities listed on recognised stock exchanges are valued at the closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves.
- Pooled investment vehicles are valued using published prices or the latest information from investment managers, which includes any necessary fair value adjustments.
- Properties are valued on the basis of open market value as at the year-end date, in accordance with Royal Institute of Chartered Surveyors (RICS) Valuations Standards (under 'Red Book' guidelines) adjusted for any capital expenditure and impairments since that valuation.
- For exchange-traded derivatives that are assets, fair value is based on bid prices. For exchange-traded derivatives that are liabilities, fair value is based on offer prices.

Non-exchange traded derivatives are valued as follows:

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

The value of the RMSEPP insurance policies held by the Company is equal to the accounting defined benefit obligation of the scheme as at 27 March 2022.

The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 22.

#### Deferred revenue

The Company recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 19).

The majority of this balance is made up of stamps sold to the general public. Management utilise a number of different data sources to calculate the estimated deferred revenue liability given that stamps can be held and used for varying time periods. Royal Mail has now introduced barcoded stamps to replace non-barcoded stamps. The majority of non-barcoded stamps will be valid until 31 July 2023. A Stamp Swap Out scheme was launched on 31 March 2022 where non-barcoded can be swapped for stamps with barcodes. Management will consider the impact that this change may have on the SITHOP balance going forward.

At 26 March 2023 the Company recognised £140 million (2021-22: £160 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. In 2022-23, the volume of stamp sales declined faster than the number of items posted (operational volumes) which means that some of the build-up in holdings seen in 2021-22 was utilised. The primary sources of data used to derive this estimate are as follows:

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

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

Stamp holding days implied by applying the above methodology, increased year on year to 33 days (2021-22: 31 days).

### Royal Mail excluding Parcelforce Worldwide CGU impairment test

In line with the Company's accounting policy, management must assess the recoverable amount of each CGU when testing for impairment. This requires estimation of the present value of future cash flows expected to arise from the continuing operation of the CGU to provide a Value in Use (VIU) or alternatively a fair value for the CGU needs to be established by applying the Fair Value less costs of disposal (FVLCD) methodology. Details of the impairment assessment of the CGU are provided in Note 6.

### Other estimates

#### Provisions – Industrial diseases

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

There is considerable uncertainty associated with estimating the future reporting of latent disease claims, over future decades. Consistent with the approach last year, our external actuarial consultant has leveraged the updated scenarios provided by the Institute and Faculty of Actuaries (UK Asbestos Working Party (AWP)). The AWP's model was released in late 2021.

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

In view of the above, Management has applied a consistent approach to that of previous years and recognised a provision at 26 March 2023 between the medium and high estimates provided by the actuarial consultant. This has resulted in a release of £10 million (2021-22: £11 million), recognised in the income statement as an operating specific item. The closing provision balance at 26 March 2023 was £44 million (2021-22: £56 million) (see Notes 5 and 21).

A 50 bps decrease to the 3.86% discount rate used at 26 March 2023 would result in a £2 million increase in the overall provision. Any income statement movements arising from a change in accounting estimate are disclosed as an operating specific item.

### Significant accounting judgements

#### Frontline employees pay offer

A provision of £61 million has been recognised in the financial statements in respect of a one off payment of £500 per person to frontline employees (see Note 21). The provision has been recognised based on management's judgement that it relates to work performed in 2022-23 (past service) and a constructive obligation existed at 26 March 2023. A valid expectation had therefore been set in respect of this payment through the best and final offer communicated to employees in November 2022 and through the negotiator's agreement reached with the CWU, but still subject to ballot by members at the balance sheet date.

As an accurate estimate of the payment amount can be made, based on known FTEs in place, a past service has been provided by the eligible employees (IAS 19), and an outflow of resources is considered highly likely, the conditions required to recognise a provision, are therefore considered by management to have been met.

#### Deferred tax assets derecognition

The Company assesses the recoverability of deferred tax assets at each reporting date. In order to recognise a deferred tax asset, it must be probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised. Given the loss incurred by Royal Mail during the period, there is increased uncertainty that future taxable profits will be generated. Management use judgement to determine whether it is probable that there will be future taxable profits. The calculation of future taxable profits is based on the forecast profits as per the Board approved Business Plan, which is the same forecast used in the calculation of impairment losses and therefore the same risks and uncertainties included in the impairment charge (see Note 6) apply to the assessment of probability of future taxable profits.

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

IAS 12 does not define a time period over which an assessment of expected taxable profits should be made although it is acknowledged that reliability decreases the further out into the future the forecast extends. Whilst the Board approved Business Plan covers five years, the normal planning cycle for Royal Mail is three years. Taxable profits have been calculated based on the Board approved Business Plan and for the next three years there are no forecast taxable profits. As a result, it is no longer probable that there will be sufficient forecast taxable profits to utilise the deferred tax asset and so management have not recognised any deferred tax asset in respect of the Royal Mail losses incurred in the year and has derecognised £122 million in respect of the brought forward deferred tax asset at 27 March 2022.

### Accounting policies

#### Climate change

When preparing the financial statements, the Directors consider the impact of climate change, particularly in the context of risks identified in the TCFD disclosure in the IDS plc Group 2022-23 Annual Report and Financial Statements. No material impact on the financial reporting judgements and estimates has been identified.

The Directors consider the impact of climate change with regards to:

- going concern and viability of the Group over the next three years;
- cash flow forecasts used in the impairment assessments of non-current assets including goodwill and infrastructure investment assets;
- carrying value and useful economic lives of property, plant and equipment; and
- the valuation of assets held with the Group's pension scheme

#### Revenue

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

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

In some cases, payment for services may be received in advance for a service that is due to be performed over a longer period of time, for example a 12-month redirection service. In these cases, the payment is initially recognised on the balance sheet as a contract liability (deferred revenue), with revenue recognised on a straight-line basis over the life of the contract, in line with the performance of the service.

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

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

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

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

#### Costs

Note that the cost categories defined below are recognised in the financial statements on an accruals basis of accounting.

#### People costs

These are costs incurred in respect of the Company's employees and comprise wages and salaries, pensions and social security costs. These costs are disclosed separately on the face of the income statement.

#### Distribution and conveyance costs

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

#### Infrastructure costs

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

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

### Other operating costs

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

### Operating specific items

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

- *Legacy/other items*

Legacy items are unavoidable ongoing costs or revenues arising from historical events e.g. damages awards, industrial diseases provision movements.

- *Impairment of CGUs and/or investments in subsidiaries*

Impairment of CGUs are considered to be 'significant accounting estimates' (see section above for more details):

Impairments of investments in subsidiaries relate to instances where the carrying value of the investment is higher than the recoverable amount of the subsidiary, which is determined by its net assets value. Reversal of such impairments occurs when the net assets increase to the extent that they exceed the carrying value of the investment.

### Non-operating specific items

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

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

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

- *Net pension interest*

Management separately identifies pension interest income as this is not part of the Company's trading activity and is driven by actuarial calculations and assumptions which fluctuate each year.

### Share-based payments

The Company operates a number of equity-settled, share-based compensation schemes under which the Company receives services from employees as consideration for equity instruments (shares) of the its ultimate parent company, IDS plc. These include the HMRC-approved (Employee Free Shares) Share Incentive Plan. The scheme is based on non-market conditions and does not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long Term Incentive Plans vest based on a combination of non-market and market conditions. Share-based payments awarded as part of the Deferred Share Bonus Plan is a deferred share award, granted to Executive Directors at the end of the annual performance period, the grant being of equal value to the Annual Bonus, and subject to continued employment over a three-year vesting period. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of each award is measured with reference to the share price upon issue and using the Monte-Carlo simulation model where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest.

The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

### Income tax and deferred tax

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

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

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

- Initial recognition of goodwill.
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.
- Taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

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

Where tax returns remain subject to audit with the relevant tax authorities in the various jurisdictions in which the Company operates, a provision is made for uncertain tax items where the agreed amount could differ materially from management's estimates. Any such provisions are included within the relevant current and deferred tax carrying amount.

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

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

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

### Cash Generating Units (CGUs) of the Company

The Company consists of two primary CGUs, each possessing largely independent cash inflows. These CGUs for impairment testing purposes are Royal Mail excluding Parcelforce Worldwide and Parcelforce Worldwide.

### Impairment test for Cash Generating Units (CGUs)

In assessing whether there has been an impairment of a CGU or in some instances a specific asset, Management determines whether the carrying value is higher than the recoverable amount. The recoverable amount is the higher of a CGU or asset's fair value less costs to sell (realisable value) and value in use. The value in use of the CGU/asset is calculated based on its discounted cashflows.

#### *Royal Mail excluding Parcelforce Worldwide CGU*

An impairment review of the Royal Mail excluding Parcelforce Worldwide CGU was undertaken in the current reporting year. Further details can be found in the 'other estimates' section within the 'key sources of estimation uncertainty' above, and in Note 5 and Note 6.

#### *Parcelforce Worldwide CGU*

As a result of delays in the transformation of the Parcelforce Worldwide business, an impairment review of the Parcelforce Worldwide CGU was undertaken in the 2019-20 reporting year. This review identified that the carrying value of the CGU was in excess of its recoverable amount which resulted in all non-monetary assets being written off and a £91 million impairment charge being reported as a specific item. In the current reporting period Management considers that it is not appropriate to reverse the impairment charge, as the business has still to establish a sustainable financial performance.

### Dividends

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

### Property, plant and equipment

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

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

The lives assigned to major categories of property, plant and equipment are:

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement (non-operating specific item) in the year that the asset is derecognised.

Gains or losses from the disposal of assets are recognised in the income statement at the point that all significant risks and rewards of ownership are transferred.

### Intangible assets

Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Development costs capitalised and included as an asset within the Financial Statements have not been treated as a realised loss for the purpose of determining distributable reserves.

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

Software	3 to 10 years
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### Investments in subsidiaries and associates

Investments in subsidiaries and associates within the Company's Financial Statements are stated at cost less any accumulated impairment losses (see note 14).

### Borrowing costs

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

### Non-current assets held for sale

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

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

### Leases

Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IFRS 16, the Company recognises a right of use asset and a lease liability at the lease commencement date for the majority of leases.

The right of use asset is measured initially at cost and is subsequently adjusted for any accumulated depreciation, impairment losses or certain remeasurements of the lease liability.

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate incremental borrowing rate (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. Lease interest is shown within finance costs in the Statement of Cash Flows. The lease liability may also be remeasured where there are changes in future lease payments or changes in the assessment of future extension or termination options.

The Company elected to apply the exemption from recognising leases for low value assets in line with existing Company policy, or short-term leases (with a lease term of under 12 months) on the balance sheet. The Company continues to recognise lease expenses for these assets on a straight-line basis in the income statement over the lease term.

Where possible, the Company allocates the consideration in each contract between any lease and non-lease components, however, where this is not possible the Company has elected to apply the practical expedient of including all of the contract costs in the calculation of the lease asset and liability recognised as a single lease component.

The Company has lease break options in place for a majority of its property lease agreements. These options provide the Company with greater flexibility in managing the estate. These break options have in the main, historically, not been exercised due to ongoing operational requirements. Management has therefore made the decision that the reasonably certain length of the lease is the full lease term, assuming the break option will not be exercised. In only exceptional cases, when reasonably certain that it will enact the break, are leases recognised to the break date only. The unrecognised non-discounted cash flows in relation to these leases are £10 million (2021-22: £nil).

The Company adopts a practice of not including extension options in its leases. Where such clauses exist, they are not material.

### *IFRS 16 – Incremental borrowing rates (IBR)*

The rate inherent in the lease is not readily determinable for the majority of leases previously classed as operating leases under IAS 17 and so an IBR is used. These leases primarily relate to property and motor vehicles.

The IBR is the rate of interest that a lessee would have to pay to borrow, over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

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

From the evidence obtained, Management has concluded that lenders do not make adjustments to the borrowing rates offered on lending, based upon the underlying asset to be obtained. The key factors in the borrowing rates available are judged to be the Company's current credit rating and the length of the borrowing term required.

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

### **Trade receivables**

Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. This loss allowance is calculated by first creating an allowance for identified trade receivables where collection of the full amount is no longer probable, and then applying lifetime expected credit loss (ECL) rates to the remaining unprovided balance. ECL rates have been set by ageing category based on historical loss rates, with adjustments made to reflect forward-looking information where material. In the current year and prior year, considerations around COVID-19 and the macroeconomic situation has resulted in an increase to expected credit losses above our standard provisioning rate.

The below rates have been applied to Company's debt:

	2022-23 %	2021-22 %
Not yet overdue	0.18	0.21
Past due not more than one month	1.73	1.96
Past due more than one month and not more than two months	10.56	12.57
Past due more than two months	52.71	57.69

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

Movements in the loss allowance are recognised in the income statement within other operating costs. At the point that a debt is considered unrecoverable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in the income statement.

### Intergroup receivables

Whilst they are repayable on demand, amounts owed by IDS plc Group entities are deemed to be non current assets for the reporting year, as the Company's intention at the balance sheet date is that the loans will not be settled by the entities within the next 12 months. After consideration of the financial position and future prospects of the counterparties, management have determined they are not in default and that any expected credit loss is not significant and therefore no provision has been recognised.

### Inventories

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

### Trade payables

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

The Company operates a supply chain finance arrangement for small and medium suppliers. This form of reverse factoring allows suppliers to obtain early access to funding. Suppliers may choose to access payment as soon as their invoices are processed rather than the standard payment terms by paying a financing fee to the scheme provider. The Company pays the provider of the scheme on the due date of the invoices, therefore this scheme does not assist the Company in the management of working capital.

As the scheme has not led to a substantial modification in the terms of the financial liability, the Company continues to treat the amounts owed within trade payables. All cash flows associated with the programme are included within operating cash flows as they continue to be part of the normal operating cycle of the Company. There is no impact on net debt, as amounts owed continue to be reported within trade payables.

The balance owed on the facility at 26 March 2023 was £24 million (27 March 2022: £27 million).

### Financial instruments

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

The Company determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at FVTPL, any directly attributable transactional costs. The Company only has financial assets and liabilities measured at amortised cost and derivative assets and liabilities measured at FVTPL if they are not part of an effective hedge designation.

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

#### *Financial assets measured at amortised cost*

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

#### *Financial liabilities measured at amortised cost*

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

#### *Cash and cash equivalents*

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Company invests surplus cash in money market funds which hold baskets of cash, cash equivalent and high-credit-rating debt-based securities with short term maturity. These funds are highly liquid and investments can be redeemed either the same day or within a week, so are categorised as cash equivalents on the basis they are a readily available source of cash. Money market funds are designated as FVTPL, all other cash equivalents are classified as financial assets at amortised cost.

#### *Financial assets – pension escrow investments*

Pension escrow investments comprise a Royal Mail Collective Pension Plan (RMCPP) money market fund investment and a Royal Mail Pension Plan (RMPP) money market fund investment.

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

### *Financial assets – other investments*

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

### *Derivative financial instruments and hedging programmes*

The Company uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Company, in line with the Company's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

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

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

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. Derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement' (see details of the fair value hierarchy below).

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

### *Fair value measurement of financial instruments*

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

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

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

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

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

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

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

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

### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are explained further in the 'Other estimates' part of this Note.

### Contingent liabilities

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

### Contingent assets

Contingent assets are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not that an inflow of benefits will occur. However, when the inflow of benefits is virtually certain, an asset is recognised on the Balance Sheet, because the asset is no longer considered to be contingent.

### Pensions and other post-retirement benefits

Defined benefit pension plan assets are measured at fair value. Listed securities are valued at bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted. Unquoted securities and other pooled investment vehicles are valued using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued in the basis of open market value at the year-end date, in accordance with RICS valuation standards. Further details on the measurement of pension assets are included within the 'Key sources of estimation uncertainty' section above. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions.

Where the economic benefit to be obtained is in the form of a refund, this is recognised less tax expense, in line with IFRIC 14. The Company considers this tax to be a tax other than income tax, i.e. 'withholding tax', and the pension surplus is presented net of this tax on the balance sheet.

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

For defined benefit plans, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The amount resulting from applying the plan's discount rate (for liabilities) to the pension surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the remeasurement gains and losses is recognised immediately in the statement of comprehensive income. The Company recognises a constructive obligation to provide future increases to benefits under the lump sum DBCBS. This is charged to current service costs in the income statement. Further details on the constructive obligation are included within Note 22 to the Financial Statements.

For defined contribution plans, the Company's contributions are charged to operating profit (within people costs) in the year to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

### Intercompany trading

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

### Foreign currencies

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

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

# Royal Mail Group Limited

## 1. Basis of preparation and accounting policies (continued)

These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

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

## 2. Revenue

	52 weeks 2023 £m	52 weeks 2022 £m
Parcels	3,917	4,811
Letters	3,501	3,714
<b>Total</b>	<b>7,418</b>	<b>8,525</b>

During the year, around £250 million (2021-22: £300 million) of revenue was recognised which was previously held as a deferred revenue balance at 27 March 2022 (2021-22: 28 March 2021). This balance largely relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' (see Note 19).

## 3. People costs and numbers

	52 weeks 2023 £m	52 weeks 2022 £m
Wages and salaries <sup>1</sup>	(3,929)	(4,093)
Social security costs	(411)	(414)
Pension costs	(677)	(733)
Temporary resource	(355)	(317)
<b>Total people costs</b>	<b>(5,372)</b>	<b>(5,557)</b>

<sup>1</sup>Wages and salaries include £33 million (2021-22 £81 million) in relation to voluntary redundancy costs.

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

	Headcount		Average employees <sup>3</sup>	
	At 26 March 2023	At 27 March 2022	At 26 March 2023	At 27 March 2022
<b>Total employees<sup>2</sup></b>	<b>124,545</b>	132,827	<b>130,008</b>	130,624

<sup>2</sup> People numbers are based on permanent employees

<sup>3</sup> Prior year average numbers have been re-presented to include 12 month averages, not 11 month averages as previously stated.

# Royal Mail Group Limited

## 4. Other operating costs

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

	52 weeks 2023 £m	52 weeks 2022 £m
<b>Distribution and conveyance costs</b>		
Charges from overseas postal administrations	(266)	(271)
Fuel costs	(159)	(182)
<b>Infrastructure costs</b>		
Depreciation and amortisation	(428)	(395)
Depreciation of property, plant and equipment	(322)	(306)
Amortisation of intangible assets (software)	(106)	(89)
<b>Other costs</b>		
Post Office Limited charges	(317)	(361)
Inventory expensed	(46)	(30)
Intercompany property rent	(14)	(13)

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

### Regulatory body costs

Ofcom administrative charge	(6)	(6)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	(1)	(1)
<b>Total</b>	<b>(7)</b>	<b>(7)</b>

Auditor's remuneration amounted to £320,000 (2021-22: £290,000) for the audit of the statutory Financial Statements and £158,000 (2021-22: £144,000) for other non-audit services relating to regulatory reporting.

## 5. Operating specific items

	52 weeks 2023 £m	52 weeks 2022 £m
Impairment of Royal Mail excluding Parcelforce Worldwide	(535)	-
Royal Mail damages award	35	-
Legacy/other items	13	8
Impairment of investment in subsidiary	5	(161)
Impairment of investment in associate	-	(5)
<b>Total</b>	<b>(482)</b>	<b>(158)</b>

As a result of the poor trading performance of the Royal Mail business, exacerbated by industrial action, an impairment assessment was performed in relation to the Royal Mail Cash Generating Unit (CGU), which excludes Parcelforce Worldwide. In assessing whether the CGU was impaired, the carrying value of the CGU of £1,439 million (2021-22: £1,412 million) was compared to its recoverable amount, using the higher of a Value in Use (VIU), or Fair Value less cost to Dispose (FVLCD) methodology. The VIU methodology would have resulted in the CGU being fully impaired while FVLCD methodology resulted in an impairment charge of £535 million. See note 6 for further details.

The £35 million (2021-22: £nil) damages award follows a claim by Royal Mail against DAF Trucks Ltd. ('DAF') in December 2016 in respect of vehicles sold to Royal Mail between 1997 and 2011. The UK Competition Appeal Tribunal issued a judgment on 7 February 2023 awarding damages (including interest to the date of payment) of £35 million payable by DAF to Royal Mail.

Legacy/other items mainly comprise a £10 million release (2021-22: £11 million release) of the industrial diseases provision due to a significant increase in the rate at which liabilities are discounted (see Note 21).

# Royal Mail Group Limited

## 5. Operating specific items (continued)

The £5 million impairment reversal has resulted from an increase in the net assets of the Company's subsidiary Royal Mail Estates Limited ('RMEsL') to above the carrying value of the Company's investment in RMEsL. The original £161 million impairment in the prior year resulted from the payment of a dividend of £813 million by RMEsL to the Company meaning that the investment held by the Company in RMEsL was impaired to its recoverable amount of £348 million, which represented the fair value of its properties and its other net assets.

## 6. Royal Mail excluding Parcelforce Worldwide impairment

In accordance with IAS 36, management performs an impairment assessment of the Royal Mail excluding Parcelforce Worldwide CGU ('the CGU') at least annually or whenever events or circumstances indicate that the value of the balance sheet may not be recoverable.

In assessing whether the CGU was impaired, the carrying value of the CGU of £1,439 million was compared to its recoverable amount. The recoverable amount is the higher of its value in use (VIU) and its fair value less costs of disposal (FVLCD).

Royal Mail's strategy to transform the business into a more efficient operation that meets customers' changing needs and the future cash flows in the five-year business plan reflects both the costs and benefits associated with this transformation. As required by IAS 36 under the VIU calculation, estimates of future cash flows shall not include cash inflows or outflows that are expected to arise from a future restructuring or improving or enhancing the assets which an entity is not yet committed, at the balance sheet date. The VIU approach, after adjusting for the restructuring and transformational cashflows, resulted in a full impairment.

Management therefore assessed the recoverability of the CGU using the alternative FVLCD methodology. The FVLCD considers the valuation from a market participant perspective. Deriving a market participant valuation would typically be through a multiple of earnings methodology. However, Management do not believe this methodology would be appropriate in the current circumstances, as the significant transformation required in the business means that there is not a normalised level of profits against which to apply a multiple until the outer years of the plan. In addition, given the unique nature of the Royal Mail business as the universal service provider in the UK, and a heavily unionised workforce there is lack of an exact comparator in order to determine an appropriate multiple. Consequently, Management have calculated a valuation using a discounted cash flow model from the perspective of a 'market participant' i.e. a buyer transacting in the principal market for an asset of this type.

The Board have used the approved five year business plan as the base of the discounted cash flows in the FVLCD model. They then considered their assumptions in the context of information that would be available to a market participant making minor adjustment as necessary to arrive at assumptions that represent a market participants view.

The key assumptions in the impairment assessment are:

### Expected revenue and operating margin performance

Forecast cash flows for the five-year period are based on the Board approved business plan.

- The plan assumes that Royal Mail suffers no further industrial disruption in 2023-24.
- The pay deal announced to CWU members on 21 April 2023 is accepted by CWU members and the related transformational benefits are achieved.
- A return to market growth, driven by win back of revenue lost as a result of industrial action, pricing adjustments and other commercial initiatives designed to grow revenue. The plan assumes growth in parcel volumes but a reduction in letter volume. Revenue growth initiatives are reliant on quality-of-service improvement.
- Operating margin reflects the current pay deal announced and benefits realisation from productivity improvements, including through lower absence, new T&C's for new joiners and delivery gap closure.
- The plan does not anticipate any regulatory support from Ofcom or Government, for example change in the scope of the USO.
- Royal Mail has a robust process for tracking and managing environmental policy and legislation in the UK, and is aiming to meet changing customer expectations for lower carbon alternatives. As such, management have considered the implications for the forecast cashflows in the five year period, and the assumptions in the business plan reflect management's current climate strategy.

The difficult trading circumstances of the last year have been damaging to Royal Mail, with early resolution of the industrial dispute through the upcoming ballot and the required operational changes and improvements in Royal Mail fundamental to its turnaround and to restore profitability.

### Discount rates

The discount rate is based on the UK-specific post tax discount rate of 11.25%, which reflects a risk premium a market participant would apply in order to reflect uncertainty in terms of ability to deliver revenue growth and improved operating margin. In deriving the risk premium a market participant would consider past performance in terms of delivering transformational change, the industrial dispute with CWU that still has to be finally resolved, and the significant change and efficiency programme to be delivered.

# Royal Mail Group Limited

## 6. Royal Mail excluding Parcelforce Worldwide impairment (continued)

### Long-term growth rates

A long-term growth rate of 0.5% has been used for cash flows subsequent to the five-year plan period. This long-term growth rate is considered by Management to be the best estimate towards the lower end of the range when benchmarked against comparative industry peers.

In accordance with the financial reporting standards, the recoverable amount is the higher of the VIU and FVLCD. The FVLCD approach resulted in a recoverable amount of £900 million<sup>1</sup> and a partial impairment position at the year-end, and therefore an impairment loss of £535 million is recognised in the financial statements at the balance sheet date.

### Sensitivity to changes in assumptions

The valuation of the CGU is dependent upon a number of estimates used in arriving at revenue growth, operating margin, terminal growth rates and the discount rate.

An evaluation of sensitivities to the FVLCD calculation illustrates that, there are both risks and opportunities. The operational changes and improvements required in Royal Mail are fundamental to its turnaround to restore profitability. Given past performance of delivering transformational change, the industrial dispute with CWU that has still to be finally resolved, and the significant change and efficiency programme to be delivered there is execution risk in delivering the plan which could lead to further impairment. However, there is also significant opportunity and subject to progress being made in transforming the business and evolution of the letters and parcels markets, there is reasonably possible potential in the future for the business to be restored to its full carrying value.

**Market:** For example, if parcel growth rates are 1% per annum more positive than has been assumed in the valuation, this would result in a valuation of £1.8 billion, but if parcel growth reduced by 1% it would result in a full impairment. If letter growth rates are 1 per cent per annum less than has been assumed, this would also result in a full impairment.

**Regulation:** The plan does not anticipate any regulatory support from Ofcom or Government, for example change in the scope of the USO. Management believes modernisation of the USO is critical for margins to be durably restored to sustainable levels (defined as between 5 and 10 per cent EBIT margin in the regulated business by Ofcom). Regulatory reform could materially improve the prospects and valuation of the business.

**Discount rate:** There is a risk that the planned change programmes are unable to progress at the rate targeted in the business plan, and therefore an increase in the discount rate by 100 bps reflecting increased uncertainty would result in a valuation of £787 million.

**Terminal growth rate:** An increase in the terminal growth rate to 1% to reflect the higher end of the range of comparative peers would result in a valuation of £958 million.

**Combined sensitivities:** An 11.0% discount rate and 1.0% terminal growth rate would result in a valuation of £993 million. In order for there to be no impairment charge the discount rate would need to reduce by 175 bps and the terminal growth rate would need to increase to 2.0%.

The impairment charge of £535 million has been allocated to the various Company asset categories as set out below.

	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Software assets £m	Total £m
Carrying value at 26 March 2023 before impairment	302	428	107	312	1,149
Impairment charge <sup>2</sup>	(141)	(199)	(50)	(145)	(535)
Carrying value at 26 March 2023 after impairment	161	229	57	167	614

<sup>1</sup> This valuation is within Level 3 of the fair value hierarchy as defined with IFRS 13 'Fair value Measurement'.

<sup>2</sup> Includes charge against right of use (ROU) assets for plant and machinery £11 million and motor vehicles £73 million.

## 7. Directors' emoluments

	52 weeks 2023 £000	52 weeks 2022 £000
Short-term employee benefits	(1,839)	(2,116)
Post-employment benefits	(5)	(5)
Share-based payments	(1,044)	(801)
<b>Total</b>	<b>(2,888)</b>	<b>(2,922)</b>

There were no Directors in the Company's defined benefit pension scheme (2021-22: none) and two Directors (2021-22: two) in the Company's defined contribution pension scheme during the year.

The total amount payable to the highest paid Director in respect of emoluments was £760,907 (2021-22: £798,139), which includes base salary, benefits, pension cash allowance and short-term incentive.

# Royal Mail Group Limited

## 8. Income from investments

	52 weeks 2023 £m	52 weeks 2022 £m
Royal Mail Estates Limited	-	813
Royal Mail Property and Facilities Solutions Limited	11	13
Royal Mail Courier Services	-	8
Quadrant Catering Limited	-	5
Storefeeder Ltd	-	2
Intersoft Systems and Programming Limited	1	1
<b>Total</b>	<b>12</b>	<b>842</b>

## 9. Net finance costs

	52 weeks 2023 £m	52 weeks 2022 £m
Interest payable on finance leases	(24)	(23)
Interest payable to IDS plc Group entities	(17)	(19)
Other miscellaneous interest payable	(8)	(8)
<b>Finance costs</b>	<b>(49)</b>	<b>(50)</b>
<b>Finance income</b> - interest receivable on investments	<b>14</b>	<b>1</b>
<b>Total</b>	<b>(35)</b>	<b>(49)</b>

## 10. Taxation

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

	52 weeks 2023 £m	52 weeks 2022 £m
<b>Tax credited/(charged) in the income statement:</b>		
<b>Current tax:</b>		
Corporation tax credit for the year	4	-
Tax over-provided in previous year	10	16
Total current tax credit	14	16
<b>Deferred tax:</b>		
Effect of change in tax rates	-	36
Derecognition of deferred tax asset	(131)	-
Relating to origination and reversal of temporary differences	-	(19)
Amounts (under)/over-provided in previous year	(14)	8
<b>Total deferred tax (charge)/credit</b>	<b>(145)</b>	<b>25</b>
<b>Total tax (charge)/credit</b>	<b>(131)</b>	<b>41</b>

### Tax (charge)/credit on items taken to other comprehensive income:

	52 weeks 2023 £m	52 weeks 2022 £m
<b>Deferred tax:</b>		
Tax credit/(charge) in relation to remeasurement gains of the defined benefit pension schemes	6	(34)
Tax credit/(charge) on revaluation of cash flow hedges	18	(21)
<b>Total deferred income tax credit/(charge)</b>	<b>24</b>	<b>(55)</b>
<b>Total tax credit/(charge) in the statement of other comprehensive income</b>	<b>24</b>	<b>(55)</b>

# Royal Mail Group Limited

## 10. Taxation (continued)

### Tax credit on items taken directly to equity:

	52 weeks 2023 £m	52 weeks 2022 £m
<b>Deferred tax:</b>		
Change in estimated excess tax deductions related to share-based payments	(1)	(1)
Tax credit for loss arising on share-based payments	-	1
<b>Total deferred income tax charge recognised directly in equity</b>	<b>(1)</b>	<b>-</b>

### (b) Reconciliation of the total tax (charge)/credit

A reconciliation of the tax (charge)/credit in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022 is shown below:

	52 weeks 2023 £m	52 weeks 2022 £m
(Loss)/profit on ordinary activities before tax	(976)	958
At UK statutory rate of corporation tax of 19% (2020-21: 19%)	185	(182)
Tax over-provided in previous years <sup>1</sup>	(4)	24
Non-deductible expenses	(2)	(5)
Tax reliefs and incentives	5	5
Tax effect of property disposals	2	10
Tax effect of closure of Royal Mail Pension Plan to future accrual	(2)	(3)
Net pension interest credit	22	14
Impairment gain/(loss) of investment in subsidiary and associate	1	(32)
Derecognition of brought forward deferred tax assets	(131)	-
Net increase in tax charge resulting from non-recognition of certain deferred tax assets and liabilities	(214)	-
Effect of change in tax rates	-	36
Group relief surrendered to other Group companies for no payment	(2)	-
Non-taxable dividend received	2	160
Super deduction enhanced capital allowances	7	14
<b>Tax (charge)/credit in the income statement</b>	<b>(131)</b>	<b>41</b>

<sup>1</sup> Tax over-provided in previous years in 2021-22 includes a £23 million credit relating to a reduced uncertain tax provision against prior year claims under the patent box regime.

### (c) Net deferred tax asset

	At 26 March 2023 £m	At 27 March 2022 £m
Accelerated capital allowances	-	(7)
Pensions	-	100
Losses	-	28
Employee Shares schemes	-	2
Short-term timing differences	-	15
Hedging	-	(17)
Research & Development expenditure credit	-	1
<b>Total</b>	<b>-</b>	<b>122</b>

# Royal Mail Group Limited

## 10. Taxation (continued)

The movement on deferred tax is shown below:

	£m
<b>Deferred tax asset at 27 March 2022</b>	<b>122</b>
Deferred tax charge in the income statement	(145)
Deferred tax credit on items taken to other comprehensive income	24
Deferred tax charged directly to equity – employee share schemes	(1)
<b>Deferred tax asset at 26 March 2023</b>	<b>-</b>

In order to recognise a deferred tax asset, it must be probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised. The Company assesses the recoverability of deferred tax assets at each reporting date. Given the loss incurred by the Company during the period, there is increased uncertainty that future taxable profits will be generated.

IAS 12 does not define a time period over which an assessment of expected taxable profits should be made, although it is acknowledged that reliability decreases the further out into the future the forecast extends. Whilst the Board approved Business Plan covers five years, the normal planning cycle for Royal Mail is three years. Taxable profits have been calculated based on the Board approved Business Plan and for the next three years there are no forecast taxable profits. As a result, management has not recognised any deferred tax asset in respect of the Company's losses incurred in the year and had derecognised £122 million in respect of brought forward net deferred tax asset as at 27 March 2022.

### (d) Unrecognised temporary differences

At 26 March 2023, the Company had the following unrecognised tax losses and temporary differences:

	At 26 March 2023		At 27 March 2022	
	£m		£m	
	Unused losses and deductible temporary differences	Tax value	Unused losses and deductible temporary differences	Tax value
Losses available for offset against future taxable income	683	171	2	1
Pensions temporary differences	158	40	-	-
Deferred capital allowances	361	90	-	-
Provisions and other	43	11	-	-
	<b>1,245</b>	<b>312</b>	<b>2</b>	<b>1</b>

The Company has not recognised these deferred tax assets on the basis that there is not sufficient certainty of its capacity to utilise them in the future. The losses available for offset against future taxable income have no expiry date.

The Company also has temporary differences of £173 million (2021-22: £177 million) in respect of capital losses, the tax effect of which is £43 million (2021-22: £44 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £297 million (2021-22: £381 million) of gains for which rollover relief has been claimed, the tax effect of which is £74 million (2021-22: £95 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

# Royal Mail Group Limited

## 11. Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
<b>Cost</b>					
At 27 March 2022	3,380	937	1,060	342	5,719
Reclassification	-	-	-	(2)	(2)
Modifications	41	2	-	-	43
Additions	107	39	58	30	234
Disposals	(34)	(20)	(46)	(42)	(142)
Disposals Legal Entity	(1)	-	-	-	(1)
Reclassification to non-current assets held for sale	(10)	-	-	-	(10)
<b>At 26 March 2023</b>	<b>3,483</b>	<b>958</b>	<b>1,072</b>	<b>328</b>	<b>5,841</b>
<b>Depreciation</b>					
At 27 March 2022	1,909	468	773	238	3,388
Charge for the year (see Note 4)	174	80	43	25	322
Impairment (see Notes 5 and 6)	-	199	141	50	390
Disposals	(36)	(18)	(46)	(42)	(142)
Reclassification to non-current assets held for sale	(3)	-	-	-	(3)
<b>At 26 March 2023</b>	<b>2,044</b>	<b>729</b>	<b>911</b>	<b>271</b>	<b>3,955</b>
<b>Net book value</b>					
<b>At 26 March 2023</b>	<b>1,439</b>	<b>229</b>	<b>161</b>	<b>57</b>	<b>1,886</b>
<b>At 27 March 2022</b>	<b>1,471</b>	<b>469</b>	<b>287</b>	<b>104</b>	<b>2,331</b>

Depreciation rates are disclosed within the accounting policies Note 1. No depreciation is provided on land, which represents £124 million (2021-22: £127 million) of the total cost of properties.

The net book value of the Company's property, plant and equipment includes £159 million (2021-22: £250 million) in respect of assets in the course of construction. The net book value of the Company's land and buildings includes £266 million (2021-22: £283 million) in respect of building fit-out.

The £234 million (2021-22: £601 million) additions include £3 million (2021-22: £2 million) borrowing costs capitalised at a rate of 2.67% (2021-22: 2.65%) in relation to specific qualifying assets.

## 12. Leases

The Company primarily leases office buildings and letter and parcel processing facilities. At 26 March 2023 the Company held approximately 658 land and building leases (2021-22: 662). The Company also has leases for some of its vehicle fleet and plant and equipment used in the operations. Leases are negotiated on an individual basis and may include extension or termination options.

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

	At 26 March 2023	At 27 March 2022
	Present value of lease payments £m	Present value of lease payments £m
<b>Lease liabilities</b>		
<b>Current liabilities</b>		
Lease liabilities due within one year	(142)	(146)
<b>Non-current liabilities</b>		
Lease liabilities due between one and five years	(450)	(445)
Lease liabilities due beyond five years	(334)	(374)

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

# Royal Mail Group Limited

## 12. Leases (continued)

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
<b>26 March 2023</b>					
<b>Cost</b>	<b>1,096</b>	<b>145</b>	<b>477</b>	<b>4</b>	<b>1,722</b>
of which additions	19	3	24	-	46
<b>Accumulated depreciation</b>	<b>(341)</b>	<b>(133)</b>	<b>(392)</b>	<b>(4)</b>	<b>(870)</b>
of which depreciation charge	(108)	(6)	(35)	(1)	(150)
of which impairment charge (see Note 6)	-	(11)	(73)	-	(84)
<b>Carrying amount</b>	<b>755</b>	<b>12</b>	<b>85</b>	<b>-</b>	<b>852</b>

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
<b>27 March 2022</b>					
<b>Cost</b>	<b>1,045</b>	<b>143</b>	<b>465</b>	<b>4</b>	<b>1,657</b>
of which additions	188	5	17	-	210
<b>Accumulated depreciation</b>	<b>(243)</b>	<b>(117)</b>	<b>(297)</b>	<b>(3)</b>	<b>(660)</b>
of which depreciation charge	(94)	(13)	(40)	(1)	(148)
<b>Carrying amount</b>	<b>802</b>	<b>26</b>	<b>168</b>	<b>1</b>	<b>997</b>

Leases are presented in the income statement as detailed below.

Lease income/(costs)	52 weeks 2023 £m	52 weeks 2022 £m
<b>Other operating income</b>		
Sublease income	4	3
<b>Material expenses</b>		
Expenses from short-term/low-value leases	(35)	(33)
<b>Depreciation and impairment losses</b>		
Depreciation on right-of-use assets	(150)	(148)
<b>Net finance costs</b>		
Interest expense on lease liabilities	(24)	(23)

# Royal Mail Group Limited

## 13. Intangible assets

	£m
<b>Cost</b>	
At 27 March 2022	1,043
Additions	75
Disposals	(24)
Reclassifications	2
<b>At 26 March 2023</b>	<b>1,096</b>
<b>Amortisation and impairment</b>	
At 27 March 2022	(702)
Charge for the year (see note 4)	(106)
Impairment (see Notes 5 and 6)	(145)
Disposals	24
<b>At 26 March 2023</b>	<b>(929)</b>
<b>Net book value</b>	
<b>At 26 March 2023</b>	<b>167</b>
At 27 March 2022	341

The intangible assets outlined above relate to software, have finite lives and are being written down on a straight-line basis. The £75 million (2021-22: £74 million) additions include £nil (2021-22: £1 million) borrowing costs capitalised at a rate of 2.67% (2021-22: 2.65%) in relation to specific qualifying assets.

## 14. Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
<b>Cost</b>			
At 27 March 2022	530	27	557
Disposal	-	(26)	(26)
<b>At 26 March 2023</b>	<b>530</b>	<b>1</b>	<b>531</b>
<b>Impairment</b>			
At 27 March 2022	161	26	187
Disposal	-	(26)	(26)
Impairment reversal (see note 5)	(5)	-	(5)
<b>At 26 March 2023</b>	<b>156</b>	<b>-</b>	<b>156</b>
<b>Net book value</b>			
<b>At 26 March 2023</b>	<b>374</b>	<b>1</b>	<b>375</b>
At 27 March 2022	369	1	370

### Investments in subsidiaries

The £374 million investment in subsidiaries mainly relates to the Company's investments in Royal Mail Estates Limited (£353 million) and RM Property and Facilities Solutions limited (£14 million).

### Investments in associates

Quadrant Catering Ltd ('Quadrant') ceased trading with effect from 30 September 2020 and was dissolved on 16 September 2022.

On 25 April 2022, Market Engine Global Pty Limited was officially deregistered by the Australian Securities and Investments Commission.

The Company's subsidiaries and associates are listed in Note 33.

## 15. Financial assets – pension escrow investments

The pension escrow investments of £208 million at 26 March 2023 (2021-22: £213 million) comprise RMPP investments of £195 million (2021-22: £192 million) and RMCPP investments of £13 million (2021-22: £nil). The opening RMSEPP pension escrow investment of £21 million was released to the Company during the year.

# Royal Mail Group Limited

## 16. Inventories

	At 26 March 2023 £m	At 27 March 2022 £m
Supplies, equipment and materials	24	22
Merchandise	8	4
<b>Total</b>	<b>32</b>	<b>26</b>

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

## 17. Trade and other receivables

	At 26 March 2023 £m	At 27 March 2022 £m
Trade receivables	642	812
Prepayments and accrued income	74	85
Interest	2	2
Amounts owed by IDS plc Group entities	6	315
<b>Total</b>	<b>724</b>	<b>1,214</b>

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

	At 26 March 2023 £m	At 27 March 2022 £m
At 27 March 2022 and 28 March 2021	(34)	(61)
Receivables provided for during the year	(9)	(11)
Release of allowance	13	32
Utilisation of allowance	7	6
<b>At 26 March 2023 and 27 March 2022</b>	<b>(23)</b>	<b>(34)</b>

The Company's approach to loss allowance is explained in the accounting policies in Note 1.

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

	At 26 March 2023 £m	At 27 March 2022 £m
Not yet overdue	591	711
Past due not more than one month	37	63
Past due more than one month and not more than two months	3	11
Past due more than two months	11	27
<b>Total</b>	<b>642</b>	<b>812</b>

## 18. Cash and cash equivalents

	At 26 March 2023 £m	at 27 March 2022 £m
Cash at bank and in hand	18	6
Cash equivalent investments: Short-term bank and money market fund investments	431	825
<b>Total cash and cash equivalents in the balance sheet before overdrafts</b>	<b>449</b>	<b>831</b>

# Royal Mail Group Limited

## 19. Trade and other payables

	At 26 March 2023 £m	At 27 March 2022 £m
Trade payables and accruals	(824)	(1,089)
Advance customer payments (mainly for stamps held, not yet used by customers)	(250)	(254)
Social security	(72)	(81)
Amounts due to IDS plc Group entities	(664)	(942)
Capital expenditure payables	(27)	(41)
<b>Total</b>	<b>(1,837)</b>	<b>(2,407)</b>

Amounts due to IDS plc Group entities include £486 million (2021-22: £872 million) loaned to the Company by its ultimate parent company International Distributions Services plc, following the issue of a €550 million bond in October 2019. This loan is revalued at closing Sterling/Euro exchange rates, and the gains/losses recognised in the income statement. In March 2023, the €500 million loan from International Distributions Services plc to the Company (following the issue of a €500 million Bond in July 2014) was novated to the Company's immediate parent RMGLS Holdco Limited in settlement of the euro-denominated, bond-related loan from the Company to RMGLS Holdco Limited.

The €550 million bond related loan is fully hedged by the Company for foreign currency risk by a cross-currency swap. During the year, foreign currency exchange gains on the loans from International Distributions Services plc amounted to £52 million (2021-22: £23 million gain) although these were offset by foreign exchange losses of £26 million on the cross-currency swap (2021-22: 12 million loss) and foreign exchange losses of £26 million (2021-22: £11 million loss) on the related loan to RMGLS Holdco Limited.

The £486 million loan is repayable on demand by IDS plc, along with an amount due to RMGLS Holdco of £130 million. The IDS plc Board has indicated that they do not intend to (and will not instruct RMGLS Holdco Limited to) seek repayment of the loans in the next 12 months. Intergroup trading balances also exist with Royal Mail Estates Limited £28 million and RM Property and Facilities Solutions Limited £11 million.

The Company operates a supply chain finance arrangement for small and medium suppliers. This form of reverse factoring allows suppliers to obtain early access to funding. Suppliers may choose to access payment as soon as their invoices are processed rather than Royal Mail standard payment terms by paying a financing fee to the scheme provider. The Company pays the provider of the scheme on the due date of the invoices, therefore this scheme does not assist the Company in the management of working capital.

As the scheme has not led to a substantial modification in the terms of the financial liability, the Company continues to treat the amounts owed within trade payables. All cash flows associated with the programme are included within operating cash flows as they continue to be part of the normal operating cycle of the Company. There is no impact on net debt, as amounts owed continue to be reported within trade payables.

The balance owed on the facility at 26 March 2023 was £24 million (27 March 2022: £27 million).

## 20. Bank overdrafts

	At 26 March 2023 £m	At 27 March 2022 £m
Bank overdrafts	(95)	(78)
<b>Total</b>	<b>(95)</b>	<b>(78)</b>

The overdrafts of £95 million consist of £89 million (2021-22: £56 million) overdrafts within a cash pool (offsetting other Group companies cash balances within the pool leaving a net credit balance on the pool at year end) and £6 million (2021-22: £22 million) of accounting overdrafts related to payments being processed but which have not cleared the bank account at the balance sheet date.

# Royal Mail Group Limited

## 21. Provisions

	Specific items £m	Other £m	Total £m
At 27 March 2022	(114)	(125)	(239)
Arising during the year:			
- released in operating specific items	13	-	13
- charged in other operating costs	-	(146)	(146)
- unused amounts released	-	20	20
Reclassification	-	15	15
Utilised in the year	55	105	160
Unwinding of discount - industrial diseases claims	(1)	-	(1)
<b>At 26 March 2023</b>	<b>(47)</b>	<b>(131)</b>	<b>(178)</b>
Disclosed as:			
<b>Current</b>	<b>(10)</b>	<b>(112)</b>	<b>(122)</b>
<b>Non-current</b>	<b>(37)</b>	<b>(19)</b>	<b>(56)</b>
<b>At 26 March 2023</b>	<b>(47)</b>	<b>(131)</b>	<b>(178)</b>
Disclosed as:			
Current	(60)	(111)	(171)
Non-current	(54)	(14)	(68)
At 27 March 2022	(114)	(125)	(239)

### Specific items provisions

#### Industrial diseases

The Company has a potential liability for industrial diseases claims relating to individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision is derived using estimates and ranges calculated by its external actuarial consultant, based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 35 years.

There is considerable uncertainty associated with estimating the future reporting of latent disease claims, over future decades. Consistent with the approach last year, our advisor has leveraged the updated scenarios provided by Asbestos Working Party (AWP). The AWP model was released in late 2021.

The AWP collects industry data each year which helps it understand how the existing models are performing against actual experience and helps inform any adjustments to the model. The projections for 2022-23 and later years are based on recent levels of reporting, net of estimated levels of repudiation in more recent historical periods.

Benchmark projections have been adopted and it is assumed that no more claims will arise after 2060. The cut-off date for reporting of claims is one of the sources of uncertainty in the projections.

The Company has a rigorous process for ensuring that only valid claims are accepted. During the year, the rate by which liabilities are discounted increased by 209 bps to 3.86%, which resulted in a £10 million release of the provision at 26 March 2023 (see Note 5) leaving £44 million carried forward. £3 million of this provision is expected to be utilised in 2023-24.

The remainder of the provisions consist of legacy property costs of £3 million, which are expected to be utilised over a period greater than five years

#### Regulatory fine

Royal Mail's appeal against the Competition Appeal Tribunal's judgment to uphold Ofcom's decision to fine it £50 million was rejected by the Court of Appeal (CoA) on 7 May 2021. On 7 June 2022, the Supreme Court refused Royal Mail permission to appeal the CoA judgment, meaning the appeal process has now concluded. The fine and interest (£52 million) was paid to Ofcom on 10 August 2022.

# Royal Mail Group Limited

## 21. Provisions (continued)

### Other provisions

In January 2022, Royal Mail announced a management restructure affecting over 3,000 managerial level employees, mainly within its operational function. The new management structure went live at the end of May 2022, with the majority of voluntary redundancies taking place in May and June 2022. In October 2022 a further voluntary redundancy exercise was announced as part of a plan to rightsize the operational frontline, with the expectation of reducing full time equivalents by c.10,000 by the end of August 2023 (on a rolling 12 month basis). This project, along with other small ad-hoc projects, resulted in an overall charge of £47 million for voluntary redundancy for the full year. £15 million of the original provision was reclassified as accruals during the year due to more certainty and timing of the liability. £12 million of the provision remains at 26 March 2023.

Other provisions also include £61 million in relation to the costs of a one off payment of £500 per person to frontline employees. This represents our best estimate of the costs to settle that part of the pay agreement, based on our offer at the balance sheet date of 26 March 2023.

The remainder of the provisions consists of property decommissioning obligations of £17 million, of which £4 million is expected to be utilised in 2022-23, £3 million within one to two years, £5 million within two to five years, and £5 million over a period greater than five years, and exposures resulting from legal claims incurred in the normal course of business of £37 million, expected to be utilised in 2022-23. The remaining £1 million comprises employers National Insurance associated with the senior executives' Long Term Incentive Plan, which is expected to be utilised within one to two years.

## 22. Retirement benefit plans

### Summary pension information

	52 weeks 2023 £m	52 weeks 2022 £m
<b>Ongoing UK pension service costs</b>		
UK defined benefit plan (including administration costs) <sup>1</sup>	(383)	(439)
UK defined contribution plan	(121)	(113)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions <sup>2</sup>	(173)	(181)
<b>Total</b>	<b>(677)</b>	<b>(733)</b>
	<b>At 26 March 2023 '000</b>	<b>At 27 March 2022 '000</b>
<b>UK pension plans – active membership</b>		
UK defined benefit plan	65	70
UK defined contribution plan	57	61
<b>Total</b>	<b>122</b>	<b>131</b>

<sup>1</sup> These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 22.9% (2021-22: 24.6%)) of the increase in the defined benefit obligation due to members earning one more years' worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high-quality corporate bonds and inflation) at the beginning of the reporting year. Also included are pensions administration costs for the RMPP of £11 million (2021-22: £9 million) and the DBCBS of £5 million (2021-22: £5 million) and, in the prior year, a £6 million past service cost in respect of the estimated liability for historic Guaranteed Minimum Pension (GMP) costs in RMPP that arose in the year. Further details are provided under the heading 'Guaranteed Minimum Pensions' below.

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

In the period, the Company operated the following plans.

### Defined Contribution plan

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

Ongoing UK defined contribution plan costs (excluding PSE) have increased from £116 million in 2021-22 to £124 million due to a significant increase in RMDCP membership in the year. The average employer's contribution rate is 8.9% which has stayed consistent with 2021-22 at 8.9%.

### Defined Benefit plans

*Royal Mail Pension Plan (RMPP)<sup>3</sup> and Defined Benefit Cash Balance Section (DBCBS)*

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

The legacy section of the Royal Mail Pension Plan, the RMPP, closed to future accrual in its previous form from 31 March 2018, and was replaced in 2018 by a new section of the scheme, the DBCBS.

The legacy RMPP includes sections A, B and C, each with different terms and conditions.

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

<sup>3</sup> Any references to the RMPP relate to the scheme's defined benefit pension liabilities built up to 31 March 2018. From 1 April 2018 members began building up DBCBS benefits.

The DBCBS has been in place since 1 April 2018, when the RMPP closed. This is a transitional arrangement until the proposed Royal Mail Collective Pension Plan (RMCPP) commences.

DBCBS members build up a guaranteed lump sum benefit of 19.6% of their pensionable pay each year. Although there are no guaranteed increases to this lump sum, the aim is to provide above inflation increases and the Trustee invests the scheme assets accordingly. If the value of the DBCBS assets were to fall below the value of the members' guaranteed lump sum benefits, then no increases would be awarded until asset values had recovered. The Company would be obligated to make the necessary contributions to ensure that members received at least the guaranteed lump sum amount. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the increases granted to date, Management is however of the view that there is a requirement to recognise a constructive obligation to provide an increase to the lump sum for accounting purposes. The increase awarded from 1 April 2023 is CPI (at 10.1%) plus 1.2%. The liabilities of the scheme have been calculated assuming future increases of CPI plus 2.0%, although the nature of the scheme means that actual increases could be lower or higher than this amount.

The Company signed an updated Schedule of Contributions on 17 May 2022. This covers a period of five years from the date of certification of the schedule, i.e. until May 2027. In accordance with this schedule, the Company is required to make payments totalling 15.6% of pensionable payroll in respect of DBCBS.

### *Pensions Governance and management*

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

The Trustee Board is responsible for:

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

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

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

### *Royal Mail Senior Executives Pension Plan (RMSEPP)*

This scheme for executives closed in December 2012 to future accrual, therefore the Company makes no regular future service contributions.

In September 2018 an insurance policy was purchased in respect of all remaining pensioners and deferred members, following which it was decided to proceed to buy out and wind up the plan.

The wind-up of RMSEPP had previously been expected to complete in 2020-21, but it was delayed by the need for further clarity over the approach to GMP equalisation. This has now been resolved and the buy-out of this scheme was completed in June 2022, with the bulk annuity policies being exchanged for individual policies between the insurers and all remaining members. All the Company's obligations under the plan have now been fully extinguished and the Company has therefore de-recognised all liabilities under the scheme as well as the corresponding assets that had previously represented the value of the bulk annuity policies.

The Company expects to proceed to wind up the plan in the coming months. The scheme still holds residual assets which are expected to be returned to the Company following the wind up of the scheme, following the payment of any remaining closure expenses. This refund however will be subject to a withholding tax deduction of 35%, hence the surplus is presented on the balance sheet net of a £3 million adjustment which represents the tax that would be withheld on the surplus amount.

When wind-up was triggered in August 2021, the Schedule of Contributions ceased and no further contributions were payable.

### *Unfunded pension*

A liability of £1 million (2021-22: £2 million) has been recognised for future payment of pension benefits to a past Director.

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

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

The difference between the funding and accounting valuations for the DBCBS arises from the different financial assumptions used for the calculations of each, in particular the discount rates used and the assumptions for discretionary increases to the lump sum benefits. The discount rate used for funding purposes is higher than that used for accounting purposes. In addition, as described above, under IAS 19 the Company recognises a constructive obligation for a set increase to benefits, currently CPI plus 2.0%, for accounting purposes, however for funding purposes the increases are set based on the level of the available assets. This results in the accounting liabilities for the DBCBS being higher than the funding liabilities.

The updated triennial valuation for RMPP and the first triennial valuation for the DBCBS at 31 March 2021 were approved in May 2022. Since the liabilities under the RMSEPP scheme have now been fully bought out, the Trustee did not carry out a full triennial valuation at 31 March 2021. The estimated funding positions for the RMPP and DBCBS are shown below.

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## 22. Retirement benefit plans (continued)

	RMPP	DBCBS
Date of valuation	31 March 2021 (agreed on 17 May 2022)	The first full valuation has been performed as at 31 March 2021 and was agreed on 17 May 2022
Valuation	The triennial valuation was calculated on a self-sufficiency basis. The surplus calculated for the purposes of the March 2021 triennial valuation was £661 million. Based on a set of assumptions which form the basis for the March 2021 valuation and then rolled forward, the actuarial surplus at 31 March 2023 was estimated to be around £1,100 million.	A draft funding position at 31 March 2023 has been calculated based on the assumption that the funding surplus is equal to the amount held in respect of the risk reserve. Under this method, the DBCBS actuarial surplus was estimated to be around £40 million at 31 March 2023.

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

	DBCBS		RMPP		RMSEPP	
	At 26 March 2023 £m	At 27 March 2022 £m	At 26 March 2023 £m	At 27 March 2022 £m	At 26 March 2023 £m	At 27 March 2022 £m
Fair value of plans' assets (22(b) below)	1,642	1,528	7,584	11,122	8	320
Present value of plans' liabilities	(1,787)	(1,918)	(4,581)	(6,940)	-	(312)
(Deficit)/surplus in plans (pre-withholding tax payable)	(145)	(390)	3,003	4,182	8	8
Withholding tax payable <sup>4</sup>	n/a	n/a	(1,051)	(1,464)	3	3
<b>(Deficit)/surplus in plans</b>	<b>(145)</b>	<b>(390)</b>	<b>1,952</b>	<b>2,718</b>	<b>5</b>	<b>5</b>

<sup>4</sup> Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

Having taken legal advice with regard to the rights of the Company under the Trust deeds and rules, the Directors believe there is an obligation to recognise a pension surplus for the RMPP on an accounting basis. The surplus on an accounting basis will be different to the scheme's funding position. Under IAS 19 and IFRIC 14, it must recognise the economic benefit it considers to arise from either a reduction to its future contributions or a refund of the surplus at some point in the future, using current long-term accounting assumptions at the reporting date. This is a technical adjustment made on an accounting basis only.

This surplus is presented on the balance sheet net of a withholding tax adjustment of £1,051 million (at 27 March 2022: £1,464 million) in respect of the RMPP, which represents the tax that would be withheld on the surplus amount. Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

Under the terms of the DBCBS, any surplus would be awarded to members and therefore if this section was found to be in surplus the defined benefit liabilities would increase to equal the asset value under IAS 19.

### Guaranteed Minimum Pensions (GMP)

Pension schemes are now under an obligation to address the issue of unequal Guaranteed Minimum Pensions (GMP's). The transfer of RMPP's historical pension liabilities to HM Government in 2012, in accordance with the Postal Services Act 2011, included all of the RMPP's accrued GMP liabilities for members. The requirement to remove the inequality in former RMPP benefits deriving from GMP's for those members therefore rests with HM Government. Following the decision by the High Court in Lloyds Banking Group Pensions Trustees Limited versus Lloyds Bank plc (2020), however, which determined that schemes are also obliged to equalise GMP's by topping up payments for any past members who have transferred out of a scheme since May 1990, the Trustee sought legal advice as to whether this decision also applies in the case when liabilities transferred to another scheme before April 2012. The Trustee considers that the Lloyds judgment is likely to give rise to a residual liability for statutory transfers out which included GMP benefits between May 1990 and March 2012 and expects that this will require top up payments to be made for affected former members. The Trustee is still reviewing historic data to calculate the exact expected impact, which will take some time to complete, but the Company's Corporate Actuary provisionally estimated the cost to be c.£6 million, based on historic values of transfers out of the scheme. This was charged to the income statement in the prior year as a past service cost. This cost will be funded from the RMPP assets and no additional employer contributions are expected to be required.

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

All GMP liabilities relating to RMSEPP members (both past and present) have now been settled and, following the transfer of the liabilities under this Scheme to insurers, its liabilities have been extinguished.

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

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

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. The assumptions derived for RMSEPP in the prior year were the same as those derived for the legacy RMPP. No assumptions have been derived for RMSEPP at 26 March 2023 since the scheme has now been fully bought out and the liabilities extinguished.

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

	At 26 March 2023	At 27 March 2022
Retail Price Index (RPI) - RMPP/RMSEPP <sup>5,9</sup>	3.2%	3.5%
Retail Price Index (RPI) - DBCBS <sup>9</sup>	3.2%	3.8%
Consumer Price Index (CPI) - RMPP/RMSEPP <sup>5,9</sup>	2.9%	3.2%
Consumer Price Index (CPI) - DBCBS <sup>9</sup>	2.8%	3.4%
Discount rate - RMPP/RMSEPP <sup>5,6</sup>		
- nominal	4.7%	2.8%
- real (nominal less RPI)	1.5%	(0.7%)
Discount rate - DBCBS <sup>7</sup>		
- nominal	4.7%	2.8%
- real (nominal less RPI)	1.5%	(1.0%)
Rate of increase in pensionable salaries <sup>8</sup>	RPI - 0.1%	RPI - 0.1%
Rate of increase for deferred pensions - RMPP	CPI	CPI
Rate of pension increases - RMPP Sections A/B	CPI	CPI
Rate of pension increases - RMPP Section C <sup>8</sup>	RPI - 0.1%	RPI - 0.1%
Rate of pension increases - RMSEPP members transferred from Section A or B of RMPP <sup>5</sup>	-	CPI
Rate of pension increases - RMSEPP all other members <sup>5,8</sup>	-	RPI - 0.1%
Rate of pension increases - DBCBS benefits	CPI + 2.0%	CPI + 2.0%
Life expectancy from age 60 - for a current 40/60 year old male RMPP member	27/25 years	27/25 years
Life expectancy from age 60 - for a current 40/60 year old female RMPP member	29/27 years	29/27 years

<sup>5</sup> 26 March 2023 assumptions are derived for RMPP and DBCBS only since the RMSEPP scheme has been fully bought out in the year. 27 March 2022 assumptions were derived for RMPP, RMSEPP and DBCBS

<sup>6</sup> The discount rate reflects the average duration of the RMPP benefits of around 20 years (2021-22: 24 years). The reduction in duration is primarily due to the increase in the liability discount rate.

<sup>7</sup> The discount rate reflects the average duration of the DBCBS benefits of 13 years (2021-22: 15 years). The pension service cost applicable from 28 March 2022 is based on 28 March 2022 assumptions. The reduction in duration is primarily due to the increase in the discount rate.

<sup>8</sup> The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after April 1987) and RMSEPP 'all other members', is capped at 5.0%, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

<sup>9</sup> This is a measure of long term inflation expectations so while short term inflation expectations have increased over the period, in the long term they are expected to be lower.

### Mortality

As part of the actuarial valuation as at 31 March 2021, the Scheme Actuary carried out an updated mortality experience analysis in respect of the legacy RMPP. As a result of that analysis, the RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S3 mortality tables with appropriate scaling factors (96% for male pensioners and 113% for female pensioners). Future improvements for accounting purposes use the parameters identified from that analysis but for the year end have been based on the most up-to-date CMI 2021 core projections (smoothing factor 7.5 with a long-term trend of 1.5% per annum). No adjustments have been made to mortality assumptions at year end to reflect the potential effects of COVID, as it is still considered too soon to make a judgement on the impact of the pandemic on future mortality improvements.

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

### Cash commutation allowance

In previous periods a 15% allowance had been made for active members of Section C of RMPP commuting their pension upon retirement. Recent commutation experience and expectations for the future, taking into account that most members will now have the benefit of a cash lump sum upon retirement under the DBCBS, suggest that commutations are likely to be far smaller in the future. As a result, for the 2021-22 year end this allowance was reduced to £nil and this has been retained.

### Sensitivity analysis for RMPP and DBCBS liabilities

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

Key assumption change	At 26 March 2023		At 27 March 2022	
	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m	Potential increase in DBCBS liabilities £m	Potential increase in RMPP liabilities £m
Additional one year of life expectancy	-	140	-	280
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% per annum	20	90	30	170
Decrease in discount rate of 0.1% per annum	20	90	30	170
Increase in CPI assumption (assuming RPI remains constant) of 0.1% per annum	20	20	30	40
Increase in constructive obligation of 0.1% per annum	20	-	30	-
Increase in inflation rate (both RPI and CPI simultaneously) of 0.5% per annum	110	480	130	880
Decrease in discount rate of 0.5% per annum	100	420	130	770
Increase in CPI assumption (assuming RPI remains constant) of 0.5% per annum	110	110	130	200
Increase in constructive obligation of 0.5% per annum	110	-	130	-

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. The discount rate and RPI sensitivities are calculated using the mean term of the relevant section to derive the impact of a 0.1% and 0.5% change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 26 March 2023 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2023. This approach is unchanged from the prior year, although any change in mean terms will impact the sensitivities. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite approximate effect on liabilities.

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

The pension assets and liabilities of RMPP and DBCBS pension scheme in these financial statements represent 99.7% (2021-22: 99.8%) of the pension assets and liabilities as disclosed in the 2022-23 IDS plc Group Annual Report and Financial statements. The remaining pension assets and liabilities of 0.3% (2021-22: 0.2%) relates to RM Property and Facilities Solutions Ltd and are recognised in their financial statements, based on that Company's employees' membership in the RMPP and DBCBS pension schemes.

### b) RMPP, RMSEPP and DBCBS assets

	At 26 March 2023			At 27 March 2022		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
<b>Equities</b>						
UK	1	-	1	1	19	20
Overseas	17	10	27	23	32	55
<b>Bonds</b>						
Fixed interest – UK	129	51	180	415	96	511
– Overseas	484	162	646	494	305	799
<b>Pooled investments</b>						
Absolute return	-	381	381	-	476	476
Equity	260	-	260	347	-	347
Private equity	-	51	51	-	62	62
Fixed interest	171	106	277	21	574	595
Private debt	-	502	502	-	450	450
Property	-	51	51	-	63	63
Liability-driven investment <sup>10</sup>	5,958	(42)	5,916	8,263	42	8,305
<b>Property (UK)</b>	-	531	531	-	625	625
<b>Cash and cash equivalents</b>	421	-	421	402	-	402
<b>Other</b>	-	(5)	(5)	-	(52)	(52)
<b>Derivatives</b>	-	(5)	(5)	-	7	7
<b>RMSEPP buy-in annuity policies</b>	-	-	-	-	311	311
<b>Total plans' assets</b>	<b>7,441</b>	<b>1,793</b>	<b>9,234</b>	<b>9,966</b>	<b>3,010</b>	<b>12,976</b>

<sup>10</sup> This portfolio comprises gilt and swap contracts that are designed to hedge the majority of the interest rate and inflation risk associated with the plans' obligations. At 26 March 2023 it included £5,435 million (27 March 2022: £8,386 million) of index-linked gilts, £706 million (27 March 2022: £690 million) of bonds, £553 million (27 March 2022: £145 million) in short-term money market funds and £68 million (27 March 2022: £44 million liability) in cash and similar instruments, offset by negative fair value investments of £756 million (27 March 2022: £898 million liability) in repurchase agreements and £90 million (27 March 2022: £26 million asset) of swaps.

Included within the Company's defined benefit pension scheme assets are assets with a fair value estimated to be £215 million that are based on non-observable inputs at 26 March 2023. Estimates of the fair value of these assets have been performed using the latest available statements of each of the funds that make up this balance updated for any subsequent cash movements between the statement date and the year-end reporting date.

There were no open equity futures or options derivatives within this portfolio at 26 March 2023 (27 March 2022: £nil). £5.4 billion (27 March 2022: £8.4 billion) of HM Government bonds are primarily included in the liability-driven investments balance above. The plans' assets do not include property or other assets used by the Company or shares of International Distributions Services plc at 26 March 2023 (27 March 2022: £nil).

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

### Risk exposure and investment strategy

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

Investment market movements	The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options), from time to time to manage risks whilst maintaining expected investment returns.
Interest rates and inflation changes	The legacy RMPP section's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the liabilities. It has done this predominantly through investment in index-linked gilts and derivatives. The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than the RMPP. In the RMPP section, many of the inflation linked increases that apply are restricted to a maximum increase of 5% in any year. The scheme's rules therefore give some protection from the risk of significantly high levels of inflation.
Equity exposure	The equity exposure of the legacy RMPP section was reduced previously by means of a short Total Return Swap (TRS). The TRS and underlying listed equity exposure it backed were removed in late September 2022 and had a market value as at 26 March 2023 of £nil. However, there were (tactical) equity holdings totalling £61m at 26 March 2023 within other mandates held at the discretion of the relevant investment managers under the terms of their mandates.
Changes in life expectancy	The RMPP's liabilities could be impacted by longer than expected life expectancy, resulting in higher than expected payout levels. Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.
Changes in corporate and Government bond yields	A fall in yields on AA rated corporate bonds, used to set the IAS 19 discount rates, has led to an increase in the IAS 19 liabilities. The legacy RMPP's assets include corporate bonds, HM Government bonds and interest rate derivatives partly offset the impact of movements in the discount rate. The RMPP section is hedged against gilt movements to limit the impact on funding (and therefore cash) but, to the extent that gilts move differently to corporate bonds, the accounting liability is more exposed.

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

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

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

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
<b>Retirement benefit surplus (before withholding tax payable) at 28 March 2022 and 29 March 2021</b>	<b>11,122</b>	11,420	<b>(6,940)</b>	(7,754)	<b>4,182</b>	3,666
<b>Amounts included in the income statement</b>						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(11)	(9)	-	(1)	(11)	(10)
Pension interest income/(cost) <sup>11</sup>	311	228	(194)	(155)	117	73
Total included in profit before tax	300	219	(194)	(156)	106	63
<b>Amounts included in other comprehensive income - remeasurement (losses)/gains</b>						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	2,668	871	2,668	871
Demographic assumptions	-	-	-	85	-	85
Experience adjustment	-	-	(196)	(50)	(196)	(50)
Return on plans' assets (excluding interest income)	(3,757)	(448)	-	-	(3,757)	(448)
Total remeasurement (losses)/gains of the defined benefit surplus	(3,757)	(448)	2,472	906	(1,285)	458
<b>Other</b>						
Employer contributions	-	1	-	-	-	1
Benefits paid	(81)	(70)	81	70	-	-
Past Service Cost	-	-	-	(6)	-	(6)
Total other movements	(81)	(69)	81	64	-	(5)
<b>Retirement benefit surplus (before withholding tax payable) at 26 March 2023 and 27 March 2022</b>	<b>7,584</b>	11,122	<b>(4,581)</b>	(6,940)	<b>3,003</b>	4,182
<b>IFRIC 14 adjustment</b>	<b>n/a</b>	n/a	<b>n/a</b>	n/a	<b>(1,051)</b>	(1,464)
<b>Retirement benefit surplus (net of withholding tax payable) at 26 March 2023 and 27 March 2022</b>	<b>n/a</b>	n/a	<b>n/a</b>	n/a	<b>1,952</b>	2,718

<sup>11</sup> Pension interest income for the current year results from applying the plans' discount rate at 27 March 2022 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 27 March 2022 to the plans' liabilities at that date.

### d) Movement in RMSEPP assets, liabilities and net position

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
<b>Retirement benefit surplus (before withholding tax payable) at 28 March 2022 and 29 March 2021</b>	<b>320</b>	373	<b>(312)</b>	(364)	<b>8</b>	9
<b>Amounts included in the income statement</b>						
Pension interest income/(cost) <sup>11</sup>	2	7	(2)	(7)	-	-
Total included in profit before tax	2	7	(2)	(7)	-	-
<b>Amounts included in other comprehensive income - remeasurement (losses)/gains</b>						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	64	34	64	34
Demographic assumptions	-	-	-	9	-	9
Return on plans' assets (excluding interest income)	(64)	(44)	-	-	(64)	(44)
Total remeasurement (losses)/gains of the defined benefit surplus	(64)	(44)	64	43	-	(1)
<b>Other</b>						
Benefits paid	(8)	(16)	8	16	-	-
Transfer to insurer	(242)	-	242	-	-	-
Total other movements	(250)	(16)	250	16	-	-
<b>Retirement benefit surplus (before withholding tax payable) at 26 March 2023 and 27 March 2022</b>	<b>8</b>	320	<b>-</b>	(312)	<b>8</b>	8
<b>IFRIC 14 adjustment</b>	<b>n/a</b>	n/a	<b>n/a</b>	n/a	<b>3</b>	3
<b>Retirement benefit surplus (net of withholding tax payable) at 26 March 2023 and 27 March 2022</b>	<b>n/a</b>	n/a	<b>n/a</b>	n/a	<b>5</b>	5

<sup>11</sup> Pension interest income for the current year results from applying the plans' discount rate at 27 March 2022 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 27 March 2022 to the plans' liabilities at that date.

# Royal Mail Group Limited

## 22. Retirement benefit plans (continued)

### e) Movement in DBCBS assets, liabilities and net position

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
<b>Retirement benefit at 28 March 2022 and 29 March 2021</b>	<b>1,528</b>	<b>1,186</b>	<b>(1,918)</b>	<b>(1,580)</b>	<b>(390)</b>	<b>(394)</b>
<b>Amounts included in the income statement</b>						
Ongoing UK defined benefit pension plan service cost including administration costs (included in people costs)	(5)	(5)	(449)	(513)	(454)	(518)
Pension interest income/(cost) <sup>12</sup>	45	26	(57)	(35)	(12)	(9)
Total included in profit before tax	40	21	(506)	(548)	(466)	(527)
<b>Amounts included in other comprehensive income - remeasurement gains/(losses)</b>						
Actuarial gains/(losses) arising from:						
Financial assumptions	-	-	662	107	662	107
Experience assumptions	-	-	(89)	51	(89)	51
Return on plans' assets	(195)	14	-	-	(195)	14
Total remeasurement gains/(losses) of the defined benefit deficit	(195)	14	573	158	378	172
<b>Other</b>						
Employer contributions <sup>13</sup>	333	359	-	-	333	359
Employee contributions	10	3	(10)	(3)	-	-
Benefits paid	(74)	(55)	74	55	-	-
Total other movements	269	307	64	52	333	359
<b>Retirement benefit deficit at 26 March 2023 and 27 March 2022</b>	<b>1,642</b>	<b>1,528</b>	<b>(1,787)</b>	<b>(1,918)</b>	<b>(145)</b>	<b>(390)</b>

<sup>12</sup> Pension interest income results from applying the plans' discount rate at 28 March 2021 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 28 March 2021 to the plans' liabilities at that date.

<sup>13</sup> Includes PSE contributions of £88 million (2021-22: £99 million).

## 23. Non-current other receivables

	At 26 March 2023 £m	At 27 March 2022 £m
Amount owed by IDS plc Group entities	1	18
Other	5	20
<b>Total</b>	<b>6</b>	<b>38</b>

## 24. Non-current assets held for sale

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

	At 26 March 2023 £m	At 27 March 2022 £m
Property assets held for sale	4	-
<b>Total</b>	<b>4</b>	<b>-</b>

Property assets with a carrying value of £7 million (2021-22: £26 million) were reclassified as held for sale in the year, of which £3 million (2021-22: £26 million) were subsequently sold before the balance sheet date. The £4 million property assets held for sale at the balance sheet date mainly comprise the remaining plot at the Nine Elms site and the Parcelforce Worldwide depot at Royal College Street, Camden, London. These properties are expected to be sold within 12 months of the balance sheet date.

# Royal Mail Group Limited

## 25. Share-based payments

### Employee Free Shares

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

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

### Partnership and matching shares

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

At 26 March 2023, there had been 54 (2021-22: 42) such monthly awards and a total of 1,709,034 (2021-22: 1,309,873) Matching Shares had been awarded to eligible staff members at a weighted average market price of 300.7 pence (2021-22: 314.4 pence). The vesting period for each award is three years from the award date, with all allocated shares to be equity-settled.

A charge to the income statement of £1 million (including a £nil National Insurance charge) has been made for the period ended 26 March 2023 (2021-22: £2 million charge including a £1 million National Insurance charge) for all SIP allocations.

A reconciliation of the ordinary shares held in the SIP at 26 March 2023 and 27 March 2022 is shown below.

	Number of shares
Total shares remaining in SIP at 27 March 2022	40,417,904
Shares sold/transferred out of SIP during the reporting year (fully vested)	(1,907,577)
Shares transferred out of SIP during the reporting year ('good leavers') <sup>1</sup>	(909,503)
<b>Total shares remaining in SIP at 26 March 2023</b>	<b>37,600,824</b>

<sup>1</sup> 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme.

Of the total shares remaining in the scheme, 36,114,161 (2021-22: 38,596,514) have been allocated to current employees. The remaining 1,486,663 (2021-22: 1,821,390) shares are unallocated and have arisen as a result of forfeitures.

### Award of shares under the Long-Term Incentive Plan

Award year	Grant date	Shares vest from	Fair value/share (pence) Monte-Carlo simulation		Maximum number of potential shares to vest
			Market based conditions	Non-market based conditions	
2020	27/11/2020	27/11/2023	272.3	309.3	662,124
2021	12/08/2021	12/08/2024	305.6	500.7	683,098
2022	01/09/2022	01/09/2025	100.1	272.6	1,452,528

A charge to the income statement of £1 million (including £nil National Insurance) has been made for the period ended 26 March 2023 in relation to all LTIP schemes (2021-22: £2 million, including £nil for National Insurance).

### Award of shares under the Deferred Shares Bonus Plan

Award year	Grant date	Shares vest from	Fair value/ share (pence)	Maximum number of potential shares to vest
2020	24/07/2020	24/07/2023	180.0	445,756
2021	01/12/2021	01/12/2023	502.4	42,596
2022	29/03/2022	29/03/2025	358.6	107,816
2022	28/07/2022	28/07/2024	290.2	216,143
2022	28/07/2022	28/07/2025	290.2	193,759

A charge to the income statement of £nil (including £nil National Insurance) has been recognised for the period ended 26 March 2023 in relation to all DSBP schemes (2021-22: £2 million, including £1 million for National Insurance).

# Royal Mail Group Limited

## 26. Issued share capital

	At 26 March 2023	At 27 March 2022
	£	£
<b>Authorised and issued</b>		
50,000 ordinary shares of £1 each	50,000	50,000
<b>Total</b>	<b>50,000</b>	<b>50,000</b>

### Hedging reserve

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

### Other reserve

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

## 27. Dividends

	52 weeks 2023	52 weeks 2022	52 weeks 2023	52 weeks 2022
	pence per share	pence per share	pence per share	pence per share
Paid interim dividend	-	316,000	-	158,000,000
<b>Total dividend paid</b>	<b>-</b>	<b>316,000</b>	<b>-</b>	<b>158,000,000</b>

## 28. Commitments

### Capital commitments

The Company has commitments of £28 million (2021-22: £105 million) for property, plant and equipment, £nil (2021-22: £59 million) for vehicles and £5 million (2021-22: £6 million) for intangible assets, which are contracted for but not provided for in the Financial Statements.

### Lease commitments

The Company has £20 million of lease commitments (2021-22: £1 million) relating to leases that have been signed but not yet commenced at the year-end date. These commitments have not been provided for in the Financial Statements.

## 29. Contingent liabilities and contingent assets

The probability of the following contingent liabilities resulting in an outflow of benefits and their financial impact cannot be estimated reliably due to the nature of the cases and respective legal processes. The outcomes are not, however, expected to fundamentally impact the operations or financial performance of the Company.

### Contingent liabilities

#### 2022-23 Regulated Quality of Service

Our performance in 2022-23 for our Universal Service products' Quality of Service was below Ofcom's regulatory targets. We have been actively engaging with Ofcom, explaining why performance is below target. Our 2022-23 USO Quality of Service results were published on 15 May 2023 and Ofcom has opened an investigation. Any regulatory action, as a result of the quality of service levels, would be at the discretion of Ofcom with no mechanism to calculate any potential liability. Given the unique circumstances of industrial action and high sickness levels it is not possible to reliably estimate the outcome of Ofcom's investigation. We will fully co-operate with Ofcom's investigation.

#### Whistl Damages Claim

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position. Whistl's High Court claim was paused until after the completion of the appeal by Royal Mail against the Ofcom decision. Following the exhaustion of Royal Mail's appeal against the Ofcom decision, the stay on Whistl's related damages claim has been lifted and, in March 2023, the proceedings were transferred from the High Court to the Competition Appeal Tribunal. The parties have now exchanged their initial pleadings, but the case is in its early stages. Royal Mail believes Whistl's claim is without merit and will defend it robustly.

# Royal Mail Group Limited

## 29. Contingent liabilities and contingent assets (continued)

### DAF Trucks Ltd damages award

In relation to Royal Mail's damages claim against DAF Trucks Limited ('DAF'), the UK Competition Appeal Tribunal ('CAT') passed judgment in favour of Royal Mail on 7 February 2023 and subsequently ordered DAF to pay Royal Mail £35 million in damages and interest. Royal Mail has received this amount in full (see Note 5). On 16 May 2023, the CAT issued a ruling granting DAF permission to appeal to the Court of Appeal ('CoA') on one of five grounds of appeal raised by DAF and refusing DAF to appeal on the remaining four grounds. DAF may decide to apply directly to the CoA, to widen the scope of appeal, and depending on the success of that application, and the outcome of the appeal, there is a risk that the CoA may decide to reduce the award by the CAT, which may result in Royal Mail having to return some of the £35 million to DAF.

### Contingent asset

### DAF Trucks Ltd damages award

Royal Mail has also sought a contribution from DAF for the substantial legal and expert costs that it has incurred in pursuing the claim before the CAT. Royal Mail expects to receive at least 50% of the costs and potentially considerably more.

## 30. Related party information

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

	Country of incorporation	% Holding	Principal activities
<b>Principal subsidiaries</b>			
Royal Mail Estates Limited	UK	100	Property company
RM Property and Facilities Solutions Limited	UK	100	Facilities management

The above companies have a year-end date of the last Sunday in March. All shareholdings are equity shares.

A full list of the Company's related undertakings is included in Note 33.

### Related party transactions

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

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

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	52 weeks 2023	52 weeks 2022	52 weeks 2023	52 weeks 2022	At 26 March 2023	At 27 March 2022	At 26 March 2023	At 27 March 2022
	£m	£m	£m	£m	£m	£m	£m	£m
RMPP (administration and investment service recharge)	7	6	-	-	-	-	-	-

Balances outstanding at the year-end are unsecured, interest free and settlement is made by cash.

## 31. Events after the reporting period

### Agreement reached with Communication Workers Union

On 21 April 2023 IDS plc announced that the Business Recovery, Transformation and Growth Agreement has been ratified by CWU's Postal Executive Committee and that it would be put to a ballot of the union's membership with a recommendation to approve.

The agreement provides a platform for the next phase of stabilising the business whilst continuing to drive efficiency and change. The operational changes in the agreement are designed to improve competitiveness, particularly in next day parcels, reduce cost and environmental impact, and improve quality of service for our customers. A three year pay deal will provide certainty for our employees and ensure Royal Mail remains the industry leader on pay, terms and conditions. Further details can be found in the Strategic Report.

# Royal Mail Group Limited

## **31. Events after the reporting period (continued)**

Whilst not part of the Business Recovery, Transformation and Growth Agreement, on 16 June 2023 the Company also confirmed a one-off lump sum payment expected to be at least £900, payable to all eligible employees of the Company and RM Property and Facilities Solutions Ltd. The Trustee of the Royal Mail Pension Plan (RMPP) has agreed to release to Royal Mail some money that has been held in an escrow, separate to the Pension Plan. RMPP is now well-funded and the Trustee is confident that members' interests are well protected, even after the release of the escrow funds. The release of the escrow funds will only be agreed by the Trustee on the ratification of the Business Recovery, Transformation and Growth agreement.

### **DAF Trucks Ltd damages award**

On 16 May 2023, the CAT ordered DAF: (i) to pay Royal Mail's costs of the proceedings (the final amount of those costs to be determined by court assessment or to be agreed with DAF); and (ii) to make an interim payment on account to Royal Mail in respect of its costs of c. £9 million, which is c.70% of Royal Mail's incurred costs as at 27 February 2023. Costs ultimately recovered from DAF could also depend on the outcome of DAF's appeal.

In line with the above, on 1 June 2023, DAF paid c.£9 million to Royal Mail.

### **32. Immediate and ultimate parent company**

At 26 March 2023, the Directors regarded RMGLS Holdco Limited as the immediate parent company and International Distributions Solutions plc as the ultimate parent company. The results of the Company form part of the International Distributions Solutions plc Annual Report and Financial Statements 2022-23, which are available from [www.internationaldistributionsservices.com/results](http://www.internationaldistributionsservices.com/results) or the Company Secretary, 185 Farringdon Road, London, United Kingdom, EC1A 1AA.

# Royal Mail Group Limited

## 33. Related undertakings of Royal Mail Group Limited

In accordance with section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 26 March 2023 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail Group Limited.

### Subsidiary undertakings

Company name	Share class	% held by Company
<b>China</b>		
Suite 2447, within Suite 2401, 24F, No.77, Jian Guo Rd, Chao Yang District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	-	100.000
<b>United Kingdom</b>		
185 Farringdon Road, London, EC1A 1AA		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited <sup>1</sup>	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RM CPP Trustees Limited	£1.00 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
RMSEPP Pensions Trustees (2050) Limited	£1.00 Ordinary shares	100.000
RM 2022 Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
Romec Enterprises Limited	£1.00 Ordinary shares	100.000
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000

# Royal Mail Group Limited

## 33. Related undertakings of Royal Mail Group Limited (continued)

### Associate undertakings

Company name	Share class	% held by Company
<b>United Kingdom</b>		
March Studios Peills Yard, Bromley, Kent, BR1 9NS, United Kingdom		
Charac Limited	B Ordinary shares	33.300
Lynton House, 7-12 Tavistock Square, London, WC1H 9LT, United Kingdom		
JICMAIL Limited <sup>1</sup>	-	20.000

### Investments

Company name	Share class	% held by Company
<b>United Kingdom</b>		
Aviva, Wellington Row, York, North Yorkshire, YO90 1WR		
Voyager Park South Management Company Limited <sup>1</sup>	Ordinary shares	5.500

<sup>1</sup> Limited by guarantee.

# Royal Mail Group Limited

## **Corporate information**

### **Registered Office and Company Head Office**

Royal Mail Group Limited

185 Farringdon Road

LONDON

EC1A 1AA

Registered No: 04138203