

International
Distributions
Services plc



Royal Mail

GLS.

Annual Report and
Financial Statements
2022-23

Introduction

“I said before that we had reached a crossroads at Royal Mail. Now that we have a negotiators agreement with CWU that will shortly go out to ballot, and thanks to the good progress made on our five-point plan to stabilise Royal Mail, our destination is coming into sight.

“There is now a clear path towards a more competitive and profitable Royal Mail, delivering improved services for our customers whilst further reducing our environmental impact. Importantly, if ratified, the CWU agreement provides greater job security and increased rewards – through both pay and profit share – for our employees. Successful delivery of the agreement will be key.

“Quality of service has been significantly affected by industrial action and high levels of absence. I am sorry that we have not delivered the high standards of service our customers expect. Improving quality of service is our top priority.

“GLS has a proven track record of growth, solid margins and cash generation. During 2022-23 it delivered a robust performance in a tough macro-economic climate. Its flexible operating model, balanced B2C and B2B portfolio, diversified geographic exposure and continued investment have underpinned good progress this year and we continue to invest for long-term growth and margin accretion.

“So as we enter 2023-24 we have grounds for optimism. The economic climate remains challenging, and Royal Mail faces the task of rebuilding business from the damage caused by industrial action. To do this successfully and plan for the long term, urgent reform of the Universal Service Obligation is essential. Our plan is to return to group profitability this year but also seize the opportunity for both businesses to deliver ongoing profits thereafter, to the benefit of both our employees, customers and shareholders.”

Keith Williams, Independent Non-Executive Chair


Royal Mail
GLS.

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Who We Are

International Distributions Services plc is a holding company. The group structure (the Group) includes two separate operations, our UK-based operation, which includes Royal Mail and Parcelforce Worldwide (Royal Mail), and our international operation, General Logistics Services (GLS).

Our purpose

To connect customers, companies and countries.

Our values

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

Royal Mail

Be positive – about what we can achieve.

Be brilliant – for our customers.

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

GLS

Reliability

Security

Transparency

Flexibility

Sustainability

Our ambition

To build a more balanced and diverse international business.

Our business

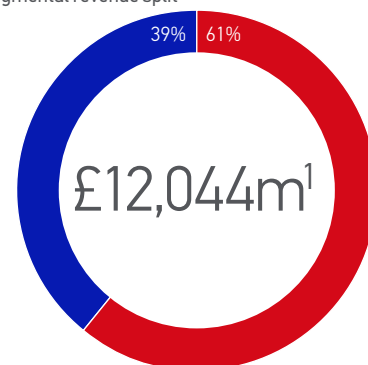
We provide postal and delivery services across our extensive networks.

Where we operate

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

2022-23 Performance

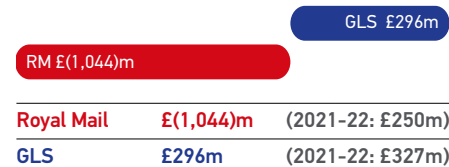
Segmental revenue split



Royal Mail	£7,411m	(2021-22: £8,514m)
GLS	£4,650m	(2021-22: £4,219m)

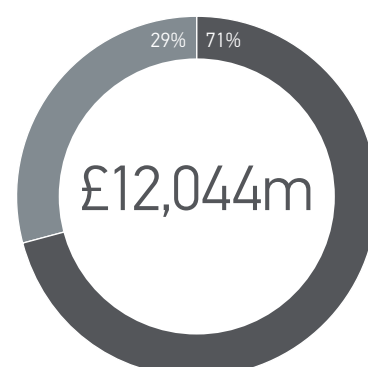
Group reported operating loss split

£(748)m



Royal Mail	£(1,044)m	(2021-22: £250m)
GLS	£296m	(2021-22: £327m)

Group revenue split (parcels and letters)²



Parcels	£8,543m	(2021-22: £8,998m)
Letters	£3,501m	(2021-22: £3,714m)

- Reflects intragroup revenue eliminations of £17m split between Parcelforce Worldwide (£14m) and GLS (£3m). (2021-22: intragroup revenue was £21m split between Parcelforce Worldwide (£16m) and GLS (£5m)).
- Parcel revenue includes GLS freight revenue.

Royal Mail



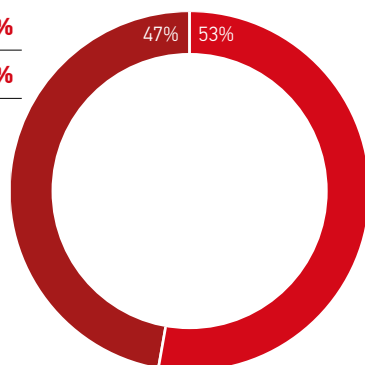
Collects, sorts and delivers letters and parcels.

As the UK's sole designated Universal Service Provider¹ Royal Mail delivers a 'one-price-goes-anywhere' service on a range of letters and parcels to around 32 million addresses across the UK.

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

Royal Mail parcel/letter revenue split

Parcels	53%
Letters	47%



Other information

Employees ²	Local Connect Network (Customer Service Points and Post Offices)
c.130,000	c.11,000
Mail Centres	Vehicles
37	c.53,000

GLS

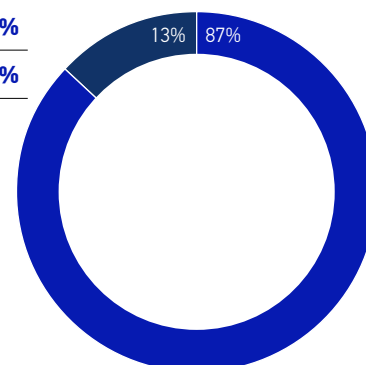


Collects, sorts and delivers parcels.

One of the largest parcel services providers in Europe, with a growing presence in North America. GLS seamlessly connects its customers and communities with millions of parcels every day.

GLS revenue by region

Europe	87%
North America	13%



Other information

Employees	Pick-up/drop-off points
c.22,000	c.47,000
Network hubs ³	Depots (including franchises and agencies)
c.120	c.1,600

- Under the Postal Services Act 2011, Ofcom is the regulator for postal services in the UK. Ofcom's primary regulatory duty for postal services is to secure the provision of the Universal Postal Service. Ofcom has designated Royal Mail as the Universal Service Provider.
- This number represents permanent employees and employees engaged on fixed-term contracts, including in the various separate UK subsidiary companies.
- Includes Italian franchises.

Chair's Statement



Keith Williams
Non-Executive Chair

2022-23 Group Financial Highlights

Revenue¹

£12,044m

2021-22: £12,712m

Reported operating loss¹

£(748)m

2021-22: £577m profit

Adjusted operating loss¹

£(71)m

2021-22: £758m profit

Reported basic earnings per share¹

(91.3)p

2021-22: 61.7p

Adjusted basic earnings per share¹

(20.5)p

2021-22: 60.0p

FY dividend

Nilp

2021-22: 20.0p

Net debt

£1,500m

2021-22: £985m

Overview

A challenging operating environment persisted throughout 2022-23. Macro-economic headwinds and the unwind of temporary benefits from COVID lockdown restrictions resulted in lower parcel volumes year on year for both Royal Mail and GLS. The Board would like to thank all of our colleagues across Royal Mail and GLS who have worked over the past year to keep people and businesses connected.

Quality of service in Royal Mail has been significantly affected by industrial action and high levels of absence. I am sorry that we have not delivered the high standards of service our customers expect. Improving quality of service is our top priority.

At the start of this year, and again at the interim results, I said we were at a crossroads. Whilst GLS was performing well, and we had confidence that its flexible business model would continue to demonstrate resilience, we needed to accelerate and broaden the scope of change in Royal Mail to meet the demands of our customers, deliver real efficiency savings and remain competitive to support sustainable growth and secure jobs for the future. Given the failure of talks with the CWU and the prospect of damaging strike action, all options remained open, including business separation, to preserve the value in GLS and to bring about the change necessary in Royal Mail. The group structure and name change to International Distributions Services plc was important to demonstrate that the Board will not cross-subsidise Royal Mail if its position is not sustainable.

I am pleased to say we have moved on from the crossroads. We now have more options to deliver change and progress has already been achieved in Royal Mail in the second half of the year. Following industrial action, we served notice in September 2022 on a number of historic CWU agreements and policies which were delaying transformation, to move to a more modern industrial relations framework. This allowed us to move ahead with elements of our change programme during the second half. Accordingly, we were able to complete revisions across all delivery and processing units and right size the workforce to current workload, with far fewer people leaving under voluntary redundancy than anticipated. As a result, we are starting the current year with 10,000 fewer full time equivalent employees (FTE) than last year, with an anticipated benefit in 2023-24 of £150 million. There are further revisions to come during the course of the current year.

In reaching an agreement with the CWU on pay and change in April 2023, which members are still to vote on, we have the opportunity for further operational efficiencies. Assuming the Business Recovery, Transformation and Growth Agreement is ratified, it provides a path towards making Royal Mail more competitive, with adjusted operating profits, excluding voluntary redundancy charges, starting in 2024-25, by improving services to our customers and further strengthening our environmental performance. The agreement provides for pay increases over the two years to March 2025 at a cumulative cost of c. £600 million, which is expected to be broadly covered by cost efficiencies, with changes to working practices, network changes and attendance policies introduced successively over the next 24 months. These changes will also provide greater working flexibility which is expected to improve quality.

1. Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, the Group's performance is explained through the use of Alternative Performance Measures (APMs) that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained on pages 238 to 242 and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group's functional currency of Sterling and Euro) are provided where appropriate.
2. As referenced in Royal Mail's ESG Report 2021-22, page 9.

At the same time, these changes should also support revenue growth by improving our service offering – for example, next day products. Royal Mail already has the lowest carbon footprint per parcel among UK parcels companies² and these changes will help us diminish our dependence on air transport and further reduce carbon emissions, improving our environmental position. The agreement also provides for joint working on an approach to the regulator and Government on the much needed modernisation of the USO. In the longer term, the agreement also confirms new starter terms and conditions which will be important in reducing our cost base over time. Delivery of the plan will be key, with continued investment in Royal Mail contingent on delivery of operational change and a recovery in revenue following the impacts of industrial action.

Turning to GLS, it delivered a good performance, despite the tough macro-economic backdrop, offsetting almost all cost increases through efficiency and pricing, as well as the impact from acquisitions, delivering broadly flat adjusted operating profit year on year. GLS has a proven track record of delivering top line growth, solid margins and good cash generation. The business has continued to successfully execute on its strategy during the year, and despite the economic downturn and consequent drop in parcel volumes, margins are still significantly above pre-COVID levels. We have made great progress in turning around underperforming countries, particularly Spain, which is now delivering sustainable operating profits and has just opened its new Madrid hub, and France which has now reached breakeven. We are taking further measures to improve our performance in the US. Its flexible operating model, broad customer base and geographic diversity provides a strong platform for further organic and inorganic growth. Over the medium term, GLS is targeting €500m operating profit in 2026-27.

Over the last two years, around two thirds of our investment has been directed at modernising Royal Mail. With around 80% automation and the second SuperHub opening this Summer, the Royal Mail business is ending a significant period of capital investment. We need to leverage those investments going forward, which our change agenda is designed to do. Accordingly, there will be a switch in investment focus to GLS, with Royal Mail capital expenditure scaled back to around £200 to £250 million a year, whilst GLS investment will increase as it develops its last mile proposition, including an expansion of lockers, and invests in new markets and services. GLS remains focused on securing and optimising its long-term growth prospects and continues to invest for growth, diversification and long-term margin expansion.

The Group will continue to operate a conservative capital structure. Liquidity at the end of the year was around £1.7 billion.

Looking forward, we therefore have grounds for optimism. We have a plan that shows a return to group profitability next year and both companies in profit the year after. This is not only good for investors it is good for customers – increasing our ability to improve services and quality – and good for employees in retaining job security.

Financial performance

Group revenue declined by 5.3%, driven by the decline in Royal Mail. Group operating loss was £748 million on a reported basis¹ (2021-22: £577 million profit) reflecting the impairment charge in Royal Mail in addition to business performance during the year. Group adjusted operating loss¹ was £71 million (2021-22: £758 million profit), driven by losses at Royal Mail. GLS adjusted operating profit in Euros was up slightly year-on-year to €403 million. Group adjusted basic loss per share was 20.5 pence (2021-22: 60.0 pence earnings per share). On a reported basis, Group loss per share was 91.3 pence, (2021-22: 61.7 pence earnings per share).

Capital allocation and dividend

The Group's in year trading cash outflow was £34 million (2021-22 £519 million inflow) and on a pre-IFRS 16 basis in-year trading cash outflow was £213 million (2021-22: £353 million inflow), driven by Royal Mail trading performance. Net debt (pre-IFRS 16) was £181 million as at 26 March 2023 (£150 million of net cash at 25 September 2022, £307 million net cash at 27 March 2022). The maintenance of a conservative balance sheet has always been at the heart of the Group's capital allocation policy and the Board considers the Group's net debt position as robust, both in the context of the Group's historic net debt position and 1.0x net debt/EBITDA is well below covenant limits.

The Group had available liquidity of around £1.7 billion at the end of March 2023, including £773 million of cash and cash equivalents (excluding £36 million GLS client cash) along with undrawn bank syndicate loan facility of £925 million.

The Group continues to face uncertainty in respect of the macro-economic environment. The different positions of our two businesses mean that the Board will be disciplined in terms of capital allocation and avoid cross subsidy between the businesses. Royal Mail is still trading at a loss as it recovers from the impacts of the industrial dispute, and whilst its performance is expected to stabilise, adjusted operating profit in H1 is expected to be lower year on year. Continued investment in Royal Mail is contingent on delivery of its business plan. Royal Mail will look to offset trading cash outflows in the year with real estate disposals. GLS is performing well in spite of the economic headwinds and is stepping up investment in the short term, to support longer term growth and margin expansion.

The outlook in Royal Mail does pose a risk to the Group's targeted investment grade credit rating, and we have taken action to maintain the best possible rating.

Given the performance of Royal Mail in 2022-23, and increased investment in GLS, the Board has decided not to pay a final dividend in respect of 2022-23.

Board changes

As previously announced, Jourik Hooghe joined the Board with effect from 1 June 2022 and became a member of the Nomination and Audit and Risk Committees. The Board has benefited greatly during the year from his strong international strategic, financial and accounting expertise.

On 12 May 2023, we announced that Simon Thompson had informed the Board of his intention to step down as Chief Executive Officer (CEO) of Royal Mail and had resigned from the Board. On behalf of the Board, I would like to thank Simon for his significant contribution over more than five years at Royal Mail, both as CEO and previously as a non-executive director of the Board. As CEO, his leadership, resilience and unwavering drive to ensure that Royal Mail transforms for the benefit of our customers means we have set a clear path to turn the business around. We are grateful for his dedication and what he has achieved at the company, and wish him well for the future. As announced on 18 May 2023, Ingrid Ebner will join the Board with effect from 1 July 2023 and become a member of the Nomination Committee.

Outlook 2023-24

The trading environment continues to be uncertain for both Royal Mail and GLS. All of our markets are impacted by a challenging global economy, including high levels of inflation and expectations of lower future economic growth. Against that backdrop, we are targeting a Group adjusted operating profit in 2023-24. Our detailed Outlook statement is included on page 70.

Keith Williams

Non-Executive Chair
22 May 2023

Royal Mail Operating Review



2022-23 Performance Highlights

Revenue¹

£7,411m

2021-22: £8,514m

Reported operating loss¹

£(1,044)m

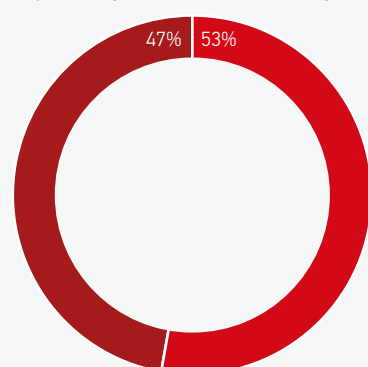
2021-22: £250m profit

Adjusted operating loss²

£(419)m

2021-22: £416m profit

Royal Mail parcel/letter revenue split %



2021-22 parcel/letter revenue split: 56%/44%

1. Reported result. Reported results are prepared in accordance with IFRS.
2. The alternative performance measures (APMs) used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 238 to 242.

Overview

The year has been difficult for everyone – our customers, our people, and our shareholders. The CWU dispute has impacted on our operational and financial performance, alongside macro-economic headwinds, including inflation and cost of living increases which impacted consumer online retail spend and parcel volumes. We also had the negative impact year-on-year of fewer test kits, as free testing and COVID restrictions ceased in the UK in the prior year.

The impact of strike action was more significant than we initially expected when we issued our revised guidance in November. Whilst we were able to achieve our revised guidance for the year, despite 18 days of strike action, six more than anticipated at that time, and the impacts of the cyber incident that began in January 2023, we experienced further parcel market share loss in Q4. We estimate we lost around 4 percentage points of revenue market share.

However, we did progress with change during the second half of the year, making good progress on our five-point plan, deploying revisions in all processing and delivery units and significantly exceeding our FTE reduction target of 5k, delivering a reduction of 10k as an exit run rate at the end of March 2023 vs. March 2022, to better match resource to workload. The CWU Postal Executive Committee has ratified the Business Recovery, Transformation and Growth Agreement we reached with CWU in April 2023 and we hope that this will be approved by CWU members. This agreement contains further opportunities for change which will deliver efficiencies, help us to improve quality and support revenue growth.

If CWU members vote in favour of the deal, we will work with the CWU on implementing a number of the changes within our agreement including some important short-term items, although the benefits of these changes will largely be delivered in 2024-25 and on into 2025-26. Therefore, our trajectory in the second half of this year will be critical in demonstrating progress, giving confidence in execution and underpinning delivery of the full benefits of the deal for everyone.

In the shorter term, we will start to rebuild Royal Mail, rebuild trust with our customers and employees, improve quality of service and begin to recover the parcel market share loss. We will continue to deploy revisions, optimise our costs to match volume, and leverage the investments we have made in our network.

Operational performance

In 2022-23 Royal Mail revenue decreased 13.0% to £7,411 million. This was driven by a 18.5% decline in parcel revenue impacted by industrial action, weaker online spend as the high inflation environment affected consumer spending and lower test kit volumes. Letter revenue also declined by 5.7%, reverting to the trend of long-term structural decline. Revenue from parcels accounted for 53% of total Royal Mail revenue (2021-22: 56%). Reported operating loss was £1,044 million (2021-22: £250 million profit) and adjusted operating loss was £419 million (2021-22: £416 million profit). The adjusted operating loss excluding voluntary redundancy charges was £386 million, which compares to our guidance range of a £350 million to £450 million loss and expectation in January 2023 that we would be around the mid-point of that range, subject to potential customer attrition in Q4.

In-year trading cash outflow was £306 million (2021-22: £280 million inflow) and pre-IFRS 16 was £410 million outflow, compared to an inflow of £178 million in the prior year. Gross capital expenditure decreased by £186 million to £255 million as we focused on maintaining liquidity and cash conservation given the ongoing industrial action and business performance. While we had to make some difficult decisions on prioritising expenditure, we continued to invest in our second new parcel Super Hub and increased parcel automation across our network. Further detail on our performance is included in the Financial Review.

Parcels

Domestic parcel volumes (ex. international)⁴ decreased by 22% reflecting a reduction in COVID test kit deliveries, ongoing macro-economic headwinds and industrial action. Compared to pre-pandemic levels (2019-20) domestic parcel volumes (ex. international) increased by 2%. Volumes for our premium products, Tracked 24® / 48® and Tracked Returns®, declined by 21% (2021-22: 17% growth).

Domestic parcel revenue (ex. international) decreased by 19.8%, reflecting volume declines partially offset by price increases and mix.

International parcel volumes⁵, including import and export parcels for Royal Mail and Parcelforce Worldwide, were down 7% year-on-year, a result of global economic situation, and to a lesser extent, the cyber incident in January 2023. International parcel revenue⁵ decreased 12.2% year-on-year.

Letters

Addressed letter volumes (excluding elections) were down 9%, reflecting a return to long-term structural decline. Advertising mail volumes were down 8% year on year, while consumer and small business mail volumes declined 21% driven by a significant drop in stamped letters volumes, which was particularly impacted by 10 days of industrial action during the peak Christmas period (November and December 2022). Business mail volumes declined 5%, offset by price increases which led to revenue growth of 4.6% in that segment. Total letter revenue was down 5.7%, benefitting from pricing, offset by volume decline and mix effects.

Compared to pre-pandemic levels (2019-20) addressed letter volumes (excluding elections) were down 25% reflecting the continued structural decline in the letters market.

Costs

Reported operating costs of £7,963 million decreased by 3.7%. Total adjusted operating costs decreased 3.3% to £7,830 million.

Adjusted people costs decreased 3.1%, due to volume related savings, pay abatements as a result of industrial action, a reduction in voluntary redundancy costs and flow through benefits of savings delivered through our restructuring programme last year. This was partially offset by 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 Health and Social Care Levy, as well as the 2% pay award for frontline staff. It also includes the £500 one-off non-consolidated lump sum payment for CWU grade employees as part of the Business Recovery, Transformation and Growth Agreement. Whilst there were no residual COVID costs (2021-22: £62 million) absence is still higher than pre-pandemic levels.

Adjusted non-people costs decreased 3.7%. Distribution and conveyance costs decreased as a result of lower volumes. Infrastructure costs increased, largely driven by higher depreciation and amortisation costs, inflation, energy costs and the impact of the cyber incident. Other operating costs reduced predominantly due to volume related savings, for example commissions paid to the Post Office. Further detail is included in the Financial Review.

4. Domestic Parcels excludes import and export for both Royal Mail and Parcelforce Worldwide.

5. International includes import and export for Royal Mail and Parcelforce Worldwide.

GLS Operating Review



2022-23 Financial Highlights

Revenue¹

£4,650m

2021-22: £4,219m

Reported operating profit¹

£296m

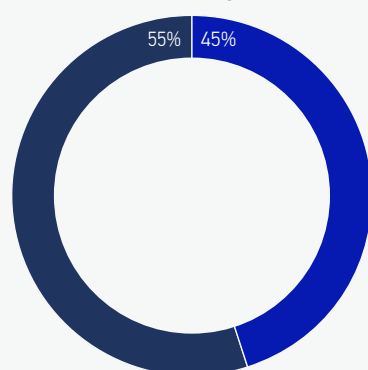
2021-22: £327m

Adjusted operating profit²

£348m

2021-22: £342m

GLS B2C/B2B volume split %



2021-22 B2C/B2B volume split: 55%/45%

1. Reported result. Reported results are prepared in accordance with IFRS.
2. The alternative performance measures (APMs) used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 238 to 242.

Operating Review

We continued to make good progress on our growth strategy and delivered a robust financial performance in 2022-23.

GLS performed well during the year with revenue growth of 10.2% to £4,650 million, 8.6% growth in Euro terms, compared to guidance of high single digit provided in May 2022. This was driven by a combination of better pricing, and the contribution from the Rosenau acquisition in Canada. Excluding acquisitions, revenue was up 7.7% in Sterling. Revenue growth was achieved in almost all markets, with particularly good performances in Canada, Germany, Italy and Hungary. Parcel volumes declined 1% as a result of the unwinding of positive effects from lockdown restrictions in the prior period, and a general weakening in macro-economic conditions. B2C share of volume was 55%, with B2B share at 45%, in line with last year.

Reported operating profit was £296 million (2021-22: £327 million). Adjusted operating profit grew to £348 million (2021-22: £342 million), or €403 million (2021-22: €402 million), slightly above the top end of our revised guidance range of €380 to €400 million given in January 2023 (previously €370 to €410 million). Adjusted operating profit margin declined by 60 basis points.

During the year, foreign exchange movements impacted revenue favourably by £69 million and costs adversely by £64 million, resulting in a net increase in operating profit of £5 million.

We continued to invest in growth and automation to generate efficiency savings, with capital expenditure of £152 million (2021-22: £162 million). In-year trading cash inflow pre-IFRS 16 remained robust, at £197 million, which compared with £175 million inflow in the prior year. In-year trading cash inflow was £272 million (2021-22: £239 million inflow). Further detail is included in the Financial Review.

Market performance

Most markets saw a decline in parcel volumes compared to the prior period but through pricing actions, and good customer retention, underlying revenue growth was achieved in almost all markets.

Performance in our key markets is highlighted below, with revenue growth and cost development detailed in Euro terms, (see APMs on pages 238 to 242) unless stated otherwise.

In Germany, the largest GLS market by revenue, revenues grew by 5.1% despite strong competition and weaker GDP. Revenue growth was driven by strong price increases that were successfully implemented to mitigate inflationary pressures, including the impact from the higher German minimum wage. Operating profit declined slightly as pricing actions could not fully mitigate cost increases.

In Italy revenue grew by 5.6%, benefitting from higher volumes, in particular international, and better pricing. Operating profit increased year on year.

GLS Spain continued to perform well, with revenue growth of 4.3% driven by better pricing and broadly flat volumes. Operating profit was lower than the prior year, as higher operational costs could not be fully offset through improved pricing.

We are pleased with our continued progress in France where revenue grew by 5.2%. Pricing and good cost control offset a decline in volume. Despite the difficult macro-environment, France was breakeven in terms of operating profit, building on the improvements over the past three years, and losses have been significantly reduced compared to 2019-20. We expect the business to continue on a positive trajectory.

In the US performance was disappointing, with a revenue decline of 3.4% in USD. This was driven by lower volumes, partly offset by better pricing, against a weaker market. Final-mile and line-haul costs were impacted by inflationary pressures which resulted in an increase in operational costs and a higher operating loss than the prior year. Measures focused on a turnaround of the business are in progress, including a headcount reduction programme which has already been completed, along with measures to lower unit costs and increase sales activity to drive revenues.

GLS Canada revenue increased by 18.2% (11.5% in CAD) on an organic basis, driven by higher yield, including the benefits of pricing and fuel surcharges. The integration of Rosenau is on track, and the business is performing ahead of plan. The Canadian business continues to perform well, delivering margins above the GLS group average.

Other developing markets, where GLS has a high exposure to B2C, continued to grow despite the impact from the war in Ukraine and inflationary pressures. Revenues were up 7.6% year on year, but operating profit declined, with a negative foreign exchange impact on both revenue and profit.

Our Marketplace

A number of trends have been driving structural change within our letters and parcel markets. Since pre-pandemic, parcel volume has increased while letter volume has declined. In addition, customer demand for convenient and sustainable services has continued to grow.

Key trends driving structural change

Trend

Digitalisation



E-commerce penetration continues to grow as retail stores invest in digital platforms over physical presence. As businesses increasingly rely on digital forms of advertising and customer communications, UK letter volume decline continues.

25%

decline in letter volume since 2019-20¹.

36%

growth in UK e-commerce sales 2019-2023².

39%

of UK retail sales (excl. food & fuel) now digital².

Savvy customers



Customers want fast and convenient delivery and pick-up as well as great quality of service, all at an affordable price.

86%

of UK customers receive parcel deliveries at home³.

45%

of e-shoppers in Denmark prefer to use a parcel shop⁴.

Sustainability



People of all ages are now seeking to engage with responsible businesses who provide more sustainable products and services.

70%

UK consumers would prefer a carbon-free delivery over a traditional delivery³.

Our response

Royal Mail and GLS are continuing to invest in data and technology to maximise the parcel market growth opportunity, including increasing automation across their businesses, developing innovative customer apps and enhancing logistical and customs procedures to ease international shipping.

Royal Mail's Sunday delivery service has expanded from last year when it was only offered to the business' large on-line retailers. It is now available to all Tracked 24® users both account and consumers. Royal Mail has also launched a Sunday Special Delivery Guaranteed service to offer enhanced levels of security and convenience for business account customers during the week.

Read more on pages 16 and 19.

Improving and simplifying Royal Mail's customer offering is a strategic priority. Parcel Collect, the doorstep collection service, demonstrates the business' commitment to continuously make its services more convenient and re-invent the way Royal Mail delivers to and from customers. Customers can now book Parcel Collect automatically for every online parcel shipment and are immediately provided with an estimated collection time. Since Parcel Collect's launch in October 2020, c.20 million parcels have been collected.

GLS continues to invest in its operations to enhance its customer offering. In October 2022, to further increase operational efficiency and enhance service levels, the business opened a new hub in Madrid which has a fully automated small parcel sorter. In addition, GLS has continued to expand its network of convenient customer pick-up and drop-off points and, in June 2022, it acquired Tousfacteurs SAS to further optimise the last-mile customer experience (see page 25).

In response to growing demand for consistent high-quality service, tracking services have been enhanced across Royal Mail and GLS, and now provide more accurate delivery slots and in-flight delivery options through a simple text message or email.

Read more on pages 16 to 19.

Recognising the impact our operations have on society and the increasing demand for sustainable products and services provided by trusted and responsible businesses, we have increased our focus on sustainability. During the year Royal Mail continued to progress its 'Steps to Zero' environmental strategy, including seeking Science Based Targets initiative (SBTi) validation for its targets and commitment to achieve net zero greenhouse gas (GHG) emissions by 2040. GLS has also continued to progress its Climate Protect environmental strategy, which is aimed at reducing GHG emissions to zero by 2045.

As a large-scale employer in the UK and Europe, we play an essential role in the communities where we operate, providing a safe, fair and equal opportunity environment to our people.

Read more on pages 26 to 35.

Other factors affecting the Group

In the UK, Ofcom regulates Royal Mail's Universal Service Obligation, a framework we believe needs updating to reflect the structural change in the market (see page 24). Multiple countries in Europe and their regulators have recognised the need to modernise and reform, including France, where in January 2023, all standard letter deliveries moved to a three-day service.

There is extensive trade union membership across our UK workforce and industrial action during the year has significantly impacted the Royal Mail business. Read more on page 6.

All of the markets where we operate are impacted by the current challenging economic environment, including high levels of inflation, the cost-of-living crisis and escalating costs.

Prolonged fiscal tightening in our markets, including minimum wage legislation and tax policy revisions, including the tax treatment of subcontractors, could increase our costs or further impact consumer confidence, which could affect parcel and letter volumes.

1. Addressed letters excluding elections, based on internal analysis.
2. Office for National Statistics Retail Sales, March 2023.
3. IMRG Consumer Home Delivery Review, 2022.
4. PostNord E-commerce in Europe, 2021.

Our Business Model

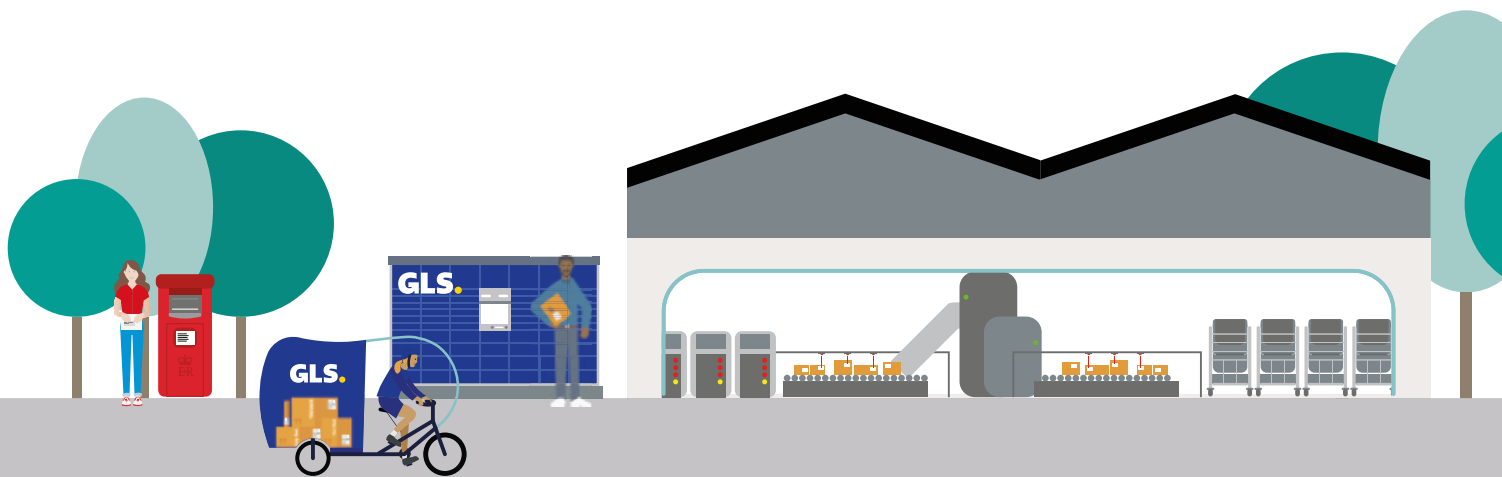
How we create value

Customer

Aiming to provide reliable, convenient and value-for-money services that customers want. See pages 16 to 19.

Transformation

Transforming Royal Mail into a more efficient and better balanced business to reflect customers' changing needs.



Underpinned by

Our people

Our people play a key role in our business. Fostering a fair, rewarding and values-based culture and rebuilding trust with our people and unions is essential to transforming our business.

Our brands

Royal Mail and GLS are strong and renowned brands.

Sustainability and responsibility are embedded in how we operate

We seek to operate in a sustainable and responsible way. See pages 26 to 37. Our stakeholders are integral to our success and we engage with them to understand their issues and concerns. See pages 22 and 23.

Value delivered

Our customers

We connect customers, companies and countries.

c.32m
UK addresses

c.230,000
GLS customers

Our people

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

Provide 1 in 175 jobs
in the UK economy as a whole¹

1. The Centre for Economics and Business Research (Cebr) research, conducted for Royal Mail in 2022, comprising direct and indirect contributions.

Growth

Harnessing market trends to capture growth opportunities. See pages 10 and 11.

Quality of Service

Investing to improve service levels and maintain customer trust.



Our extensive network

Royal Mail has an unparalleled network, including c.1,200 customer service points, which is able to deliver to every address in the UK. GLS is one of the largest ground-based deferred parcel operators in Europe. GLS operates across Europe, Canada and the US' West Coast, leveraging its integrated and robust network of over 1,600 depots and c.120 hubs.

Our financial position

Our robust balance sheet will enable us to continue to invest in our business to transform and grow in sustainable ways, with an increasing focus on growth in GLS having invested predominantly in Royal Mail in recent years.

Our technology

We provide a range of convenient delivery, tracking and redirection options through our apps. Automation levels across Royal Mail are increasing. Parcel automation at March 2023 was 76%, up from 12% in 2018-19 and 50% in 2021-22. GLS' automated operations contribute to the efficient delivery of parcels.

Effective governance and risk management underpin everything we do

Effective governance contributes to the Group's long-term success while risk management processes and controls protect the value we create. See pages 73 to 136 and pages 46 to 55.

Our suppliers and business partners

We provide employment across our supply chain.

73,000 jobs

indirectly supported by Royal Mail in the wider economy¹

Our communities and society

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

£11.8bn

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

Our shareholders

We generate returns.

£1,284m

cash to shareholders via dividend payments and share buybacks over last five years




Our Strategy and Progress

Our ambition is to build a more balanced and diverse international Group.

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.

Royal Mail

Objectives

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

KPIs

- Group revenue
- Group adjusted operating profit
- Royal Mail adjusted operating profit margin
- Lost time accident frequency rate

[Read more on page 20 and 21.](#)

Principal risks

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

[Read more on pages 50 to 55.](#)

GLS

Objectives

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

KPIs

- Group revenue
- Group adjusted operating profit
- GLS adjusted operating profit
- GLS free cash flow

[Read more on page 20 and 21.](#)

Principal risks

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

[Read more on pages 50 to 55.](#)

Royal Mail

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 opens 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.
- 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.

Our Strategy and Progress continued

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 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.

In addition to the pay increases, the offer 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.

The infrastructure we need to compete is in place – our Warrington Super Hub is operating to plan, with the Midlands Super Hub opening 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.

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 action¹), 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.

¹ 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).

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 50gCO₂e 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. See pages 27 to 29.

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. 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, is on track to open 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.

Progress during the year

- Further strengthened network capacity and footprint.
- Opened new Madrid-based hub.
- Continued to enhance the customer experience.
- Launched global brand campaign.

GLS has a proven track record of delivering top line growth, strong margins and good cash flow generation. Its flexible operating model, B2B/B2C balance and geographic diversity provides a strong platform for further organic and inorganic growth.

Our strategy, which builds on our distinctive and proven business model, is focused on:

- Strengthening GLS' top position in the cross border deferred parcel segment.
- Strongly positioning GLS in the 2C parcel market, whilst securing its leading position in the 2B segment.
- Inspiring the market through innovative digital and sustainable customer-focused solutions.

We have made good progress executing this strategy at the same time as delivering a good set of financial results, despite the challenging market conditions described in the Operating Review.

Strengthening our top position in the cross border deferred parcel segment

During the year we further strengthened our network capacity and footprint, in building, extending and upgrading our hubs and depots.

Our new state-of-the-art hub in Madrid came online during the year, with a capacity of around 65,000 parcels per hour, which will provide new growth opportunities, improve quality and increase efficiency through a high level of automation, for example the hub has a fully automated small parcel sorter. The hub is not only an important investment for Spain and Iberia as a whole, but will also strengthen our international capabilities.

Our Rosenau Transport acquisition in Canada performed well during the year. Rosenau complements our existing business in Canada and the combination gives us full national coverage, as well as connecting our US and Canadian networks.

The cross-border market continues to grow, which GLS can benefit from as we have a strong international offering supported by our high-quality network.

Our scalable and flexible business model, together with our proven track record of successfully integrating our network in new markets, positions us well to further grow our international footprint. In February GLS Serbia successfully launched its operations and over the coming months will focus on acquiring domestic customers as we continue to build our network and infrastructure across the country.

Strongly positioning in 2C market and securing position in 2B segment

GLS has a strong product portfolio that serves both the 2B and 2C segment. We will continue to develop products and services in both segments to maintain our diverse portfolio and meet the needs of our customers.

We are moving forward with our strategy to provide closer pick-up and delivery points for our customers for a better experience. For example, GLS Spain signed an agreement with 2 large retailers to open parcel shops inside their stores (a 'shop in shop' concept) to complement its existing parcel shop network of over 5,000 (including agencies).

GLS Italy strengthened its partnership with a parcelshop network provider giving GLS access to more than 5,500 shops in Italy. This partnership will help us to expand our services and provide customers with the high quality service they expect from GLS.

As detailed elsewhere, we will invest more to grow our parcel locker network. We already have a strong footprint in Eastern Europe with a leading position in Hungary and Slovenia where we have been successfully rolling out parcel lockers over the past 12 months.

With the fast-changing market, we need to continue to develop and strengthen our portfolio to capture growth. Our strategy differs per country and is based on local needs to maximise success.

Inspiring the market through innovative digital and sustainable customer-focused solutions

Innovation drives positive customer experiences and is essential if we are to enhance our competitive advantage, win in our growth markets and achieve our strategic ambitions. We are continuing to strengthen our connection with our customers through expansion of our digital offering.

Our transformation to become a more digital business is moving forward. For example, GLS Italy and GLS Germany both released a new app which allows customers to more conveniently track parcel status and position, estimate the arrival time of both domestic and international deliveries and select their preferred at home delivery point.

In response to customer demand for more sustainable solutions we are intensifying our efforts to make all aspects of our business more sustainable, to support our ambition to reduce our emissions to zero by 2045.

As part of our sustainability reduction initiatives we implemented a rail solution in Germany for line haul transport between Nuremberg and Hannover and our goal is to expand further across Germany.

The future

We will leverage our business model and logistics know how to continue our long-term growth trajectory. We will push further to become more global digital and diverse, and to achieve this will continue to expand our network our sustainable delivery model and further digitalise and diversify the GLS portfolio.

Measuring Our Performance

The KPIs¹ we use to assess the Group's performance are set out below. They demonstrate the deliverability of each business' strategy and, in particular, our progress against our efficiency and profitable growth objectives.

Group revenue²

£12,044m



Relevance

Demonstrates revenue growth across Royal Mail and GLS.

How we calculate

Total reported Group revenue.

Performance in 2022-23

- Group revenue was £12,044 million, representing a decline of 5.3% year-on-year and 4.7% compared with 2020-21.
- The macroeconomic backdrop had a negative impact on volumes year-on-year. COVID restrictions benefitted both Royal Mail and GLS revenue in the prior year. Royal Mail revenue was also impacted by 18 days of industrial action.
- Royal Mail revenue fell by 13.0% year-on-year with a decline in both parcel and letter revenue, the latter reverting to its structural trend of decline having grown in the prior year.
- GLS revenue grew 10.2% year-on-year in Sterling terms, driven by better pricing and good customer retention. This was despite a decline in parcel volume. Revenue growth was achieved in almost all markets.

Link to strategy



Group adjusted operating loss¹

£(71)m



Relevance

Our primary measure of business performance.

How we calculate

Reported operating profit excluding pension charge to cash difference adjustment and operating specific items (see page 241).

Performance in 2022-23

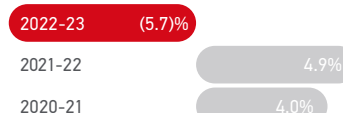
- Group adjusted operating loss was £71 million compared to a profit of £758 million in the prior year.
- Royal Mail recorded an adjusted operating loss of £419 million, primarily due to the impact of industrial action.
- GLS adjusted operating profit was broadly flat in Euro terms, and grew by 1.8% in Sterling terms, with revenue growth offset by inflationary cost increases.

Link to strategy



Royal Mail adjusted operating loss margin¹

(5.7)%



Relevance

Demonstrates efficiency and our focus on driving profitable growth.

How we calculate

Adjusted operating profit as a proportion of revenue in percentage terms.

Performance in 2022-23

- Royal Mail adjusted operating loss margin was 5.7%, compared to a profit margin of 4.9% in the prior year.
- This was driven by the impact of industrial action, an inability to deliver planned productivity improvements on time, lower test kit volumes and the macro-economic environment.
- These were partly offset by successful management actions to reduce costs and rightsize the business in the second half of the year.

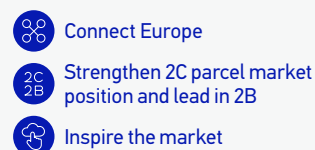
Link to strategy



Royal Mail



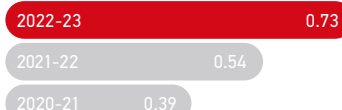
GLS



GLS.

Lost time accident frequency rate (LTAFR) per 100,000 hours worked³

0.73



Relevance

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

How we calculate

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

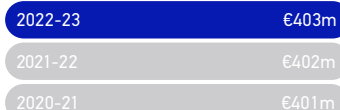
Performance in 2022-23

- Royal Mail LTAFR increased by 36% to 0.73.
- Our total accident frequency rate (TAFR) also increased by 13% from 2.26 to 2.56.
- This was driven by an increase in falls outdoors when working off-site and an increase in dog attacks.
- Slips & trips increased by 24% which are more likely to lead to absence than dog attacks (our other highest impacting accident type).

Link to strategy

GLS adjusted operating profit in Euros¹

€403m



Relevance

Demonstrates efficiency and profitable growth.

How we calculate

Adjusted operating profit before specific items, in Euros.

Performance in 2022-23

- GLS adjusted operating profit was slightly ahead of revised guidance given in January 2023 of €380 to €400 million.
- In Euro terms, adjusted operating profit was broadly flat year-on-year, with cost inflation largely offset by price, service quality and targeted efficiency measures.

Link to strategy

GLS free cash flow^{4,5}

€230m



Relevance

GLS' strategy targets around €1 billion accumulated free cash flow generation over the six years 2020-21 to 2025-26.

How we calculate

Pre-IFRS 16 in-year trading cash flow plus disposal proceeds, in Euros.⁶

Performance in 2022-23

- GLS free cash flow of €230 million remained robust.
- The €1 billion target is now six years to 2025-26, previously five years 2020-21 to 2024-25, due to the weaker macroeconomic backdrop.

Link to strategy



1. The KPIs used to measure performance include alternative performance measures (APMs). The APMs including a reconciliation to reported results are explained on page 59 and pages 238 to 242.
 2. Reported result prepared in accordance with IFRS.
 3. Refers to direct employees only.
 4. GLS free cash flow is calculated as pre-IFRS 16 in-year trading cash flow plus disposal proceeds, and is explained and reconciled to reported results on page 241.
 5. Five-year target set in 2020-21.
 6. This measure is considered as the Group's banking covenants are calculated on a pre-IFRS 16 basis.

Our Stakeholders

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

Colleagues	Customers	Shareholders	Unions
Our workforce who underpin the delivery of our strategy.	People who rely on and buy the services we provide.	Shareholders, including our employees, who provide capital to run our business.	Organisations that represent the interests of our workforce.
Their key issues Health, safety and wellbeing. Fair, diverse and inclusive working environment. Attractive pay and conditions. Development opportunities.	High-quality, value-for-money, reliable, convenient and sustainable service.	Long-term sustainable value. Strategy and execution. Strong ESG performance.	Protection of workers' interests. Pay and conditions.
How we engage across the Group Two-way and peer-to-peer dialogue through a number of channels, including the Workplace platform. Share information through internal communication channels including Courier magazine, Royal Mail TV and Workplace. Listen and act on employee feedback through the annual Big Trust survey, regular pulse surveys, Employee Voice Forums and People Panels. Face-to-face programmes to enhance colleagues' understanding of our strategy.	Direct customer engagement. Regular customer surveys. Net promoter score monitoring. Trustpilot reviews. Complaint management and resolution.	Active investor relations (IR) programme, including investor meetings, multi-day roadshows and participation in industry conferences. Quarterly results announcements.	Regular meetings with union representatives. Elected union representatives work with Royal Mail management. Engagement with GLS' local works councils.
How we engage at Board level Designated Non-Executive Director workforce engagement programme and regular Board updates about the programme (see pages 84 and 80). Regular ESG Committee Board updates. Attendance at Employee Voice Forums. Review of employee feedback and Board discussion in relation to actions to address any issues arising. Site visits.	Regular Board updates on quality of service. Regular Board updates on the impact of industrial action within the Royal Mail business.	Chair and Executive Directors participate in shareholder meetings to understand shareholders' views on governance and strategy execution. Attend Annual General Meeting (AGM). Remuneration Committee Chair engages with shareholders on remuneration matters as required, including consulting with shareholders on proposals for the 2023 Directors' Remuneration Policy to be approved by shareholders at the AGM in July 2023. See page 103. Regular Board updates on our IR programme and the investor landscape from the Director of IR. Our corporate brokers also provide updates.	Royal Mail senior management meet regularly with senior union leaders and updates the Board on that engagement. Participation in negotiations with the CWU in relation to industrial dispute.
Outcomes (see pages 24 and 25) Trust scores. See pages 17 and 32.	New and enhanced products and services that meet customers' needs. See pages 16 to 19. Actions to address quality issues. See page 16. Actions to mitigate the impact of industrial action in Royal Mail, including detailed contingency plans for recovery periods and support from non-operational managers on strike days.	Renaming Royal Mail plc to International Distributions Services plc. See page 24.	Embedded new operational management structure in Royal Mail. See page 16. The CWU's Postal Executive Committee ratified and recommended approval of the Business Recovery, Transformation and Growth Agreement. See page 16.
Principal risks (see pages 50 to 55) 1 6 11 12	1 4 7 8 11 12	1 2 3 4 5 6 7 8 9 10 11 12	1 2 6 7 11 12

1. Cebr research conducted for Royal Mail in 2022, comprising direct and indirect contributions.



Regulator Ofcom, the body that oversees our provision of the Universal Service.	Governments Administrations that levy taxes and determine legislation that affects our business.	Suppliers Our commercial partners who support our business.	Local communities The people who our activities may impact.
Their key issues Effective delivery of our Universal Service Provider obligations. Delivery of annual Quality of Service targets.	Effective delivery of our Universal Service Provider obligations. Provision of employment. Tax income. Transitioning to a low-carbon future.	Fair commercial terms. On-time payment. Long-term relationships.	Positive social and economic impact. Sustainable business operations.
How we engage across the Group Royal Mail executive team meets regularly with Ofcom. Dedicated regulation team engages with Ofcom and participates in regular meetings.	Royal Mail executive team meets with Government ministers, key politicians and civil servants, including the Postal Affairs Minister. Public affairs engagement programme. Regular updates and briefings.	Regular commercial dialogue.	Execute UK community strategy. GLS supports numerous regional and national charitable initiatives. See pages 34 and 35.
How we engage at Board level Chair and Group CFO engage regularly with Ofcom and subsequently provide updates to the Board. Dedicated Ofcom regulation team also provides regular Board updates on regulatory activity, particularly in relation to USO reform.	Regular Board updates on matters of relevance including updates on relevant legislation. As appropriate, members of Public Affairs team attend Board meetings and participate in discussions. ESG Committee receives updates on ESG-related consultations and policies. Chair engages with ministers on key business issues. Chair and Royal Mail CEO participated in Select Committee hearings.	Contracts considered critical in terms of risk profile approved by Board prior to award. Audit and Risk Committee considers reports on payment practices for relevant businesses. ESG Committee discussion on Royal Mail and GLS' engagement with their respective supply chains on ESG issues (see page 102).	Site visits. ESG Committee discussion on society, vulnerable customers and community engagement, and received updates on Royal Mail's national charity partner programme (see page 102).
Outcomes We continue to work with Ofcom to demonstrate the need for them to take action on USO reform. Annual regulatory Quality of Service targets.	£11.8 billion of gross value added by Royal Mail (direct and indirect contribution) ¹ .	73,000 jobs indirectly supported by Royal Mail in the wider economy ¹ . Promote responsible business practices through supply chain compliance. See page 37. Publish information on payment practices in line with the Duty to Report on Payment Practices and Performance.	1 in every 175 jobs in the UK economy as a whole is provided by Royal Mail ¹ . Community investment. See pages 34 and 35.
Principal risks (see pages 50 to 55)			
1 2 7 9 10 12	1 3 4 7 8 10 12	1 3 4 5 10 12	1 7 10 11 12

Section 172 Statement

Our stakeholders are integral to the Group'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 Group'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 Group.

In relation to the decisions taken during the year ended 26 March 2023, and up until 21 May 2023, the Directors of International Distributions Services plc consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172 of the Companies Act 2006.

Examples of principal decisions made by the Board during the year, and the stakeholder issues and section 172 matters considered as part of the decision-making process, are set out on this page and on the following page. We define 'principal decisions' as decisions which are material or strategic to the Group, and/or significant to any of our stakeholders. In each case, given the materiality and importance of these matters, the relevant management team made recommendations to the Board and, where relevant, its Committees for consideration.



Universal Service Obligation

In November 2022 the 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 Group 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 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.



Name change to International Distributions Services plc

In July 2022 it was announced that the holding company of the Group, Royal Mail plc, would be renamed International Distributions Services plc (IDS). In approving this decision the Board considered the following matters:

- **The long-term interests of the Group and all its stakeholders:** The Group's positioning needed to be updated to reflect recent developments and the organisation's operational structure, which includes two separate sub-groups – Royal Mail and GLS. The renaming also reflected the increased importance of GLS, which over the last three years has contributed more than two thirds of the Group reported operating profit.
- **Customers and suppliers:** The potential impact on commercial relationships was considered. However, as no changes were being made to the Royal Mail and GLS brands or each business' respective positioning in its marketplace, it was determined that the change would not adversely affect either customers or suppliers.
- **Shareholders:** The name change demonstrated the Board's commitment that there should be no cross-subsidy within the Group. It also served to allay any shareholder concerns that GLS would be used to support Royal Mail and, as a result, necessary transformation in Royal Mail would be avoided or delayed.



Likely consequences of any decision in the long term.



The interests of employees.



The need to foster business relationships with suppliers, customers and others.



The impact of operations on the community and the environment.



The desirability of maintaining a reputation for high standards of business conduct.



The need to act fairly as between members.



Industrial relations

In September 2022, following five months of talks, including two dispute resolution procedures, no agreement had been reached with the CWU to resolve ongoing damaging industrial action. In light of these circumstances, the 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 Group 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.
- **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's transformation 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.



Acquisition of Tousfacteurs SAS

In June 2022, GLS acquired Tousfacteurs SAS (Tousfacteurs), a tech logistics company and provider of live-tracking software solutions which allow customers to interact with senders through targeted advertising and green bike delivery. The Board considered and approved the acquisition and in coming to this decision considered the following matters:

- **The long-term interests of the Group and all its stakeholders:** Through the acquisition GLS would secure access to Tousfacteurs' software delivery solutions. This new capability supports GLS' strategy and the creation of long-term value, including positioning GLS as a premium player in the B2C segment. The transaction also created an opportunity for GLS to secure strategic advantage by leveraging Tousfacteurs' logistics expertise to drive further digital innovation.
- **Customers:** The development of innovative services would enable GLS to better respond to changing customer needs with new digital services and the expansion of Tousfacteurs' green bike delivery operations (see below). The acquisition would also enable GLS to further optimise the last-mile customer experience and strengthen its sustainable delivery services.
- **The impact of operations on the community and environment:** Tousfacteurs' last-mile bike delivery operations already cover Paris, Lyon and Toulouse. By leveraging its community of independent bike riders, Tousfacteurs has the ability to build a scalable green bike delivery service across more locations in France.

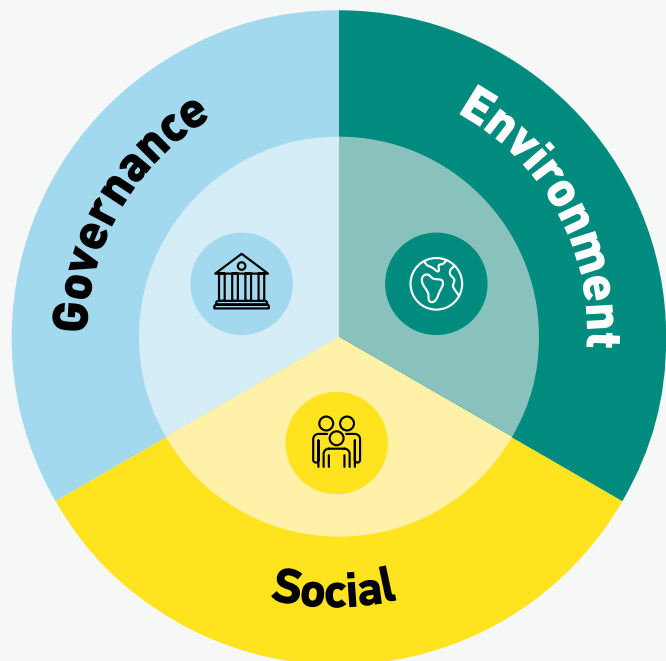
ESG Review

We seek 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 and GLS undertake regular materiality assessments to ensure that their respective ESG programmes continue to take account of the areas stakeholders consider most important. Information about Royal Mail and GLS' most recent materiality assessments and further detail about each business' ESG programme, are included in their respective ESG Reports, which are available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance and www.gls-group.eu/GROUP/en/our-responsibility.



Our ESG Principles

Our ESG Principles underpin Royal Mail and GLS' strategies, which aim to create stakeholder value and achieve sustainable growth. They focus 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.

Sustainable Development Goals



See pages 27 to 29



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.

Sustainable Development Goals



See pages 30 to 35



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.

Sustainable Development Goals



See pages 36 and 37



Environment

Supporting the transition to a low-carbon future

Royal Mail and GLS' environmental strategies include 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 our business

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

Royal Mail is the UK's greenest delivery option for letters and parcels¹. 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 UK (which excludes Parcelforce Worldwide) also aims to reach an average of 50g CO₂e per parcel delivered, a c.75% reduction compared with 2020-21. Largely as a result of its final-mile foot delivery model, Royal Mail UK's average reported CO₂e per parcel through its domestic network is currently 218g CO₂e. In comparison, the reported emissions of its industry competitors are between c.300g and 500g CO₂e 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.
- 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

Royal Mail

Net zero by 2040 across Scopes 1, 2 and 3 at UK operations, aligned to 1.5°C, the latest climate science¹ 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.

GLS

Zero GHG emissions from Scopes 1, 2 and 3² by 2045 for worldwide operations.

Offsetting	European emissions since 2022 ³
Renewable electricity	80% by 2022 (European locations operated by GLS)
Fleet	50% zero/low emission by 2030 100% of new vehicles will be low or zero emission by 2035 100% by 2045
Company cars	100% zero emission by 2030

1. 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).
2. Pathways will be developed to deliver this reduction, including the setting of interim targets. GLS Scope 3 emissions currently include the categories parcel transport (Well-to-Wheel), water, waste, paper, business travel, Well-to-Tank (WTT) emissions for Scopes 1 and 2, WTT emission from fuel consumption of company cars and shutters, franchises and subcontracted depots, capital goods and employee commuting which have been added in 2022.
3. Offsetting of all European Scope 1, 2 and 3 emissions, excluding Scope 3 emissions from capital goods and employee commuting. GLS Serbia's operations commenced in February 2022-23 and are not included in the compensation for 2022-23.

1. Based on reported CO₂e per parcel.



Environment

GLS

As part of Climate Protect, the ambition of GLS' environmental strategy is to reduce GLS' worldwide Scope 1, 2 and 3 emissions to zero by 2045. During the year the business' environmental strategy has been expanded to include its North American operations.

To achieve its ambition to reduce worldwide Scope 1, 2 and 3 emissions to zero by 2045 GLS will:

- Work with its transport partners to transform its parcel and freight delivery fleet towards zero- and low- emissions.
- Implement distribution network and last mile efficiency, including extending its parcel shop and locker network.
- Reduce and avoid emissions by ensuring new buildings conform with zero- and low-emission operations.
- Improve the energy efficiency of its existing buildings by introducing own-green electricity production and renewable heating systems.

While emission reduction and avoidance are a key focus, compensation is an important short-term measure to tackle climate change. Accordingly GLS compensates the emissions of all sold parcels and shipments of its GLS European subsidiaries, as well as the emissions from these subsidiaries' sites and business travel. Emissions relating to capital goods and employee commuting are not compensated.

Our environmental performance

In 2022-23, Royal Mail's total carbon footprint and energy use decreased by 7% and 11% respectively, compared to our base-year (2020-21). This was due to a decrease in vehicle fuels, electricity and gas usage across our operations, half of which was a result of electrification and energy management initiatives across our buildings. The remaining reduction was due to declines in workload, specifically parcel volumes. As a result, our key intensity metrics (carbon emissions per million revenue and per parcel)

remained broadly consistent with the prior year, despite strong emission savings overall.

In 2022-23 GLS' total carbon footprint was 1,255.445 tCO₂e. Direct comparisons to the prior year would be misleading because GLS reported its full scope 3 emissions for the first time in 2022-23, including emissions related to its transport partners' parcel and freight distribution, which represented 85% of GLS total carbon footprint. Year-on-year Scope 1 and 2 emissions increased due to emissions from Rosenau and emissions from owned-transport vehicles in GLS US and Canada also being reported for the first time in 2022-23.

GLS emissions offsetting

GLS set a target to provide carbon neutral parcel delivery to all European customers. This target was achieved in April 2022 by supporting four climate offsetting projects via Climate Partner, the compensation provider GLS works with. The projects, which are certified according to the highest standards (VCS/CCBS and Gold-Standard), include:

- Forest conservation – Pacajá, Brazil: Helping to prevent illegal logging across 148,000 hectares of the Amazon rainforest.
- Forest conservation – Madre de Dios, Peru: Working with the local population to help manage the land sustainably and protect a 100,000-hectare area in an endangered Amazon region.
- Solar energy – Guttigoli, India: Commissioning a 100 MW solar power plant to improve the green energy supply and support schools in the surrounding communities.
- Wind energy – Maliya, India: Constructing and operating a 40 MW wind farm to generate clean electricity through wind power and the development of the community through job creation.

Carbon emissions performance CO₂e ('000 tonnes)¹

	FY2022-23			FY2021-22		
	Total	Royal Mail	GLS ²	Total	Royal Mail ³	GLS ³
Scope 1 ⁴	501.0	407.6	93.4	504.9	483.7	21.2
Scope 2 (location-based) ⁴	74.0	52.5	21.5	80.9	58.6	22.3
Scope 3	1,822.4	681.9	1,140.5	742.6	742.6	–
Total	2,397.4	1,142.0	1,255.4	1,328.4	1,284.9	43.5
Tonnes CO ₂ e per £1m revenue ⁵	47.7	62.1	24.7	46.1	63.7	10.3
Scope 2 (market-based)	6.2	0.7	5.5	6.1	1.3	4.8
Energy consumption kWh ('000) ⁴	2,607,957	2,104,861	503,096	2,622,616	2,434,395	188,221

1. We report our carbon emissions to the GHG Protocol Corporate Standard, which classifies a company's emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Royal Mail, including the combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity, heat, steam and cooling for own use. Scope 3 emissions are all other indirect emissions that occur in a company's value chain and are voluntary to report. Royal Mail reports all its Scope 3 emissions including purchased goods and services, capital goods, fuel and energy related activities, upstream and downstream transportation and distribution, employee commute, business travel, waste disposal, end-of-life treatment of sold products and investments. GLS reports emissions related to its owned transport fleet (most of North America) within Scope 1 and emissions related to its subcontracted transport fleet (Europe and part of North America) within Scope 3.
2. GLS emission data reflects the calendar year rather than the financial year. Since 2021-22 GLS' reporting scope has changed. 2022-23 data includes Scope 1 and Scope 2 emissions from Rosenau and transport emissions from own vehicles of GLS US and GLS Canada and a full Scope 3 inventory for the first time. 'Like for like' Scope 1-2 emissions have decreased by 8.3% in the year. Around 85% of GLS' Scope 3 emissions come from parcel transport by transport partners. Hence, emissions reduction in the supply chain mainly take place via the transformation of our fleet, which we do by incentivising our transport partners. Transport emissions are calculated yearly using the EN 16258 standard.
3. 2021-22 data for Royal Mail has been restated following the provision of data which was previously estimated. GLS Scope 1 and Scope 2 emissions have also been restated following the provision of data which was previously estimated. Royal Mail has also increased its scope 3 emissions reporting to cover 100% of GHG emissions across all value chain categories. This has increased scope 3 emissions reported by 626KtCO₂e from 76.1KtCO₂e to 702.0KtCO₂e. This increase is not reflective of operational changes and is entirely down to increase reporting scope. 'Like-for-like' our total emissions decreased 2%, comparisons throughout this report detail the 'like for like' change only. Royal Mail conducts an annual review of supply chain emission categories based on a screening approach using industry-level emission factors. This will be matured over time to a specific-supplier approach, alongside integrating carbon within our contracts management processes for the high-spend and/or high-emitting sectors.
4. The energy data for Royal Mail is all UK energy declared under the Streamlined Energy Consumption Regulations (SECR). All energy reported for GLS is considered offshore. In accordance with SECR, details of energy actions taken are listed throughout this Environment section and relate directly to findings within our Phase 2 Energy Savings Opportunity Scheme report.
5. The tonnes CO₂e per £1m revenue ratio comprises Scope 1 and Scope 2 (location-based) emissions only. This ratio provides an overview of our carbon efficiency as we continue to grow.

These initiatives are accounted for within the income statement and are booked as 'other marginal costs'. No grants are received in relation to any of the climate offsetting projects.

As outlined in our 2021-22 Annual Report, energy efficiency is aligned with our ambition to decarbonise, focusing on optimisation and the deployment of more efficient technology. Initiatives to reduce energy are detailed on the following page.

Buildings

Energy used at buildings accounted for 9% of Royal Mail's total emission profile in the year. While electrification of Royal Mail's fleet and parcel growth plans are increasing energy needs, during the year the business achieved significant energy savings of over 16GWh due to the ongoing implementation of efficiency improvements, including maintenance and tuning of heating, ventilation, air conditioning and heating controls across 230 of the business' largest sites. These control improvements, together with new policies for winter heating timings and temperature, have reduced natural gas consumption by 13% and electricity use by around 4%. These savings will roll forward into future years as part of an energy performance contract to save 180GWh over five years. Solar arrays have been installed at nine of the business' sites and a further 230 sites have been surveyed for their solar viability. The survey concluded that 90 buildings have good potential and could supply up to 20% of Royal Mail's current electricity use.

A new 100% renewable electricity tariff, backed by Renewable Energy Guarantees of Origin certificates and entered into in April 2022, has also helped reduce Royal Mail's market-based emissions by over 90% over two years (around 9,000 tCO₂e saved). In 2022-23, 99% of our electricity purchased and generated was based on this renewable tariff and we anticipate reaching our 100% target in 2023-24.

GLS' total electricity consumption increased by 6%. This is primarily due to the inclusion of Rosenau's transport operations. Excluding Rosenau, group-wide electricity consumption decreased by 1%. GLS achieved its target of 80% renewable electricity across its European operated sites in 2022.

GLS has rolled out sustainability requirements for all new construction and is trialling and installing new sustainability measures in existing offices, hubs and depots to decrease the environmental impact of its buildings. To future-proof its depot buildings, GLS is increasingly using regenerative heating systems and solar panels to reduce carbon emissions from purchased heating or electricity. LED lighting is being installed to reduce overall electricity consumption together with charging infrastructure and energy management solutions. The new GLS buildings in Alicante and Madrid in Spain will be BREEAM certified and are being constructed in accordance with the latest sustainability benchmarks and charging infrastructure for electric vehicles.

Transport

Royal Mail is the largest commercial fleet operator in the UK, which alongside air and rail emissions accounts for around 70% the total emissions profile. Around 21% of our delivery routes are zero-emission, undertaken by a dedicated or shared electric van or by walking. Our electric van programme now has over 4,900 electric vans in operation at over 154 delivery and collection units. A financial review of 20% of these locations showed that, on average, vehicle maintenance costs had fallen 60% and fuel costs 78%. Factoring in the additional investment required for an electric van and associated charging infrastructure, our electrification scheme is anticipated to break even at around four years, making savings over the vehicle lifecycle of nine years.

Rail accounts for 4% of Royal Mail's domestic mail volume. At the same time, the business remains committed to reducing its use of domestic flights, which account for a further 5% of its domestic distribution network. The new Daventry-based Midlands Super Hub, opening in June 2023, has its own rail terminal, which will enable increasing volumes of mail to be transported by rail.

With around 85% of GLS' emissions coming from parcel, freight and transport services, the reduction of vehicle emissions is a key factor to achieving the business' decarbonisation goals. Measures include fleet conversion, reducing first- and last-mile emissions and converting depots to accommodate low- and zero-emission fleet. In total, more than 2,200 charging points are already available.

GLS is continuing to expand its low- and zero-emission fleet. Trials to add more e-vans, light vehicles and alternative-fuel vehicles to the delivery network are continuing. The initiatives to bring more environmentally friendly vehicles into the fleet have been successful and, in total, more than 3,300 vehicles are already operational. This represents an increase of more than 1,000 zero- and low-emission vehicles since 2022.

GLS is also implementing a range of initiatives to reduce final-mile emissions aligned to local requirements. GLS Slovenia has installed over 60 parcel lockers with photovoltaic cells on the roof. The parcel lockers reduce driven kilometres and transport emissions per delivery van, and at the same time generate green electricity with an installed capacity of 700 W per parcel locker. At GLS Germany, parcel shipping by train is being tested in a pilot project which has delivered an emission reduction of up to 80% compared with conventional road transport.

Responsible consumption

In 2022-23 Royal Mail generated 35,703 tonnes of waste (2021-22: 39,807 tonnes). This represents a total reduction of 11% against the base year (2020-21), and a positive step towards the business achieving its target of 25% reduction in waste volumes by 2030. In addition, Royal Mail has recycled, re-used or diverted 99% of its waste, which is an improvement on 97% in the prior year.

During the year, Royal Mail's circular plan was developed in three key areas: operational product waste (pallets, mailbags and parcel trolley sleeves); the design of new customer products to improve re-use, recycled content and recyclability; and building a circular service offering that allows customers to establish re-use loops such as rental, return to refurb, and second hand.

Further information about Royal Mail's waste and water consumption is included in the Royal Mail ESG Report, which is available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.



Social

Delivering economic and social benefits

Our 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.

Royal Mail

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.internationaldistributionsservices.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.

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.

GLS

GLS' Occupational Health and Safety (OHS) Policy is implemented through an extensive OHS Programme that is focused on ensuring the health and safety of its employees, its transport partners and their drivers. The OHS programme covers management training, regular staff briefings that raise awareness of particular workplace hazards and specially developed transport and driver training courses that focus on road traffic risks.

The business also operates a number of country-specific preventative health programmes that are intended to prevent work-related health hazards and ensure early detection of occupational illnesses. The activities include back therapy training, nutritional advice and testing of exoskeletons to reduce the strain of lifting and carrying.

Health and safety performance

Royal Mail and GLS strive to continuously improve their health and safety performance, and monitor and report key safety metrics regularly to the Board and the ESG Committee.

Each business' safety performance is set out in the table below. In 2022-23, Royal Mail's Lost Time Accident Frequency Rate (LTAFR) increased by 35% to 0.73 (2021-22: 0.54). Total accident frequency rate also increased by 13% to 2.56 (2021-22: 2.26). GLS' employee LTAFR for the same period decreased to 2.08 (2021-22: 2.28).

Group health and safety performance

		2022-23		2021-22		2020-21	
		Royal Mail	GLS	Royal Mail	GLS	Royal Mail	GLS
Fatalities ¹	Employees	0	0	1	1	2	0
	Third parties ²	6	17	2	18	5	24
LTAFR							
(per 100,000 hours worked) ³		0.73	2.08	0.54	2.28	0.39	2.44
Sickness absence (%) ³		7.50	4.96	7.98	4.88	8.48	4.79

1. The total number of fatalities due to accidents that have occurred as a result of Royal Mail or GLS undertakings.

2. Third parties include contractors, third-party drivers and members of the public.

3. Refers to direct employees only.

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 GLS during 2022-23, the total number of fatal accidents fell from 19 to 17 compared with the previous year. During the year no GLS employee had a fatal accident. The total number of fatalities related to activities of GLS transport partner companies. 16 of these fatalities were road traffic accidents while one fatal accident occurred on GLS premises. This accident was thoroughly investigated and the findings have been shared with all GLS country organisations.

Drivers directly employed by GLS receive road safety training as part of their standard training programme. To also reach drivers employed by GLS transport partners, GLS has developed specific initiatives within its OHS Programme, including providing training material for transport partners and their drivers in line with local legal requirements. Furthermore, GLS encourages and supports transport partner companies to make practical road safety training available to their drivers.

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

In GLS, the sickness absence level increased to 4.96%, mostly due to an alignment of the calculation method in one country.



Social

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 (see page 6) 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, Royal Mail's annual Big Trust Survey was not yet open. The results of the survey will be published on the Group website when available.

During the year employee satisfaction surveys were conducted across a number of GLS' businesses including GLS Austria, GLS Denmark, GLS Spain, GLS Hungary and GLS Croatia. Surveys undertaken at each of GLS' US local sites returned an overall 85% satisfaction rating. GLS Netherlands introduced exit employee surveys for all leavers during the last 18 months. GLS Germany won Kununu's 'Top Company to work at' award based on employees' satisfaction surveys and GLS Austria and GLS Poland were each named as a 'Great Place to Work' based on employee surveys.

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 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.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.

GLS also provides a range of targeted training and professional development programmes to enhance employees' abilities and enable them to reach their full potential. The business' 'Better Manager' coaching programme aims to support the development of managers and help them become modern leaders. Through the programme, each participant has access to six individual one-on-one coaching sessions as well as team leadership and target achievement discussions. The programme currently operates across five of GLS subsidiaries – Poland, Germany, Austria, France and Italy – and will be rolled out more widely in the coming year.

Each of GLS' subsidiaries implement bespoke training programmes for their employees. GLS US' digital training includes over 700 learning modules, while GLS Denmark's digital Academy provides e-learning options and access to bespoke external courses. GLS Austria gives employees the opportunity to get to know different GLS locations and departments through a special rotation programme and it runs a new employee mentoring scheme which ensures that all new recruits have access to advice and support from day one of their GLS career.

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 put it to a members' ballot with a recommendation to approve. Details of the agreement are included on page 16.

Diversity, equity and inclusion (DEI)

We strive to create an inclusive, fair, respectful and accessible working environment across the Group. To achieve this, Royal Mail and GLS have developed DEI strategies relevant to their respective markets and businesses. Information about both strategies is detailed below.

Royal Mail

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 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.

Group gender diversity profile as at 26 March 2023

	Male	Female	Total
Board ¹	6	3	9
Senior leaders ²	272	65	337
Other employees ³	118,861	33,389	152,250

1. Board data is stated as at 19 May 2023 (the latest practicable date before publication of the Annual Report) and does not include Simon Thompson, who resigned from the Board on 12 May 2023. As at 26 March 2023 there were 10 Board members, 7 of whom were male and 3 of whom were female.

2. Per the Companies Act 2006 definition (those employees who are responsible for planning, directing or controlling the activities of the Company or a strategically significant part of it). In Royal Mail this includes employees graded levels 1 to 6 and in GLS this includes employees graded level A. It also includes directors of subsidiary undertakings included in the consolidation but does not include Board members who would otherwise classify as senior leaders. One subsidiary director has no declared gender within the Royal Mail reporting system.

3. In the case of Royal Mail, Pension Trustees, Intersoft and eCourier, in total 220 people, are not included in the table. This is because the Pension Trustees are not classed as employees and we do not collect gender data for Intersoft and eCourier.



Social

GLS

More than 100 different nationalities are represented across GLS' business. Diversity and inclusion are key principles that underpin its operations. GLS' Diversity Statement sets out its commitment to fully support a diverse and inclusive working environment.

GLS promotes gender equality and works to ensure an inclusive and welcoming working environment with equal treatment and development opportunities for all employees. In the logistics sector, female representation generally tends to be lower than in other sectors and GLS' DEI strategy is aimed at improving gender diversity across all levels of the business. The business has recently launched recruiting activities to encourage more women to join GLS and strengthened its career development planning processes. In addition, active internal recommendations are used to highlight the pool of GLS female talent to both the business' HR function and GLS management.

GLS predominantly operates in the EU and therefore does not collect ethnicity data of employees in line with EU Data Protection Law.

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. Information on the Royal Mail 2022 Gender Pay Gap Report is included on page 120 and the full report is available at 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.
- **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.

Our social and economic impacts on UK communities

7th

largest contribution of any UK company to the UK economy¹

1 in 175

people employed in the UK by Royal Mail¹

£11.8bn

of gross value added by Royal Mail (direct and indirect contributions)¹

£3.2bn

contributed through procurement of goods and services¹

73,000

jobs indirectly supported by Royal Mail in the wider economy¹

£3.3m

contributed to good causes and charitable schemes

1. Cebr research, conducted by Royal Mail in May 2022, comprising direct and indirect contributions.

GLS community support

GLS is committed to giving back to the communities it operates within. The business supports numerous charitable projects by organising both regional and nationwide initiatives. For example, to support a 'healthy growth' programme, GLS Poland offered free delivery of parcels containing materials to set up home gardens to schools and other educational institutions around the country. GLS Canada is the official transport partner of the CURE foundation, which raises funds for breast cancer research and education and supports its fundraising activities. GLS Spain offers its Transporte Solidario to associations, NGOs and non-profit entities by making donations of transport as well as offering discounted fees to these organisations.

In addition, the business makes financial contributions to support numerous local charitable projects including kindergartens and hospitals. It also contributes to national and global fundraising campaigns, including during the year the Red Cross Ukraine Emergency Appeal and activities to support the people affected by the earthquake in Turkey and Syria.

GLS' employees regularly participate in a wide range of community activities. For example, GLS Denmark participated in the CoolUnite campaign, which collects money for vulnerable and sick children. The campaign is designed as a competition between several companies with the aim of raising as much money as possible.

Sponsorship provides another opportunity for GLS to actively be part of the communities it operates within. At a nationwide level, GLS Germany is the main sponsor of DLV (the German Track and Field Association) and supports various athletes with individual sponsoring. GLS Belgium sponsors the national football team the 'Red Devils' and GLS Spain sponsors women's sport including FC Barcelona's women's team.

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 (see page 16 and 17).

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. GLS provides online supply chain compliance training, which also covers modern slavery. This training is mandatory for all personnel with purchasing authority or depot supervisory function. In addition, modern slavery issues are highlighted during face-to-face training with relevant GLS 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.internationaldistributionservices.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.

We implement policies and frameworks and business specific strategies, policies and processes that are tailored to the needs of our Royal Mail and GLS businesses and their respective stakeholders. Information about key policies, including the Group's ESG Policy Statement, is set out below and their implementation is described throughout this ESG Review. The Group's ESG Policy Statement is available at www.internationaldistributionsservices.com/en/sustainability/governance/policies.

The ESG Committee provides Board-level oversight of the implementation of our ESG Principles (see page 26) across the Group. Information about the ESG Committee's activities during 2022-23 is included on pages 101 and 102.

The Royal Mail and GLS Executive Boards, supported by dedicated ESG functions, are responsible for ensuring effective execution of their respective ESG strategies and alignment of targets, policies and procedures with the Group's ESG Principles and ESG Policy Statement.

We assess the risks and opportunities arising from social and environmental issues relevant to the Group at least once a year and use our risk management framework to determine their criticality. Information about our approach to risk management is included on pages 46 to 49, and our management of climate-related risks and opportunities is outlined in our TCFD Statement on pages 38 to 45. As part of the Group's remuneration arrangements, relevant ESG performance metrics are reviewed and incorporated into the Group's incentive plans. Further information is available on page 106.

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 on the next page. Copies of the policies are available at www.internationaldistributionsservices.com/en/sustainability/governance/policies and www.gls-group.eu/ROUP/en/about-us/compliance.

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.

The Group is independently rated as a leading responsible business by numerous international benchmarks for sustainability, including:

Member of

Dow Jones Sustainability Indices

Powered by the S&P Global CSA

Included in both World and Europe Indices for the transportation industry, with a score of 78.



FTSE4Good

Ranked in the 85th percentile of companies. Constituent of both FTSE4Good UK and Europe.



Rated as AA.



Scored B rating, ahead of industry average of C.

GLS employees with computer access are assigned relevant policies and guidance through an online system. Employees without computer access can access print versions of the policies in the depot locations. GLS' compliance training approach consists of online training for all white-collar employees, including employees with purchasing or depot supervisory functions. These comprise modern slavery awareness training and appropriate levels of anti-corruption training.

GLS operates a dedicated Whistleblowing Helpline that is available for reporting and investigating allegations of criminal acts or similar serious offences. GLS encourages employees, business partners and third parties to report, in confidence, any concerns they have.

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 and GLS – Core).
- 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.

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.
GLS Code of Business Standards (the GLS Code)	Outlines the values and behaviours GLS expects from its employees and business partners. It is available in local languages for GLS employees and business partners.
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.
GLS Supplier Code of Conduct	Sets out the standards GLS expects of its suppliers and is also based on the UN Global Compact Principles framework.

TCFD Statement

We recognise climate change as a key global threat, and one that poses particular risks and opportunities for our businesses. Identifying these risks and opportunities enables us to enhance the resilience of the businesses and take advantage of the opportunities it may offer.

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

Statement of compliance

In accordance with Listing Rule 9.8.6R(8), this Annual Report is consistent with seven TCFD recommendations and partially consistent with four of the recommended disclosures. In assessing our consistency we have followed the 'Guidance for all sectors'. The areas where we are not yet fully consistent with the recommendations are shown in the table below, while further details and the remedial actions we are taking to achieve consistency, together with relevant timeframes, are explained in the sections that follow.

	Recommended disclosures	Status	Page
Governance	a) Board's oversight of climate-related risks and opportunities.	Consistent	39 and 40
	b) Management's role in assessing and managing climate-related risks and opportunities.	Consistent	39 and 40
Strategy	a) Climate-related risks and opportunities identified over the short, medium, and long term.	Consistent	40 to 43
	b) Impact of climate-related risks and opportunities on businesses, strategy, and financial planning.	Partially consistent	44
	c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Consistent	44
Risk management	a) Processes for identifying and assessing climate-related risks.	Consistent	45
	b) Processes for managing climate-related risks.	Partially Consistent	45
	c) How processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management.	Partially Consistent	45
Metrics and targets	a) Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process.	Partially Consistent	45
	b) Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.	Consistent	45
	c) Targets used to manage climate-related risks and opportunities and performance against targets.	Consistent	45

Climate-related governance

Board oversight

The Board

Role

The Board has formal oversight of climate-related risks and opportunities (see below for information).

Key focus during 2022-23

The Board, through its Committees, increased its focus on climate-related matters in the year.

- The Audit and Risk Committee (ARC) was updated on the environmental principal risk as part of the half-year and full-year results review, which included climate-related metrics and targets. There was a specific 'spotlight on risk' in September 2022 to provide a deeper focus on environmental risk and key remediation activity.
- The ESG Committee received four updates on the environmental strategies of Royal Mail and GLS, including progress made against their climate-related metrics and targets.
- The ESG Committee oversaw the TCFD implementation project and monitored progress via three updates from the Group's multi-disciplinary TCFD Working Group (see below).
- The ESG Committee received one update on investor feedback on the Group's ESG performance, including climate-related metrics and targets.
- By April 2023, the Group had established a formal governance framework to reflect the TCFD recommendations. This included changes to the ARC Terms of Reference, ESG Committee Terms of Reference, Matters Reserved for the Board, the Group ESG Policy Statement, and the Role of the CEOs.

Relevant experience

The Board received training on ESG-related topics in 2021, and in March 2023, the ESG Committee received a training session from an external specialist on TCFD and upcoming regulatory changes to environmental reporting. Furthermore, one Board member has specific experience with regard to ESG, as reflected within the skills matrix on page 86.

Specific responsibilities are delegated to the Board's Committees

Audit and Risk Committee

The ARC provides oversight of the Group's 'Climate Change and Environment' principal risk and the progress made against goals and targets for addressing climate-related issues. The ARC is supported by the Royal Mail Audit and Risk Committee (Royal Mail ARC) and the GLS Audit and Risk Committee (GLS ARC), while the executive leadership of each business and its respective functions monitor day-to-day management. During the year, the ARC received environmental remediation updates, which included climate-related metrics, risk indicators, remediation activities and targets, from Royal Mail ARC and GLS ARC. Starting in 2023-24, the ARC will receive more detailed climate-related risk updates and use a standard risk-scoring methodology to rank key climate risks and opportunities, consider their probability and potential impact, and their significance and materiality, as part of the formal risk management cycle.

See pages 93 to 100

ESG Committee

Oversees the Group's ESG agenda, and Royal Mail and GLS' progress with regard to environmental strategies, stewardship and performance, including climate-related goals and targets, including steps to tackle climate change and becoming a net zero business. In March 2023 the ESG Committee's Terms of Reference were expanded to include oversight over the suitability of systems and processes to manage climate-related risks and opportunities. The ESG Committee Chair updates the Board on key topics discussed at the ESG Committee.

See pages 101 and 102

Remuneration Committee

Determines how ESG metrics, including environmental and climate-related issues, are considered within the remuneration policy and how they will be taken into consideration in determining the final incentive pay decisions.

See pages 103 to 136

Executive management and their functions oversee day-to-day management

Executive management

Royal Mail Executive Board and GLS Executive Board

Responsible for day-to-day assessment and management of risks and opportunities, and the delivery of each business' environmental strategy. The executive leadership of each business and its respective functions monitor day-to-day management of these risks, which are reported to the respective ARCs each year. In addition, goals, targets and other updates relating to the decarbonisation process being undertaken by each business (see page 27) are reported via dedicated workstream sponsors, respective ESG teams and country managers on a quarterly basis. As of April 2023, the CEOs of each business were made formally responsible for ensuring that climate-related risks and opportunities are subject to effective business controls and risk management processes as part of a twice-yearly cycle.

During the year we established a multi-disciplinary TCFD Working Group to drive the company-wide implementation of TCFD. This group comprises representatives from Company Secretariat, Risk, Finance, Legal and the Royal Mail and GLS ESG teams and has been working with external consultants to progress implementation of the TCFD recommendations. It convened four times in the year and updated the ESG Committee on its progress twice during the year and once post the year end.

Royal Mail ARC and GLS ARC

Responsible for overseeing the identification of environmental and climate-related risks and overseeing progress of remediation plans. In March 2023 the Royal Mail ARC and GLS ARC were made formally responsible for embedding the review all significant climate-related risks. These committees report to the ARC (see risk management process on pages 46 to 49).

TCFD Statement continued

1. Governance

(a) Board's oversight of climate-related risks and opportunities (consistent)

In March 2023, the Board and its Committees were made formally responsible for oversight of climate-related risks and opportunities, which they perform via the governance and risk management framework outlined on the previous page. The Board takes climate-related transitional risks and opportunities into account during strategy development, planning and investment decision making, which has resulted in the design and implementation of our main decarbonisation initiatives that are monitored on an ongoing basis, as well as the launch of more environmentally friendly products and services.

(b) Management's role in assessing and managing climate-related risks and opportunities (consistent)

The Group formalised management's role in assessing and managing climate-related risks and opportunities for 2023-24. As part of this, the management of specific climate-related risks (transitional and physical) was integrated into the Group's risk management framework as a separate category, with dedicated climate-risk profiles being maintained across the Group by relevant members of the Royal Mail and GLS senior management who are responsible for their management.

2. Strategy

(a) Climate-related risks and opportunities identified over the short, medium, and long term (consistent)

The Group is aware of the climate-related transitional risks and opportunities its businesses face over the short, medium, and long term. It performed an analysis in 2021 and a second risk scenario survey and workshop in March 2023. As a result of this updated analysis, we have re-ranked our climate-related physical and transition risks and opportunities, and reassessed their variation across climate scenarios, operational geographies and time horizons. The most material identified risks and opportunities are detailed in the tables on the following page.

Climate transition strategies

We are committed to managing our transition to a low-carbon economy through science-based decarbonisation strategies. Royal Mail and GLS have developed strategies that are tailored to their respective businesses and markets. They have also set relevant and realistic targets. In particular GLS has a different business model to Royal Mail. Its subsidiaries operate in 26 countries and nation states within Europe and North America and over 85% of its emissions are Scope 3 and stem from vehicles operated by transport partners.

Royal Mail and GLS' environmental strategies include pathways, targets and mitigating actions that will help us achieve our ambition to become a low-carbon business, while offering a wide range of green solutions to our customers. We are committed to achieving zero emissions from our operations by 2045 and have continued to progress and further define the respective strategies of our businesses to achieve this. See pages 27 to 29.

Scenario analysis and identification of risks and opportunities

Our 2022 scenario analysis used information and data scenarios from the Network for Greening the Financial System (NGFS) and is based on the latest TCFD guidance. The scenarios selected, which are widely recognised and comparable, apply the latest NGFS economic and climate data, model versions and policy commitments in renewable energy and mitigation technologies, and reflect new country-level commitments to reach zero emissions. The time horizons considered for these scenarios are Short term (< 2030); Medium term (2030-2040); and Long term (> 2040), which were selected as they align to our strategic planning and broader climate-related policies and targets to 2030 and 2040. In our analysis, the perceived materiality of the risks was also discussed and assessed in a qualitative manner by the TCFD Working Group.

Both of the Group's businesses operate in the same sectors, so no sector variations have been applied in our analysis. To account for geographic variation in our transition risks and opportunities analysis, we have considered differences across geographies (UK, US, Canada, France, Germany, Netherlands, Denmark, Italy and Ireland) and how previous policies and operations might provide a blueprint for responses to transition risk uncertainty. We have assessed these at a high level over these geographies, using carbon taxation as a proxy and looking at current exposure and exposure under the 1.5°C scenario. We have also considered geographic variation of exposure to physical risks across the US, Canada, UK and Europe, which have not been deemed sufficiently material at Group level to detail in this statement. The final analysis is presented at Group level and therefore combines all geographic considerations into a single assessment of the Group's exposure.

1.5°C rapid transition (orderly)

The world takes the rapid and drastic policy measures required to meet the ambition of the 2015 Paris Agreement. Key considerations for Royal Mail and GLS are to ensure that its environment and business strategies are aligned with or are ahead of the policy requirements. The decarbonisation plans of both businesses will require regular review to ensure that they remain at pace with climate science and are aligned to requirements across all areas of operation. The potential impact of physical risks are limited in this scenario, but there is high potential for transition risks and opportunities. Both of the Group's businesses are committed to reaching zero emissions before 2050 and are aligning their decarbonisation strategies in support of the Paris Agreement to limit global warming to 1.5°C (see pages 27 to 29).

2°C steady transition (orderly)

Climate action policies are introduced early and become gradually more stringent, though not as high as in the 1.5°C scenario. Carbon price remains relatively low and the potential impact of physical risks are relatively low, transition risks are moderate to high, and net zero CO₂ emissions are achieved before 2070. This scenario would need regular reviews of the Group's decarbonisation plans and business strategy to ensure that plans remain aligned across all areas of operation. Most significantly, the Group could expect a ban on new petrol/diesel vehicles, which will increase the demand and uptake of EVs, which would have follow-on impacts for the Group's distribution network. Meanwhile, physical risks would be integrated into business continuity and business risk mitigation and adaptation planning.

Delayed 2°C transition leading to notable physical impacts (disorderly)

Social, economic and technological trends do not shift markedly from historical patterns until 2030. The delay and divergence in responses across sectors and countries results in a disjointed transition ultimately reaching warming below 2°C. Carbon price rapidly increases. Emission reductions need to be sharper than in the orderly scenario to limit warming to the same target, so more severe transition risks are experienced. This scenario highlights the increased volatility/market risks presented by a disorderly transition. The potential impact of physical risks are significantly higher within this scenario, requiring more significant planning for our business continuity to avoid or mitigate disruption to operations.

4°C business as usual emissions, extreme warming (disorderly)

Worst-case levels of global warming, with increasingly severe and frequent extreme weather causing extensive business disruption, as well as chronic changes to seasonal weather patterns severely damaging economic growth. The Group would be required to comply with current policy only from a regulatory perspective, but the physical impacts of climate change would be significant, causing disruption to operations and the value chain. In this scenario, transition risks are integrated into our business continuity and business risk mitigation and adaptation planning.

We have applied the following three-step approach in our analysis of climate-related risks and opportunities:

- i. Conducted a survey and held workshop discussions with representatives from the TCFD Working Group to discuss the risks and opportunities in our operations, supply chain and markets.
- ii. Examined the likelihood and impact of the climate risks and opportunities identified.
- iii. Re-prioritised and ranked the identified risks and opportunities.

The analysis undertaken was largely qualitative, with one risk (carbon pricing) quantified for financial impact (see 'Financial impacts' below), and the appropriate strategic responses have been developed where possible. The analysis shows how an identified risk can be mitigated by taking advantage of associated opportunities, while acknowledging the risks associated with each opportunity. We consider materiality to correspond to risks and opportunities we deem to be of sufficient importance to our shareholders to include in our public disclosures and will be considering the financial quantification of further risks going forward (see our definition of financial materiality on page 144).

TCFD Statement continued

Transition risks and opportunities

Our transition risks are considered to be more material than physical risks due to Royal Mail and GLS' strong reliance on fleet and customers' rapidly changing expectations about decarbonisation. The transition risks and opportunities that could have an impact, which could lead to a material financial impact, are listed in the table below.

Short term (< 2030)

Medium term (2030-2040)

Long term (> 2040)

Category	Trend and impact	Likelihood (risks) or effort (opportunity)	Impact	Scenario	Time horizon	Response & resilience
Policy & legal	Risk 1: The potential impact associated with carbon taxes on commercial fleet and logistics activity, which could increase operating costs for both businesses.	High	High	Primary: 2°C disorderly Secondary: 1.5°C	Short term	The Group's businesses are transitioning their last- and middle-mile fleets to low or zero-emission alternatives, whether these are part of its own fleet (Royal Mail) or logistics partners (GLS). Main metrics: percentage deployment of electric vans and lower emissions larger trucks.
Energy source	Opportunity 1: The use of lower emissions transport in commercial fleet has the potential to reduce maintenance and fuel costs over the life-cycle of a vehicle.	High	High	1.5°C	Short term	Initial Royal Mail findings suggest fleet electrification can significantly reduce maintenance and fuel costs over the life-cycle of a vehicle when compared with diesel equivalents, even after factoring in costs associated with the installation of charging infrastructure (see Royal Mail ESG Report which is available at www.internationaldistributionservices.com/en/sustainability/reporting-and-performance).
	Opportunity 2: The potential use of government schemes and other subsidies that promote low-emission vehicle alternatives among commercial fleets, thereby reducing investment and operating costs.	Medium	High	1.5°C	Short term	The Group's businesses make use of these incentives where they are available. For example, Royal Mail has bid for the Government's zero-emission road freight trials funding, which enables price parity with diesel equivalents.
Reputation	Risk 2: Increased stakeholder pressure to act in response to climate-related risks that causes reputational damage to the Group's businesses and misses the opportunity to gain market share, which could result in a loss of revenues.	High	High	1.5°C	Short term	The Group's businesses regularly engage customers and prospects to provide updates and details on their respective decarbonisation actions and plans, and broader management of climate-related risks. Main metric: GHG emissions Scopes 1, 2 and 3.
Policy & legal	Risk 3: Ban on the sale of petrol and diesel vehicles and the introduction of low-emission zones requiring alternative fuel vehicles could impact costs and create liabilities.	High	Medium	Primary: 1.5°C Secondary: 2°C orderly	Short term	The Group's businesses are transitioning their last- and middle-mile fleets to low or zero-emission alternatives, such as electric vans, to mitigate this risk. Main metrics: percentage deployment of electric vans and lower emissions larger trucks. See page 29.
Products & services	Opportunity 3: Changing consumer demands leading to new products and services, and gains in market share.	Medium	High	1.5°C	Short term	The Group's businesses continuously develop their products and services to make them more environmentally friendly and appealing to customers. Main metrics: GHG emissions Scopes 1, 2 and 3, and emissions per parcel delivered.

Category	Trend and impact	Likelihood (risks) or effort (opportunity)	Impact	Scenario	Time horizon	Response & resilience
Policy & legal	Risk 4: Claims by peers, regulators, or customers that products and services fail to meet the Group's claims of green/low-carbon credentials could damage its reputation, creating a loss in revenues, and exposing it to fines from regulators.	Medium	High	Primary: 2°C orderly Secondary: 1.5°C	Short term	The Group's businesses follow all regulations and applicable advertising marketing guidance with regard to their environmental claims.
Market	Opportunity 4: Joint ventures with other companies/energy providers in relation to electric vehicles could help reduce costs and increase revenues.	Medium	High	2°C disorderly	Short term	The Group's businesses consider partnerships and joint ventures that can facilitate the transition of their fleets to electric vehicles.

Physical risks

Physical risks include risks arising from the physical effects of climate change, such as an increase in extreme weather events. Some of these risks are already having an impact on our businesses but are considered less materially significant than transition risks. The physical risks that could have an impact, which could lead to a material financial impact, are listed in the table below.

Short term (< 2030)

Medium term (2030-2040)

Long term (> 2040)

Category	Trend and impact	Likelihood	Impact	Scenario	Time horizon	Resilience
Acute	Risk 1: Extreme weather events could cause damage to data centres and reduce connectivity to operations, resulting in a loss of revenues and an increase in costs.	Low	High	Primary: 4°C Secondary: 2°C disorderly	Medium term mainly, but with potential impacts in the short and long term too.	As part of the management of operational sites, the Group's businesses consider a range of physical risks, such as flooding and storms, and take steps to prevent and minimise these where possible.
Chronic	Risk 2: Chronic risks might have an ongoing impact on supplier operations where we have sole suppliers for certain raw materials/components for electric vehicles equipment, which could result in increased costs.	Medium	Medium	4°C	Long term	The Group's businesses work with a diverse pool of suppliers, from which they aim to gather more information on climate risk management.
Acute	Risk 3: Extreme weather events impacting employee safety and wellbeing could lead to an increase in costs and liabilities, and loss in revenues.	Medium	Medium	Primary: 4°C Secondary: 2°C disorderly	Short term	The Group's businesses monitor and respond to the impact of changing weather on their employees' wellbeing as part of ongoing health and safety programmes.
Acute	Risk 4: Extreme weather events (e.g. storms, flooding) could impact operations and facilities/equipment, resulting in a loss of revenues and an increase in costs.	Medium	Medium	Primary: 4°C Secondary: 1.5°C	Short term	As part of the management of operational sites, the Group's businesses consider a range of physical risks such as flooding and storms, and take steps to prevent and minimise these where possible.

TCFD Statement continued

(b) Impact of climate-related risks and opportunities on businesses, strategy, and financial planning (partially consistent)

The Group is aware of the main climate-related transitional risks and opportunities that its businesses face, and has taken these into account during their respective strategic development and planning processes. This has resulted in the launch of more environmentally friendly products and services, and the marketing of green credentials. It has also led to the development of our strategies for transitioning our businesses to a low-carbon economy through science-based decarbonisation strategies, which are explained in further detail on pages 27 to 29.

However, to be fully consistency with this recommendation, we are working to embed all newly identified sub-risks and opportunities into our strategic reviews and business and budgetary planning cycles. We aim to be consistent with this recommendation by no later than 2025.

We have qualitatively described the impacts on the Group within the transition and physical risks tables on pages 42 and 43. To better understand the potential impacts of one of our key transition risks, carbon taxes, we have undertaken a quantitative scenario analysis which is described below.

Financial impacts

The Group has estimated the potential financial impact associated with carbon taxes on road transport and logistics activity for Royal Mail. If the UK Government uses a carbon tax on the road transport and logistics sector as a key instrument in limiting global warming, then Royal Mail would be estimated to experience significant increases in fuel spend unless mitigation measures were put in place. By comparison, at GLS, the cost of these various tax schemes (e.g. carbon, road, congestion) would occur indirectly, to the extent that its logistics partners choose to pass on their increased operational costs to GLS.

The quantitative analysis determines how a carbon tax would impact the cost of running Royal Mail's commercial vehicle fleet in 2025 (short term), 2030 (medium term) and 2040 (long term), as shown in the table below. The risk quantified is the unmitigated impact, without any of the planned changes to operations or delivery models. It was chosen to be quantified for Royal Mail as it was evaluated as likely to impact the business within the next five years. NGFS fuel price and carbon taxes were used to estimate how different climate futures could drive changes in Royal Mail's operating costs. A series of simplifying assumptions were made to complete the analysis.¹

In the case of GLS, where a comparable quantification of the direct impacts of this transition risk to its business cannot be made, we have reviewed the differences in exposure to the additional vehicle-related transition risks across various geographies.

Going forward, the Group will continue to review the financial impact of its identified risks, and modify its assessments and mitigation plans accordingly. For details on how our climate risks could impact the Group's viability see page 58 and page 144 for our definition of financial materiality.

Quantitative scenario analysis of carbon taxes¹

Scenario	Key development	Fuel spend increase (relative to FY2021-22)
1. Net Zero orderly transition (1.5°C).	In a rapid transition, the high level of ambition to mitigate climate change means high carbon and fuel prices to reduce emissions, so total fuel spend is projected to increase substantially.	2025: £120 million (+59%) 2030: £200 million (+93%) 2040: £390 million (+183%)
2. Below 2°C orderly transition.	In a steady transition, a gradual increase in climate policies means carbon prices are kept lower than a rapid scenario, as auxiliary policies absorb some of the decarbonisation burden. Total fuel spend is projected to increase but not as much as in the net zero scenario.	2025: £20 million (+11%) 2030: £40 million (+21%) 2040: £80 million (+38%)
3. Delayed 2°C disorderly transition fossil fuel led economic recovery undermines climate goals and assumes disorderly management of physical risks.	In a delayed and disorderly transition, projected fuel spend does not increase significantly in the short-term horizon, but in the long term, the high carbon price required to limit global warming is projected to increase total fuel spend rapidly and substantially.	2025: -£4 million (-2%) 2030: £10 million (+4%) 2040: £420 million (+201%)
4. Current Policies, NGFS hot house world (3°C).	In a business-as-usual scenario, projected total fuel spend does not vary significantly.	Projected fuel spend does not vary significantly

(c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (consistent)

Our approach to conducting our qualitative and quantitative scenario analyses is described on pages 40 and 41. Our responses and resilience as described within the transition and physical risk tables, is an indication of the overall resilience across the Group. Now that a full set of risks and opportunities have been identified, the Group can determine that its existing responses and mitigating strategies for its most material risks and opportunities are broadly effective at present. The Group will use its analysis to embed all climate risks and opportunities into its strategic planning cycle with a view to being consistent with this recommendation by 2025.

1. Risks were quantified relative to Royal Mail's current-state business with no forward-looking assumptions about future fuel use. The cost of its current fuel demand was quantified using future-looking fuel price and tax assumptions from NGFS. In the case of the 'below 2°C orderly' transition scenario, this was equal to 72.5 US\$2010/t CO₂ in 2025; 96.7 US\$2010/t CO₂ in 2030; and 145.0 US\$2010/t CO₂ in 2040. This enabled the scale of future unmitigated costs to be estimated without introducing additional assumptions about how Royal Mail's business could change or how mitigating activities could impact future exposure.

3. Risk management

(a) Processes for identifying and assessing climate-related risks (consistent)

In March 2023, the TCFD working group performed a Group-level climate scenario analysis and re-ranked its climate-related physical and transition risks and opportunities (in addition to the first analysis performed in 2022), and reassessed their variation across scenarios, operational geographies and time horizons, based on the process described in Strategy paragraph (a) above. A cross-section of senior management provided insights for this exercise. Through this collaboration, transition risks were identified as more significant to the business than physical risks. Following this, a risk-scoring methodology has been applied to identify, rank and have ownership of climate risks by the business going forward (see pages 39).

(b) Processes for managing climate-related risks (partially consistent)

The principal risk 'Climate change and environmental management' was managed through the Group's Risk Management Framework during 2022-23, with the executive leadership of each company and their functions overseeing its day-to-day management. The process used by the organisation to make decisions to mitigate, transfer, accept, or control those risks is further detailed on pages 46 to 55. In March 2023, we formally integrated climate-related risks into the Group's Risk Management Framework, and a new risk-scoring methodology was applied to identify and rank all key climate risks to ensure there is ownership of all risks by the businesses.

Despite this progress, we will not be fully consistent with this recommendation until we have completed the embedding of the newly identified sub-group of climate-related risks into the Royal Mail and GLS risk management processes, and have reported these through the ARCs. We aim to be fully consistent with this recommendation by year-end 2023-24.

(c) How processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management (partially consistent)

The principal risk 'Climate change and environmental management' was managed through the Group's Risk Management Framework during 2022-23, with the executive leadership of each company and their functions overseeing its day-to-day management. The process used by the organisation to make decisions to mitigate, transfer, accept, or control those risks is further detailed on pages 46 to 55. In March 2023, we formally integrated climate-related risks into the Group's Risk Management Framework, and a new risk-scoring methodology was applied to identify and rank all key climate risks to ensure there is ownership of all risks by the businesses.

Despite this progress, we will not be fully consistent with this recommendation until we have completed the embedding of the newly identified sub-group of climate-related risks into the Royal Mail and GLS risk management processes, and have reported these through the ARCs. We aim to be fully consistent with this recommendation by year-end 2023-24.

4. Metrics and targets

(a) Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process (partially consistent)

The Group discloses key cross-industry metrics that are in line with its strategy, which include GHG emissions (see page 28). The principal risk 'Climate change and environmental management' was managed through the Group's Risk Management Framework during 2022-23 (see pages 46 to 49).

However, we will not be fully consistent with this recommendation until we have embedded all newly identified sub-group of climate-related risks and their related metrics into the Royal Mail and GLS risk management processes, and are reporting these through the ARCs. We aim to be fully consistent with this recommendation by year-end 2023-24.

(b) Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks (consistent)

The Group's businesses measure and disclose their Scope 1, Scope 2 and Scope 3 GHG emissions (see page 28), and consider the related risks associated with these. In addition, Royal Mail and GLS use other targets, including intensity metrics, to gauge the effectiveness and progress of their respective environmental strategies to become a low-carbon business.

(c) Targets used to manage climate-related risks and opportunities and performance against targets (consistent)

The Group tracks, manages and discloses its most material climate-related targets such as those related to GHG emissions and energy usage, in addition to metrics related to mitigation actions, such as the deployment of EVs and biofuels (see page 29). In each case, we describe the type of targets that apply, the time frames over which it applies and how it is measured. Our progress and performance against these targets are described in more detail on pages 27 to 29.

Risk Management

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

Risk management framework

Risk management processes and controls are utilised across the Group. The Board has overall accountability for ensuring that we operate sound risk management procedures and, on an annual basis, assess their effectiveness (see page 82).

The Board has delegated responsibility for reviewing the effectiveness of the Group's risk management and internal control systems to the Group Audit and Risk Committee (the ARC). The ARC seeks to ensure that the Group operates prudent and effective controls that allow significant risks to be identified, assessed and managed. In fulfilling its duties, the ARC is supported by the Royal Mail and GLS Audit and Risk Committees (the Royal Mail ARC¹ and the GLS ARC).

Risk management policies and procedures are utilised across the Group and we provide guidance and support to relevant personnel in their application. Management teams across Royal Mail and GLS are responsible for the management of specific operational risks and developing actions to mitigate their impact.

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

Our risk management framework

Top down Principal risk management

Board

- Review external environment.
- Set risk appetite.
- Determine strategic response.

Audit and Risk Committee

- Assess effectiveness of risk management process and internal control systems.
- Monitor principal risks.
- Report on principal risks and uncertainties.

Royal Mail Audit and Risk Committee

- Identify principal risks.
- Oversee mitigation plans.
- Monitor progress towards risk appetite.

GLS Audit and Risk Committee

- Consider completeness of identified risks and adequacy of mitigation activity.
- Consider aggregate of risks across the business.

Royal Mail & GLS Executive Boards

- Execution and delivery of mitigating actions.
- Report on progress towards risk appetite.

Royal Mail Business Unit Leadership

- Report current and emerging risks.
- Identify, evaluate and mitigate risks.
- Maintain risk profiles.

GLS Regional Management

Bottom up

Business unit/Regional
risk management

Third line

- Independent assurance by internal and external providers over adequacy and effectiveness of mitigation provided to the Board.

Second line

- Compliance monitoring and oversight of first line through regular reviews, assessments and dedicated oversight functions.

First line

- Primary controls to manage risks in day-to-day operations.

1. Previously named the Risk Management Committee.

Risk appetite

The Board sets the Group's risk appetite. This determines the target level of risk we are prepared to take to achieve our strategic objectives over the medium to long term and the extent of controls we need to operate in order to mitigate the Group's risks.

The ARC monitors the Group's risk management activity within the risk appetite throughout the year. Focused discussions on progress towards target risk levels take place at the Royal Mail and GLS ARC meetings at least twice a year.




Our Royal Mail and GLS Executive Boards and management teams are accountable for identifying and managing risks and for delivering the Group's objectives in accordance with the Group's risk appetite.

To achieve our strategic objectives, it is necessary to take on, or accept, certain risks. In doing so, we seek to ensure that:

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

Our risk appetite ranges across low, low to moderate and moderate to high tolerance levels and is broadly mapped against three risk categories as illustrated in the adjacent table.

Risk appetite

Risk category	Risk appetite level and link to principal risks ¹ (see pages 50 to 55)
Strategic/ External	Moderate to high The Group takes well-informed risks to achieve strategic objectives if potential benefits outweigh risks, particularly where the external risks are less in management's direct control. 
Operational/ Financial	Low to moderate The Group works to achieve strategic objectives through accepting, managing and/or reducing risk to a low to moderate level, as appropriate. 
Legal, compliance and regulatory	Low The business seeks to reduce the risk to a low level as far as practically possible. 

1. The icons on this page and the following page are colour coded to illustrate the risks that relate to Royal Mail (red) and those that relate to GLS (blue).

Risk Management continued

Our principal and emerging risks

Our principal risks are assessed by the Board on a bi-annual basis and monitored by the ARC across the year. Emerging risks are formally assessed by the ARC annually. The Board confirms that robust risk assessments were completed during the financial year.

Our principal risks are detailed on pages 50 to 55. They are ordered on a net risk basis which takes into account the estimated magnitude of potential impact and likelihood of occurrence. We define a principal risk as one which is currently or could have a significant impact on the Group over the business planning cycle. Our principal risks are also reflected in the key assumptions that form part of our viability assessment process (see pages 56 to 58). The graphic below illustrates our assessment of the likelihood of our principal risks occurring and their estimated impact, and takes into account the mitigating actions in place to manage each risk.

Net risks can move depending on circumstances at any time. Movements between risk scores compared with the prior year are highlighted on pages 50 to 55.

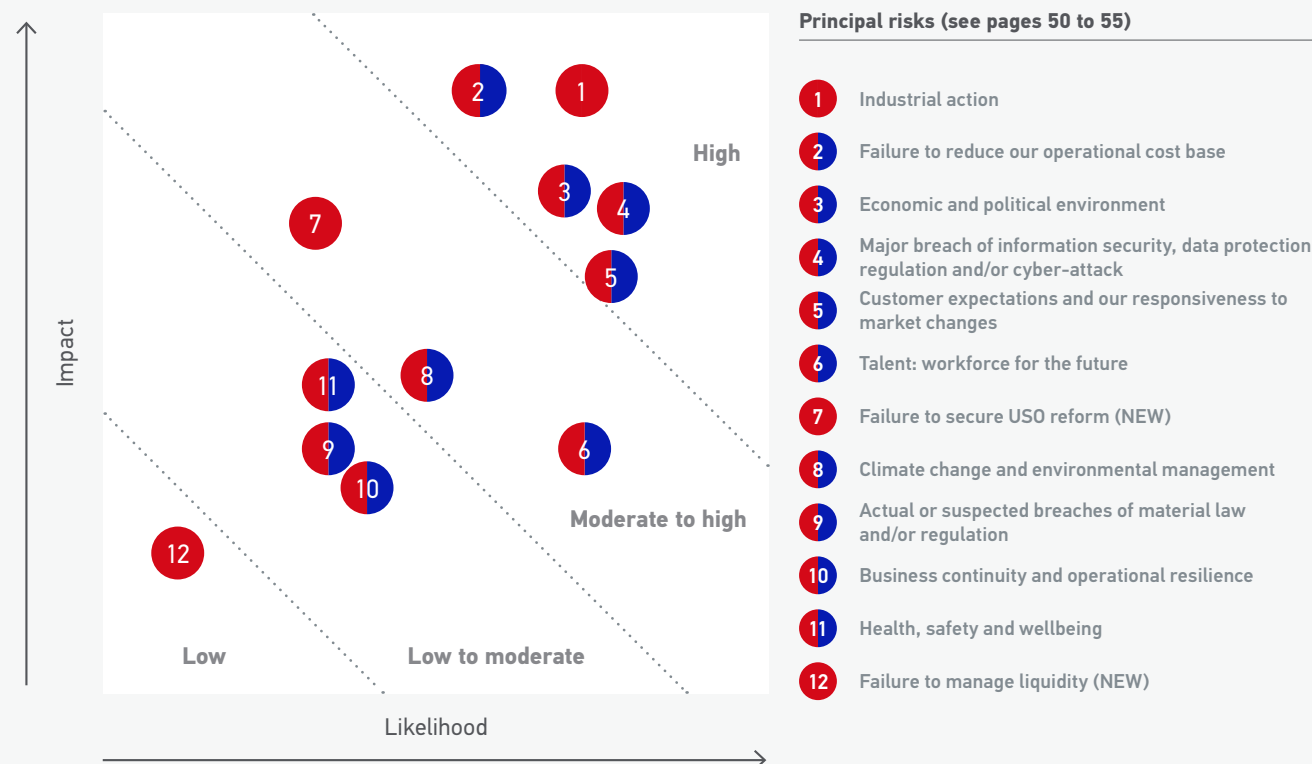
Changes to our principal risks

The following new risks have been added to our principal risks since the publication of our 2021-22 Annual Report:

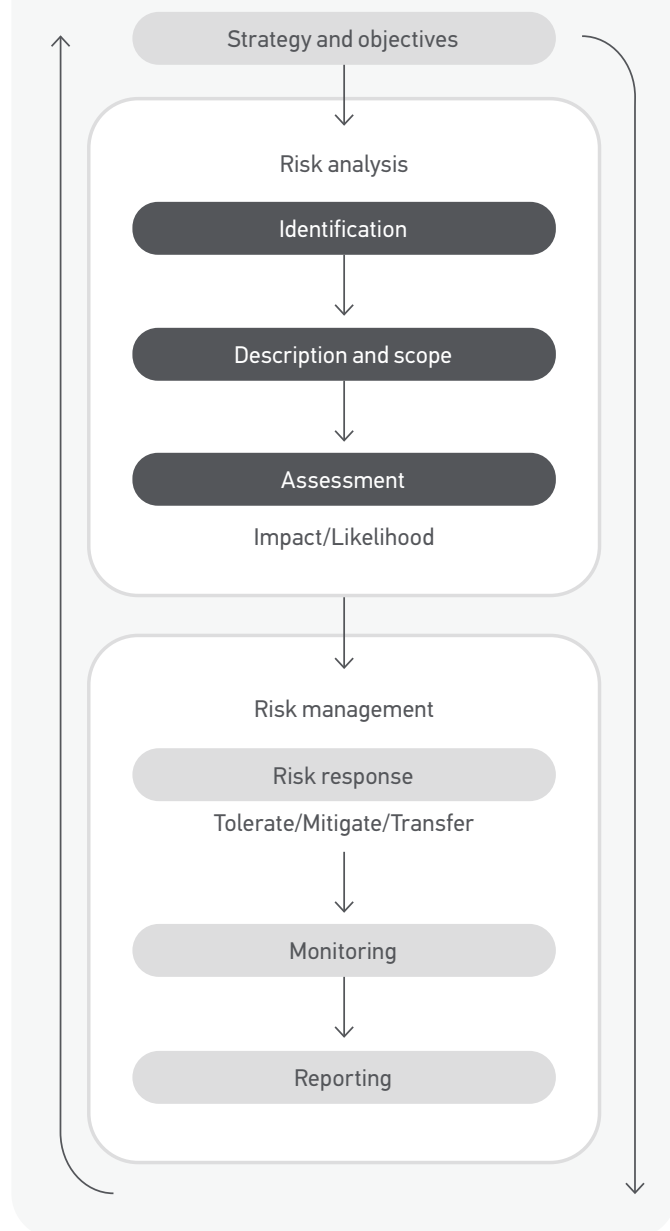
- Failure to manage liquidity - (Low risk for IDS plc but a material risk for Royal Mail Group Ltd): This risk was added to the principal risks at half year due to the decline in the Royal Mail business performance which had created a potential liquidity risk for IDS plc. Since then, IDS Group management have taken effective action to preserve liquidity at IDS plc and reduce the risk score to low at the Group level. There remains a material risk over liquidity at the Royal Mail Group Ltd level.
- Failure to secure Universal Service Obligation (USO) reform (Moderate risk): 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. There is a risk that the Government, in conjunction with the regulator, Ofcom, decides not to make a permanent change to legislation to reduce the number of required delivery days for the letter service.

The previous 'UK Regulatory Framework risk' has been removed as the framework has now been set by Ofcom for the next five years. Significant risks associated with compliance with this framework, including quality of service targets, are captured within other principal risks.

Risk heatmap



Risk identification, analysis and response



Identification, analysis and response

The identification and assessment of individual risks is a continuous process that takes account of the internal and external business environment as well as the effectiveness of the risk controls we operate. Principal risk profiles are maintained by relevant members of the Royal Mail and GLS Executive Boards. Business unit risk profiles are also maintained at functional levels across the Royal Mail business. During the year GLS implemented regional-level risk profiles across its major countries.

Gross, net and target risk scores are evaluated as a product of potential impact and likelihood, and are represented visually on heatmaps within risk profiles to facilitate analysis and management focus. These risk profiles provide visibility to management over the effectiveness of control activities and mitigations. Each risk is assessed considering the likelihood of the event occurring based on multiple factors, the range of potential impacts and their severity should the event occur.

Monitoring and reporting

Throughout the year, Royal Mail business unit leadership teams review the risk profiles covering their functional areas of responsibility. Formal risk assessments are undertaken on a bi-annual basis to coincide with the Group's full- and half-year reporting cycle. GLS regional management reviews country-level risks and centrally managed principal risk profiles are reviewed by subject matter experts, twice a year. The outcomes of these bi-annual assessments are reviewed by the Royal Mail and GLS ARCs and then subsequently by the ARC. In addition, for Group principal risks, there is a periodic cadence of remediation progress reviews by the ARC known as 'spotlights on risk' (see page 94). The Royal Mail and GLS management reviews and spotlights on risk are used to inform, determine and monitor the Group's principal risks.





Emerging risks

We identify emerging risks through various discussions with management and subject matter experts and other external insights. All relevant information is captured in a horizon-scanning analysis which serves to illustrate our potential future exposures across a number of risk categories and helps us assess what preparations may be required for new and potential future risks.

Emerging risk activity is considered by the Royal Mail and GLS ARCs, taking into account both external and internal factors to ensure that a holistic view is taken. Updates on emerging risk activity are regularly provided to the ARC.

Our Principal Risks and Uncertainties

Detailed below are the principal risks we consider could threaten our business model, the execution of our strategy, and the preservation and creation of sustainable value for shareholders and other stakeholders. How we seek to mitigate these risks and the change in risk score year-on-year is also explained below.

Risk	Status	Controls and actions to mitigate
1. Industrial action – High risk		
 <p>There is extensive trade union representation across our UK workforce, with strong and active trade unions.</p> <p>One or more material disagreements or disputes could result in widespread localised or national industrial action.</p> <p>Industrial action would continue to cause material disruption to our UK business and would result in an immediate and potentially ongoing significant loss of Group 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.</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 UK 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"> – Operational contingency plans during industrial action. – Joint implementation of the Business Recovery, Transformation and Growth Agreement. – Rollout of a modern and collaborative framework to allow quicker decisions, trials and change implementation. – Joint review of the Royal Mail / CWU relationship supported by appropriate expertise where required.
2. Failure to reduce our operational cost base (previously 'Failure to reduce our cost base') – High risk		
 <p>We must become more efficient and agile to compete effectively in the parcel and letter markets.</p> <p>The successful delivery of Royal Mail and GLS' strategies 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.</p> <p>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.</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> <p>While GLS' cost structure is more flexible, we need to ensure that the business' networks and processes continue to be optimised to withstand inflationary cost pressures and support sustainable growth.</p>	<p>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:</p> <ul style="list-style-type: none"> – Implementing short-term measures to improve operational performance, reducing headcount to right size the business and a programme of revisions including dedicated parcel routes. – Establishing parcel hubs and improving automation in mail centres to increase throughput and reduce costs per parcel. – Trialling a new framework to deliver operational improvements at a greater pace, such as removal of letter sortation frames within delivery offices. – 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. – 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. <p>The effective implementation of the Business Recovery, Transformation and Growth Agreement is key in delivering operational efficiencies.</p> <p>In GLS, actions include:</p> <ul style="list-style-type: none"> – Accelerating GLS' productivity initiatives. – Reviewing the operational efficiency of GLS' networks. <p>For further detail on initiatives to improve productivity see pages 15 to 17.</p>

Royal Mail strategy



Customer



Trust



Growth

GLS strategy



Connect Europe



Strengthen 2C parcel market position and lead in 2B



Inspire the market

Change in risk score year-on-year
















Increasing risk – Low to Moderate/ Moderate to High risk







Decreasing risk – Moderate to Low /High to Moderate risk



Stable risk – No significant change





Risk	Status	Controls and actions to mitigate
3. Economic and political environment – High risk		
     <p>Macro-economic conditions and/or the political environment across our markets may adversely affect the Group'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.</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 and GLS businesses.</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 and GLS' markets, including national minimum wage and tax policy revisions, including the tax treatment of subcontractors, could increase our costs or further impact consumer confidence, which could affect parcel and letter volumes.</p>	<ul style="list-style-type: none"> – Ongoing monitoring of the economic and wider external environment across all of our markets. – Executing a five-point plan and efficiency programme to stabilise the Royal Mail business and build resilience into its operating model (see Risk 2). – Implementing sustainable pricing/surcharge opportunities across Royal Mail and GLS that do not inhibit value growth. – 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). – Ongoing monitoring of the political landscape and regular engagement with politicians and policy makers, as appropriate.
4. Major breach of information security, data protection regulation and/or cyber-attack – High risk		
      <p>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, shareholders and suppliers.</p> <p>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.</p> <p>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.</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 153,000 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 Group's risk appetite.</p>	<ul style="list-style-type: none"> – Continually investing in cyber resilience including enhancing our cyber control capabilities across our technology estate to protect our customers, employees, services and assets. – Strengthening our preparedness to quickly detect and respond to threats before they become incidents, including ransomware. – Improving assurance of organisational and technical measures, including disaster recovery and assessment of third-party supplier controls. – Promoting good behaviours and stressing the importance of maintaining vigilance through regular communication, training and awareness across our workforce. – Encouraging an open and prompt reporting culture so appropriate remedial action can be taken as soon as possible. – Data privacy and protection policies and compliance framework, which includes assessment and monitoring of data risks and controls across all our operations.



Our Principal Risks and Uncertainties continued

Risk	Status	Controls and actions to mitigate
<p>5. Customer expectations and our responsiveness to market changes – High risk</p>  <p>Failure to deliver against existing and changing customer needs and expectations (including quality of service) could impact the demand for our products and services.</p> <p>Our success at growing new areas of business is dependent on identifying profitable and sustainable areas of growth and having in place appropriate structures to support transformation.</p>	 <p>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>	<p>We are responding to market changes and becoming more customer centric.</p> <p>Royal Mail is:</p> <ul style="list-style-type: none"> – Leveraging its UK footprint as the sole designated Universal Service Provider and growing doorstep services such as Parcel Collect. – Focusing on restoring quality of service. – Driving new product development and simple digital services. – Increasing tracked services and barcoding of products. – Moving to a 24/7 parcel service with Sunday deliveries. – Growing new areas of business and expanding service offerings. <p>GLS is:</p> <ul style="list-style-type: none"> – Delivering sustainable growth and customer innovation through the GLS strategy. <p>For further information on customer and growth initiatives see pages 16 to 19.</p>
<p>6. Talent: workforce for the future – Moderate risk</p>  <p>Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate skills and expertise across the Group.</p> <p>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.</p> <p>A high level of employee trust and engagement is essential if we are to deliver Royal Mail's transformation and growth strategy.</p> <p>In order to deliver GLS' longer-term strategy, it is necessary to attract talent with new skills and retain high-quality talent across the GLS business.</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>	<p>Royal Mail:</p> <ul style="list-style-type: none"> – Developing a Future Leader Framework that will provide an understanding of leadership capabilities at all levels. – Creating a 'Talent Ecosystem' to enable internal mobility, provide opportunities for career progression and improve succession planning. – Developing an Employee Value Proposition and employer brand. – Accelerating diversity, equity and inclusion (DEI) initiatives to improve DEI across Royal Mail's teams. – Implementing a future workforce plan aligned with the business' strategy and the commercial outlook. – Introducing next generation employee change initiatives. – Improving employee communications through the use of digital tools and increasing the number of regular trust and employee engagement surveys. <p>GLS:</p> <ul style="list-style-type: none"> – Expanding and building HR expertise in the corporate centre to strengthen governance and enable best practice sharing. – Improving employer branding, including launching an initiative to strengthen the sense of belonging of GLS people. – Implementing best practice succession planning and talent management across GLS.

Risk	Status	Controls and actions to mitigate
7. Failure to secure USO reform – Moderate risk		
 <p>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).</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"> – Work with Government, and Ofcom, on the case for change, with support of our unions. – 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. – Run an employee engagement programme on the opportunities that change presents.
8. Climate change and environmental management (previously 'Environment and sustainability') – Moderate risk (see also our TCFD Statement on pages 38 to 45)		
 <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</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 and GLS' strategies for some time and we have increased our focus in this area. Royal Mail and GLS' 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 (see pages 38 to 45).</p>	<ul style="list-style-type: none"> – ESG Principles are aligned to the ESG issues that matter most to our businesses and stakeholders. – Executing environmental strategies across Royal Mail and GLS, including accelerated ambitions for decarbonisation to reach zero emissions before 2050 in support of the Paris Agreement (see pages 27 and 29). – Investing in zero- and low-emission vehicles and installing efficient equipment across our property estate. – Improving network efficiency, including rationalising the property estate and investment in innovative technologies to reduce energy and fuel consumption. – Monitoring the impact of extreme weather events on operations and across our property estate to determine suitable preventive and precautionary measures. – Opening new EcoHubs with renewable energy generation and sustainable infrastructure across GLS' network. – Engaging our people in our efforts to become more efficient and reduce our use of natural resources. – Reducing our energy and water consumption and reducing the amount of waste we generate. – Monitoring compliance with environmental legislation and regulation.

Our Principal Risks and Uncertainties continued

Risk	Status	Controls and actions to mitigate
9. Actual or suspected breaches of material law and/or regulation – Moderate risk		
 <p>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.</p>	 <p>There continues to be a focus on controls in relation to material laws and regulations for which the Group 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> <p>See Note 28 on page 228 of the Financial Statements.</p>	<ul style="list-style-type: none"> – Policies, regular training and guidance to colleagues to raise awareness of risks, required mitigation and expected standards of conduct. – Regular assessment of risks and advice by specialist lawyers and compliance/regulatory professionals. – Horizon scanning to prepare for legislative changes and developing policies and processes to address them. – Monitoring of compliance and provision of assurance. – Fostering a culture where colleagues can speak up so we can promptly address any issues and stop them happening again. – Engagement with Ofcom and USO QoS monitoring and restoration activity.
10. Business continuity and operational resilience – Moderate risk		
 <p>We may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Group, our customers and our supply chain. This could also impact on the ability of Royal Mail to meet its regulatory obligations.</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> <p>GLS has a growing geographical footprint and has an interconnected international network across Europe and the US, which provides mitigation in the event of operational disruption in a specific market.</p>	<ul style="list-style-type: none"> – Regularly review business continuity and crisis management governance including lessons learned. – Deploy a strategic crisis and resilience governance structure and response teams to ensure an integrated resilience approach. – Implement tactical arrangements to support operational contingency plans and incident management. – Plans to align crisis management with critical IT systems and test disaster recovery plans. – Developing business impact assessments to map systems and interdependencies of critical products and services. – Developing cross-functional business continuity plans aligned to critical products and services. – Regular horizon scanning and threat assessments.

Risk	Status	Controls and actions to mitigate
11. Health, safety and wellbeing – Moderate risk		
 <p>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.</p> <p>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.</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>In Royal Mail, 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"> – Policies, directives, procedures and systems, supported by tailored training and awareness programmes across all markets to embed a compliance culture and engage our employees in safety improvement. – Board and ESG Committee monitoring of health and safety performance metrics. – Refreshed programme of focused audit activity in Royal Mail commenced in Q4. – Extensive employee health and wellbeing policies and programmes to support absence and return to workplace. – Continuing to streamline and simplify the various health and safety systems in place to enhance their effectiveness. – Deploy Group-wide measures to protect and support our employees, ensuring necessary safety precautions, in line with guidance and provision of wellbeing support. – Monitor and review measures in place to assist in risk control and accident prevention, including undertaking appropriate investigation following incidents and near misses. <p>Further information is provided on pages 30 and 31.</p>

12. Failure to manage liquidity – Low risk for IDS plc but represents a material risk for Royal Mail Group Ltd		
 <p>There is a risk that the Group fails to secure ongoing access to finance.</p> <p>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.</p> <p>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.</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 Board will keep under review whether it is appropriate to cross subsidise in order to support 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>Further information is provided on pages 167 to 169.</p>	<p>Royal Mail Group Ltd:</p> <ul style="list-style-type: none"> – Delivery of Royal Mail turnaround plan and focus on efficiency programmes. – Cash conservation measures and prioritisation of capital expenditure. – Raising of cash through real estate asset disposals and exporting leasing options. – Implementing sustainable pricing changes and initiatives to recover revenue. <p>IDS plc:</p> <ul style="list-style-type: none"> – Ongoing monitoring of Royal Mail's performance. – Royal Mail access to Group resources subject to satisfactory progress against business plan and/or to meet short term working capital requirements. – Ongoing review of capital allocation and priorities.

Viability Statement

The Directors have assessed the prospects of the Group and its viability over the longer term as part of their ongoing risk management and monitoring processes. This Viability Statement should be read in conjunction with the Group's business strategy as set out in the Royal Mail and GLS strategic updates on pages 14 to 19.

Assessment period

While the Directors have no reason to believe that the Group will not be viable over the longer term, they have assessed the viability of the Group over a three-year period to March 2026 (the Viability Period) taking into account the Group's current financial position and the potential impact of our principal risks. This time period is considered appropriate as it is within the Group's five-year business planning cycle (Business Plan), where the first three years provide for the most certainty for determining the probability and likely impact of our principal risks, especially given the recent exceptional trading circumstances in Royal Mail. A three-year period is also the most appropriate time horizon over which to assess the evolving commercial and economic environment across the Group's letter and parcel markets, as consumer expectations and the products offered by competitors continue to develop rapidly since the COVID-19 pandemic restrictions. Furthermore, a three-year period most closely aligns to the Group's capital investment cycle and key liquidity risks.

Process, key factors and assumptions

The Group's viability is assessed as part of our regular strategy and budget reviews, financial forecasting, capital structure and ongoing risk management. The assessment takes into account a number of matters including:

- The Group's strategic priorities and Business Plan. Financial planning and forecasting processes covering the Group's profitability, cash flows and other key financial metrics underpin the Business Plan, which comprises a budget for the next financial year (based on a detailed commercial and operational assessment) together with a projection for the following two years.
- The large fixed cost base required to deliver the Universal Service Obligation in its current form.
- The Group's principal risks and the measures in place to mitigate those risks. (See pages 50 to 55).
- The Group's capital structure and the allocation of capital to support Royal Mail and GLS' respective growth strategies (see page 68). This includes capital investment, liquidity position (including liquidity available from the syndicated loan facility, debt maturity profile, credit rating and dividend policy).

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

- 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.
- Royal Mail has high single digit parcel revenue growth during 2023-24 driven by win back of revenue lost as a result of industrial action.
- Royal Mail's addressed letter volume (excluding elections) decline is high single digit percentage in 2023-24 as the structural decline in letters continues.

- GLS has low single digit revenue growth in 2023-24 and some margin dilution linked to ongoing inflationary cost headwinds and new investment.
- External dividends are forecast over the viability period from 2024-25.
- See Outlook statement on page 70 for further information.

Scenario modelling

The Business Plan projections were stress tested by modelling multiple downside scenarios which have the greatest potential to threaten the Business Plan. The scenarios, detailed on the adjacent page, take account of the Group's high principal risks which due to their nature and likelihood of occurrence have been included and analysed for their possible material financial impact over the Viability Period. 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 of the Royal Mail business.

The scenarios were tested in aggregate to determine whether the Group would be able to sustain its operations over the Viability Period, the lowest liquidity available to the Group during the period was £0.8 billion and sufficient headroom was maintained under its banking facilities.

The scenarios took into account:

- The levels of committed capital and expenditure required to support Royal Mail and GLS' respective growth strategies.
- The Group's €500 million bond which matures in July 2024, within the Viability Period. The Business Plan assumes this facility would be refinanced on similar commercial terms but incorporating the current higher market interest rates. However, in the very unlikely event that this is not possible, to ensure that the obligation is satisfied, the Group secured a backstop facility of €500 million from a syndicate of banks to provide additional flexibility on the timing for refinancing the €500 million bond maturing in July 2024. The backstop is available until July 2024 and, if drawn to repay the bond, would be repayable by December 2024 with an option to extend to July 2025. The facility remains undrawn and is subject to the same amended covenants as the bank syndicate loan facility. Further to the bridging facility other options could be considered, including using the Group's other undrawn committed facilities, capital generated and reducing investment.
- The actions undertaken to manage and mitigate the Group's principal risks (see pages 50 to 55).
- Short-term cost and cash saving actions available to the Group.



Based on our best view of the severe but plausible downside scenarios, including mitigating actions, and the outcome of the assessments undertaken, the Directors have concluded that the Group has reasonable expectation to remain viable supported by:

- Short-term cost and cash saving actions.
- Sufficient liquidity available to meet obligations as they fall due.
- The syndicated and backstop loan facilities.
- Continued access to the debt markets.
- Sufficient assets and future cash flows to settle all liabilities in full.

The outcome of the assessments has also confirmed the importance of maintaining a conservative balance sheet, including a low net debt position on a pre-IFRS 16 basis. See page 68 further information.

If outcomes are significantly worse, the Directors would need to consider what additional mitigating actions were needed including assessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside scenarios) which may cast doubt on the Group's ability to continue to be viable over the Viability Period is not currently reasonable.

Scenarios modelled and assumptions		Principal risks: (see pages 50 to 55)
Scenario:	– Deteriorating economic and market conditions.	– Economic and political environment
Assumptions:	– Delayed revenue growth in the business plan and decline in operating margins.	– Customer expectations and our responsiveness to market changes – Business continuity and operational resilience
Scenario:	– Increased competition in the UK parcels sector including changes in consumer expectations and/or market disruption.	– Customer expectations and our responsiveness to market changes
Assumptions:	– Lower parcel revenues and failure to deliver new product offerings.	
Scenario:	– Potential impact of industrial action or incurring costs to avoid it.	– Industrial action
Assumptions:	– Lower operating profit as a result of industrial relations and delay to win back lost customers.	– Failure to reduce our cost base – Customer expectations and our responsiveness to market changes
Scenario:	– Delays in relation to the Royal Mail transformation plan.	– Failure to reduce our operational cost base
Assumptions:	– Delays in budgeted cost efficiencies being realised.	
Scenario:	– Cyber-attack triggering material service and/or operational interruption.	– Major breach of information security, data protection regulation and/or cyber-attack
Assumptions:	– Cyber breach impacting revenue collection.	– Business continuity and operational resilience
Scenario:	– Increase in attrition of key roles.	– Talent: workforce for the future
Assumptions:	– Recruitment costs, interim resource and higher salaries.	

Viability Statement continued

Climate change

Utilising the Group's risk assessment process, the Board has also considered how climate risks could impact the Group's viability. The key conclusions relating to the viability assessment were as follows:

- Royal Mail has a robust process for tracking and managing environmental policy and legislation in the UK. Royal Mail is also aiming to meet changing customer expectations for lower carbon alternatives. As such, the business is working to meet the UK's climate goals which are consistent with an orderly 2C transition and current/emerging policy point strongly towards this pathway between now and 2025-26.
- The unmitigated risk for carbon taxation to 2025-26 is £20 million with the opportunity to reduce this to £10 million by delivering a 25% reduction in fossil fuel use across our vehicles and estate by FY2025-26 (from 2020-21).
- The current net risk position based on current decarbonisation performance (approximately 14% reduction), along with additional mitigating actions to reach the 25% reduction target, would mean there is not expected to be a material financial impact over the viability period. As such, the risk has been excluded from the scenario modelling outlined above.

Going Concern Statement

The consolidated Financial Statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial Review. The Board reviewed the Group's projections for the next 16 months in conjunction with the downside scenarios used to stress test the Viability Period. There was no significant doubt in relation to the Group's ability to continue as a going concern. Accordingly, the Board concluded that it was appropriate to continue to adopt the going concern basis of accounting. For further information, see Note 1 to the consolidated Financial Statements on pages 167 to 180.

Viability Statement

Based on the results of their analysis, including a number of severe but plausible scenarios assessed in aggregate, the Directors have a reasonable expectation that the Group will be able to continue in operation, meet and settle in full its liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn or undrawn facility over the three financial years to March 2026.

Financial Review



Mick Jeavons
Group Chief Financial Officer

Summary results (£m)¹

	Reported 52 weeks March 2023	Specific items and pension adjustment	Adjusted ² 52 weeks March 2023	Reported 52 weeks March 2022	Specific items and pension adjustment	Adjusted ² 52 weeks March 2022
Revenue	12,044	–	12,044	12,712	–	12,712
Royal Mail	7,411	–	7,411	8,514	–	8,514
GLS	4,650	–	4,650	4,219	–	4,219
Intragroup revenue ³	(17)	–	(17)	(21)	–	(21)
Operating costs	(12,248)	(133)	(12,115)	(12,128)	(174)	(11,954)
Royal Mail	(7,963)	(133)	(7,830)	(8,272)	(174)	(8,098)
GLS	(4,302)	–	(4,302)	(3,877)	–	(3,877)
Intragroup costs ³	17	–	17	21	–	21
Operating (loss)/profit before specific items	(204)	(133)	(71)	584	(174)	758
Operating specific items	(544)	(544)	–	(7)	(7)	–
Operating (loss)/profit	(748)	(677)	(71)	577	(181)	758
Operating (loss)/profit margin	(6.2%)	–	(0.6%)	4.5%	–	6.0%
Royal Mail	(1,044)	(625)	(419)	250	(166)	416
Royal Mail Operating (loss)/profit margin	(14.1%)	–	(5.7%)	2.9%	–	4.9%
GLS	296	(52)	348	327	(15)	342
GLS Operating profit margin	6.4%	–	7.5%	7.8%	–	8.1%
Profit/(loss) on disposal of property, plant and equipment (non-operating specific item)	6	6	–	72	72	–
Net finance costs	(39)	–	(39)	(51)	–	(51)
Net pension interest (non-operating specific item)	105	105	–	64	64	–
(Loss)/profit before tax	(676)	(566)	(110)	662	(45)	707
Tax credit/(charge)	(197)	(111)	(86)	(50)	62	(112)
(Loss)/profit after tax	(873)	(677)	(196)	612	17	595
(Loss)/Earnings per share (basic) – pence	(91.3p)	(70.8p)	(20.5p)	61.7p	1.7p	60.0p
In-year trading cash flow	(34)	–	(34)	519	–	519
Royal Mail	(306)	–	(306)	280	–	280
GLS	272	–	272	239	–	239
Pre-IFRS 16 in-year trading cash flow⁴			(213)			353
Royal Mail			(410)			178
GLS			197			175
Gross capital expenditure	(407)	–	(407)	(603)	–	(603)
Royal Mail	(255)	–	(255)	(441)	–	(441)
GLS	(152)	–	(152)	(162)	–	(162)
Net debt	(1,500)	–	(1,500)	(985)	–	(985)

- Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, the Group's performance is explained through the use of Alternative Performance Measures (APMs) that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained on pages 238 to 242 and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group's functional currency of Sterling and Euro) are provided where appropriate.
- The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. A full reconciliation of reported to adjusted results is explained on pages 238 to 242.
- Intragroup revenue and costs represent trading between Royal Mail and GLS, principally a result of Parcelforce Worldwide operating as GLS' partner in the UK.
- Pre-IFRS16 in-year trading cash flow is a non-GAAP measure.

Financial Review continued

Group results

Group and Royal Mail results are for the 52-week period to 26 March 2023. GLS financial performance is presented for the 12 months to 31 March 2023.

Year-on-year Group revenue declined £668 million (5.3%). Royal Mail decreased by £1,103 million and GLS increased by £431 million. During the prior year, both businesses benefited from COVID restrictions, which resulted in bolstered parcel volumes as well as elevated test kit volumes in Royal Mail. During 2022-23, both GLS and Royal Mail have been adversely impacted by challenging macro-economic conditions. In addition, Royal Mail has been negatively impacted by 18 days of industrial action in 2022-23. GLS revenues were boosted by acquisitions, including Rosenau (year-on-year revenue increase of £104 million) as well as pricing actions.

Reported Group people costs were down 1.4% year-on-year. Adjusted Group people costs were down 0.8% year-on-year. In Royal Mail, adjusted people costs reduced by £174 million year-on-year but GLS costs increased by £123 million. Given the level of revenue reduction in Royal Mail, we would have expected a higher decrease in variable people costs, but we were unable to reduce full time equivalents (FTE's) quickly enough in response to lower volumes in H1. The situation improved in H2 with strong controls put in place to reduce variable FTE costs. Royal Mail people costs were also impacted by industrial action. Pay was negated on industrial action days due to pay abatements, however additional agency costs were incurred in order to prepare for and recover from the industrial action that took place. In GLS, the people cost base has been affected by wage inflation in most markets, particularly Germany. More detail can be found in the "People costs" sections within this Financial Review.

Group non-people costs increased by 3.9%. Royal Mail non-people costs reduced by £94 million (3.7%) but this was more than offset by GLS increases of £302 million (10.2%). More detail can be found in the "Non-people costs" sections within this Financial Review.

Reported operating loss before specific items was £204 million (2021-22: £584 million profit), £788 million lower than the prior year. Operating specific items were a cost of £544 million (2021-22: cost of £7 million). 2022-23 includes an impairment charge in relation to Royal Mail of £539 million (2021-22: £nil). Further details are included in Notes 6 and 13 to the Financial Statements.

On a reported basis the Group operating loss margin was 6.2% (2021-22: 4.5% profit margin). Adjusted Group operating loss was £71 million (2021-22: £758 million profit). Adjusted Group operating loss margin was 0.6%, a significant decline on the prior period (2021-22: 6% operating profit margin). The decline was primarily due to Royal Mail operating losses. GLS' performance was broadly in line with the prior period including the effect of the Rosenau acquisition. Excluding Rosenau, GLS' adjusted operating profit was down £14 million (4.1%).

Royal Mail's margin deteriorated significantly from a 4.9% adjusted profit margin to a 5.7% adjusted loss margin. This was driven by the challenging trading environment as a result of the macro-economic conditions, industrial action and the inability to reduce FTE costs quickly enough in H1. GLS experienced a fall of 60 bps in adjusted operating margin, primarily due to the economic environment as well as cost and wage inflation which created, as expected, margin compression. For both businesses, the comparative also benefitted from increased volumes during COVID lockdowns.

Non-operating specific items were a credit of £111 million (2021-22: credit of £136 million). Further details are provided below in the section entitled "specific items and pension charge to cash difference adjustment".

Reported loss before tax of £676 million (2021-22: £662 million profit) comprised a £951 million loss in Royal Mail (2021-22: £346 million profit) and a £275 million profit in GLS (2021-22: £316 million profit). Basic reported earnings per share decreased to (91.3 pence loss per share (2021-22: 61.7 pence profit per share).

Revenue (£m)	52 weeks ending March			% change*	
	2023	2022	2020	2023 vs 2022	2023 vs 2020
Group⁴	12,044	12,712	10,840	(5.3%)	11.1%
Royal Mail	7,411	8,514	7,720	(13.0%)	(4.0%)
Total Parcels	3,910	4,800	3,702	(18.5%)	5.6%
Domestic Parcels (excluding international) ⁵	3,226	4,021	2,831	(19.8%)	14.0%
International Parcels ⁶	684	779	871	(12.2%)	(21.5%)
Letters	3,501	3,714	4,018	(5.7%)	(12.9%)
GLS	4,650	4,219	3,161	10.2%	47.1%

Volume (m units)	52 weeks ending March			% change*	
	2023	2022	2020	2023 vs 2022	2023 vs 2020
Royal Mail					
Total Parcels	1,205	1,517	1,312	(21%)	(8%)
Domestic Parcels (excluding international) ⁵	1,064	1,365	1,039	(22%)	2%
International Parcels ⁶	141	152	273	(7%)	(48%)
Addressed letters (excluding elections)	7,280	7,961	9,703	(9%)	(25%)
GLS	862	870	667	(1%)	29%

4. Royal Mail and GLS revenue does not equal Group revenue due to the elimination of intragroup trading (2022-23: £17 million, 2021-22: £21 million).

5. Domestic Parcels excludes import and export for both Royal Mail and Parcelforce Worldwide.

6. International includes import and export for Royal Mail and Parcelforce Worldwide.

* All percentage changes reflect the movement between figures as presented, unless otherwise stated.

Total Group parcel revenue fell 5.3% year-on-year. Parcel revenue accounted for 71% of total revenue (2021-22: 71%).

Segment – Royal Mail

Reported operating loss was £1,044 million (2021-22: £250 million profit). Royal Mail adjusted operating loss was £419 million (2021-22: £416 million profit) which included £33 million of voluntary redundancy costs. This is in line with guidance provided on 26 January 2023. Reported results were heavily impacted an impairment charge of £539 million (2021-22: £nil) and by 18 days of industrial action in the period. Revenue was lower, driven by a combination of the macro-economic environment impacting customers' disposable spend and the impact of industrial action. The prior year also benefited from higher test kit revenue (test kits were c. 7% of total parcel volumes in 2021-22 whereas they were c. 1% of volumes in 2022-23). During H1, the cost base was slow to adjust to lower volumes as we were unable to reduce our FTE costs quickly enough. However, H2 saw strong performance in reducing variable FTE resource and managing levels of attrition. As a result, frontline FTE's were 111.3k at the end of the year, down 10.1k (8%) from 121.4k at the end of 2021-22.

Revenue

Total revenue reduced £1,103 million (13.0%) versus the prior year. Revenue was impacted through 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.

Total revenue mix moved slightly in the year with parcels representing 53% of total Royal Mail revenue compared to 56% in the prior year. The change in mix was partially driven by a reduction in COVID test kits versus 2021-22.

Parcels

Total parcel revenue was £3,910 million, down 18.5% year-on-year. The prior year included periods when COVID restrictions were in place. As a result, comparative revenues and volumes benefitted as consumers sent more parcels and e-commerce sales were higher. This year, consumers' disposable income has reduced as a result of the uncertainty in the macro-economic environment leading to a reduction in parcel volumes. Furthermore, industrial action has adversely impacted revenue as customers moved volumes away from our network. These factors led to a decline in the revenue and volumes in almost all parcel revenue streams.

Domestic parcel revenues (excluding RM International and Parcelforce Worldwide import and export) were down 19.8% year-on-year, with volumes down 22%.

Within domestic parcels, account parcel revenues decreased by 23.5% on the prior year, partially due to COVID test kits, as the requirement for testing in the UK ceased in H1. Test kits represented c. 7% of parcel volumes in 2021-22 versus c. 1% in 2022-23. In addition, during the peak Christmas period (November and December 2022), we experienced ten days of national industrial action. This meant large account customers such as retailers used other parcel carriers to deliver their online sales. This was compounded by a reduction in consumer online spending driven by both the industrial action (which caused the public to return to the UK high street) and the economic environment which caused reduced levels of public spending.

Domestic parcels include Royal Mail's premium products, Tracked 24®/48® and Tracked Returns® which experienced volume declines of 21% year-on-year (2021-22 growth of 17%). As well as the factors outlined above the reduction in test kit traffic also impacted this revenue stream.

RM International services (which exclude Parcelforce Worldwide import and export) were adversely impacted by the global economic downturn and the cyber incident which temporarily disrupted service in H2. International revenues were down 12.2% with volumes down 7%.

Revenue in Parcelforce Worldwide was down year-on-year, with revenues down 12.9% and volumes down 12%.

Letters

Total letter revenue fell £213 million (5.7%) to £3,501 million, reflecting a return to structural decline in the letters market. In addition, the impact of a slowing economy and rising inflation was compounded by 18 days of industrial action. The prior year saw a 5.6% increase when letter volumes partially recovered from the impact of COVID in the previous year.

In 2022-23, volume decline of addressed letters excluding elections reverted to its long-term trend, falling 9%. The decline was driven by sharply declining volumes for international import and export letters, and by a significant drop-off in Consumer & Small Business letters of 21% – this reflects the impact of a large contraction in Stamped Letters volumes over the year. December is a pivotal month for stamp sales, but this year sales were badly affected by industrial action which necessitated the final posting dates for Christmas being brought forward.

Declines in advertising mail volumes (down 8%) were less marked, but still significant. The continued downturn in advertising mail volumes was driven by a combination of advertisers facing budget constraints in the face of significantly higher print and production costs, plus industrial action leading some advertisers to either delay or cancel mailing activity.

Business mail volumes declined 5% on 2021-22. However, price increases introduced during the year led to year-on-year revenue growth of 4.6% which more than counteracted the volume decline.

Financial Review continued

Adjusted operating costs²

(£m)	Adjusted 52 weeks March 2023	Adjusted 52 weeks March 2022	% change
People costs	(5,409)	(5,583)	(3.1%)
People costs excluding voluntary redundancy	(5,376)	(5,502)	(2.3%)
Voluntary redundancy costs	(33)	(81)	(59.3%)
Non-people costs	(2,421)	(2,515)	(3.7%)
Distribution and conveyance costs	(891)	(971)	(8.2%)
Infrastructure costs	(868)	(802)	8.2%
Other operating costs	(662)	(742)	(10.8%)
Total	(7,830)	(8,098)	(3.3%)

2. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. A full reconciliation of reported to adjusted results is explained on pages 238 to 242.

Total adjusted operating costs decreased 3.3% year-on-year. Key reasons for the movements are explained in the "People costs" and "Non-people costs" sections below.

People costs

Total people costs reduced by £174 million (3.1%). This included a reduction in year-on-year voluntary redundancy charges of £48 million. The prior year included a voluntary redundancy charges of £81 million, of which £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.

Excluding voluntary redundancy charges, people costs decreased by £126 million (2.3%), however given the level of volume reduction, we would have expected the reduction to have been higher.

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.

Last month (April 2023), after lengthy negotiations, we were pleased that the CWU's Postal Executive Committee ratified the Business Recovery, Transformation and Growth Agreement (see page 16) and that it will put 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: £62 million) however the level of absence remains higher than before COVID. In the current period 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 5-6%.

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.

Non-people costs

Non-people costs reduced by £94 million (3.7%) year-on-year.

Within non-people costs, distribution and conveyance costs were down £80 million (8.2%). Volume related savings from reduced test kit volumes and lower volumes generally outweighed cost pressures related to industrial action preparation (such as third-party haulier contracts) and inflation. Total diesel and jet fuel costs decreased to £163 million (2021-22: £191 million) driven by a decrease in the volume of diesel used as a result of the introduction of more electric vehicles and other fuel efficiency initiatives. In addition, the benefit of the reduction in fuel duty and a stronger hedge position limited exposure to the spot market.

Infrastructure costs were up £66 million (8.2%) year-on-year. Cost pressures included the impact of inflation, particularly on electricity, as well the cost of the cyber incident. Depreciation and amortisation costs (which form part of infrastructure costs) were up £36 million year-on-year, driven mainly by an impairment of £17 million on our Resource Scheduling asset and £10 million accelerated depreciation associated with a property asset. Excluding these, depreciation and amortisation was up c.£9 million, driven largely by the impact of new asset additions such as the North West Super Hub.

Other operating costs reduced £80 million (10.8%) year-on-year. Over half of this was linked to volume related savings, for example in relation to the Post Office Limited (POL) contract. We also saw reduction in non-people related transformation costs.

Royal Mail's performance in 2022-23 against its Universal Service products' Quality of Service measure is below Ofcom's regulatory targets. Management is actively engaging with Ofcom, explaining why current performance is below target due to unprecedented circumstances. Following publication of our Universal Service Obligation Quality of Service for 2022-23, Ofcom has now opened a full investigation, the outcome of which cannot be determined at this time. Consequently, the financial results for 2022-23 do not include any accrual for potential fine.

Segment – GLS⁷

Summary results ⁸ (£m)	12 months to 31 March 2023	12 months to 31 March 2022	% change
Revenue	4,650	4,219	10.2%
Operating costs	(4,302)	(3,877)	11.0%
Operating profit before specific items ⁸	348	342	1.8%
(£m)			
Revenue	5,384	4,959	8.6%
Operating costs	(4,981)	(4,557)	9.3%
Operating profit before specific items ⁸	403	402	0.2%

7. The results for 2022-23 include a full year of contribution from the acquisition of Rosenau Transport (£20 million operating profit before specific items). The prior year only includes four months of contribution following the acquisition on 1 December 2021, worth £4 million.
8. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the section entitled 'Specific items and pension charge to cash difference adjustment'. As the pension charge to cash difference is not applicable to GLS, the operating profit before specific items is the same on a reported and adjusted basis, and thus no separate adjusted measures have been presented.

In Sterling terms, reported operating profit was £296 million (2021-22: £327 million). Operating profit before specific items was £348 million (2021-22: £342 million). Foreign exchange movements favourably impacted revenue by £69 million and adversely impacted costs by £64 million resulting in a net increase to operating profit of £5 million.

Adjusted operating profit before specific items in Euro terms increased by €1 million. Adjusted operating margin deteriorated by 60 bps, to 7.5%, due to operational cost pressures including general inflation and driver shortages across most markets.

Revenue

Revenue increased by 10.2% in Sterling terms (8.6% in Euro terms). Excluding acquisitions, revenue was up 7.7% in Sterling terms, driven by better pricing. Revenue growth was achieved in almost all markets despite a reduction in volumes resulting from a deterioration in the global economic environment and the cost of living crisis. GLS' European markets represented 87.3% of total revenue (2021-22: 89.6%), with the North American market contributing 12.7% (2021-22: 10.4%).

Overall volumes decreased by 1% impacted by the unwinding of temporary benefits from COVID lockdown restrictions in the prior year and the general deterioration in the economic environment. B2C volume share at 55% was in line with the prior year.

Operating costs

(£m)	Reported 12 months to 31 March 2023	Reported 12 months to 31 March 2022	% change
People costs	(1,031)	(908)	13.5%
Non-people costs	(3,271)	(2,969)	10.2%
Distribution and conveyance costs	(2,847)	(2,606)	9.2%
Infrastructure costs	(310)	(257)	20.6%
Other operating costs	(114)	(106)	7.5%
Total	(4,302)	(3,877)	11.0%

Total reported operating costs in Sterling terms increased by 11.0%, or 8.7% excluding acquisitions.

Costs were impacted by significant inflationary pressures. A combination of higher fuel costs and wage inflation (for example higher minimum wages in Germany), contributed to increases in subcontractor costs for collection, delivery and line-haul services. The reported increase in costs in Euro terms is presented below.

(£m)	Reported 12 months to 31 March 2023	Reported 12 months to 31 March 2022	% change
People costs	(1,194)	(1,067)	11.9%
Non-people costs	(3,787)	(3,490)	8.5%
Distribution and conveyance costs	(3,296)	(3,064)	7.6%
Infrastructure costs	(359)	(302)	18.9%
Other operating costs	(132)	(124)	6.5%
Total	(4,981)	(4,557)	9.3%

People costs

In Euro terms people costs increased by 11.9%, or 7.7% excluding acquisitions. Wage inflation in all markets contributed to the increase, including the effect from a significant increase in the minimum wage level in Germany during 2022.

Non-people costs

Non-people costs increased by 8.5%, or 7.0% excluding acquisitions. Distribution and conveyance costs were up 7.6%, or 6.5% higher excluding acquisitions, driven by higher subcontractor rates resulting from wage inflation and increased fuel costs. Line-haul costs in particular were impacted significantly by the higher cost of diesel during the year. Infrastructure and other operating costs increased by 18.9% and 6.5% respectively (13.1% and 4.4% respectively excluding acquisitions), principally due to higher depreciation, higher utilities costs and higher rent and rates.

Financial Review continued

Country overview

The following individual market summaries detail revenue growth in Euro terms, unless otherwise stated.

In Germany, the largest GLS market by revenue, revenue grew by 5.1% despite lower volumes. Revenue growth benefitted from strong price increases implemented in response to the higher German minimum wage and its consequent impact on the cost base, together with other inflationary effects. Operating profit declined due to the combination of lower volumes and higher unit costs which could not be fully mitigated by better pricing.

GLS Italy revenue grew by 5.6%, driven by better pricing and higher volumes. Operating profit increased compared with the prior year, benefitting from strong growth in international volumes.

Revenues in GLS Spain grew by 4.3%, driven by better pricing while volumes were broadly in line with the prior year. Operating profit was below the prior period as higher operational costs could not be fully offset through improved pricing. A new hub was opened in Madrid during the year, providing significant additional capacity which will support volume development in the coming years.

GLS France reported a good improvement in operating profit during the year, reaching a break-even result. This was achieved despite the difficult economic conditions. Revenue grew by 5.2%, benefiting from better pricing and very good cost control which mitigated a decline in volumes. The business continues on a good trajectory.

Financial performance in the US was disappointing. Revenues declined by 3.4% in USD terms. The combination of weak revenue development and strong inflationary effects on the cost base resulted in higher losses compared with the prior year. Initiatives to turnaround the business are in progress, with a headcount reduction programme completed before the year end. Sales activities are being intensified to secure higher volumes and grow revenues, which together with further measures to lower unit costs represent the pathway to improved profitability.

Strong performance in Canada underpinned by the Rosenau acquisition, which is performing ahead of plan. GLS Canada revenue increased by 18.2% in Euro terms (11.5% in CAD terms) on an organic basis, driven by higher yield, including the benefit from higher fuel surcharges. The focus for the coming year will be to secure further synergies between Rosenau and the pre-existing GLS Canada operations, to further grow revenues and reduce unit costs.

Revenue growth in GLS' other developed European markets was 6.6% driven by better pricing and slightly higher volumes.

Other developing markets saw a slow-down in volume growth due to impact from war in Ukraine and the cost of living crisis. Revenues were up 7.6% but reported operating profit declined. Revenue growth and operating profit was negatively impacted by a weakening of currencies, in particular the Hungarian Forint. In order to protect market position and reduce final mile costs, investments in parcel lockers were scaled-up during the year. Further investments are planned in the coming years.

Other Group financial performance measures

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks March 2023	52 weeks March 2022
Pension charge to cash difference adjustment (within people costs)	(133)	(174)
Operating specific items		
GLS VAT adjustments	(33)	–
GLS amortisation of intangible assets in acquisitions	(19)	(16)
RM excl. Parcelforce Worldwide impairment	(539)	–
RM damages award	35	–
RM legacy/other items	12	9
Total operating specific items	(544)	(7)
Non-operating specific items		
Profit on disposal of property, plant and equipment	6	72
Net pension interest	105	64
Total non-operating specific items	111	136
Total specific items and pensions adjustment before tax	(566)	(45)
Total tax (charge)/credit on specific items and pensions adjustment	(111)	62

The pension charge to cash difference adjustment largely comprises the difference between the IAS 19 income statement pension charge rate of 22.9% (2021-22: 24.6%) for the Defined Benefit Cash Balance Section (DBCBS) from 28 March 2022 and the actual cash contribution rate agreed with the Trustee of 15.6% (2021-22: 15.6%). The charge was £133 million in the period (2021-22: £174 million). The decrease in the IAS 19 pension charge rate is due to the increase in the net discount rate (versus CPI) between March 2021 and March 2022.

The specific item of £33 million (€39 million) (2021-22: £nil) in GLS relates to the settlement of VAT in Italy, covering the years 2016 to 2021.

Amortisation of acquired intangible assets of £19 million (2021-22: £16 million) largely relates to acquisitions made by GLS in Canada, Spain, USA and Italy.

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 RM 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 £539 million. See Note 13 for further details.

The £35 million (2021-22: £nil) damages award follows a claim by Royal Mail against DAF Trucks Limited (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 credit in respect of Industrial Diseases claims as a result of an increase in the discount rate versus the prior period due to an increase in gilt yields at the year-end date. The prior year credit of £9 million largely relates to the same item.

The profit on disposal of property, plant and equipment of £6 million primarily relates to the sale of a number of Royal Mail properties. The prior year profit of £72 million primarily relates to the sale of Plots E, F and G at the Nine Elms development site.

Net pension interest credit of £105 million (2021-22: £64 million) is calculated by reference to the net pension surplus at the start of the financial year. The increase in the year of £41 million is as a result of a higher overall pension surplus and higher discount rate used at 27 March 2022, compared with 28 March 2021.

The tax charge of £111 million (2021-22: £62 million credit) includes a charge of £115 million (2021-22: Nil) in relation to the derecognition of the UK net deferred tax asset, a net credit of £4 million (2021-22: £30 million) in relation to the tax effect of certain specific items and the pension charge to cash difference and a net credit of £Nil (2021-22: £32 million) in relation to the remeasurement of certain UK deferred tax assets and liabilities at the future UK corporation tax rate of 25%.

Net finance costs

Reported net finance costs of £39 million (2021-22: £51 million) comprise interest on leases of £32 million (2021-22: £29 million), interest on bonds (including cross-currency swaps) of £24 million (2021-22: £24 million), interest/fees on the bank syndicate loan facility of £2 million (2021-22: £2 million), and other net interest payable of £2 million (2021-22: £2 million). This was offset by interest income of £21 million (2021-22: £6 million) which increased as a result of higher interest rates.

The blended interest rate on gross debt, including leases for 2022-23, is approximately 3%. The impact of retranslating the €500 million and €550 million bonds is accounted for in equity.

Taxation

The Group recognised a reported tax charge of £197 million (2021-22: £50 million charge) which consists of a tax charge of £119 million (2021-22: £24 million credit) in Royal Mail and a tax charge of £78 million (2021-22: £74 million) in GLS.

The GLS reported effective tax rate of 28.4% (2021-22: 23.3%) is higher than the UK statutory rate mainly due to the settlement of VAT in Italy for which there is no tax credit; the effect of losses in the US for which no deferred tax credit is recognised and higher rates of tax in some of the countries in which it operates.

The GLS adjusted effective tax rate of 25.2% (2021-22: 23.6%) is lower than the reported effective tax rate as it does not include the effect of VAT adjustments in Italy which is treated as a specific item.

The Royal Mail reported tax charge of £119 million (2021-22: £24 million credit) arose on a loss of £951 million (2021-22: £346 million profit). The tax charge arises mainly as a result of the derecognition of the brought forward net deferred tax asset, which has been treated as a specific item. The Adjusted tax charge of £4 million (2021-22: £34 million) is significantly impacted by the non-recognition of a deferred tax asset on the current year loss.

Earnings per share (EPS)

Reported basic EPS was a loss of 91.3 pence per share (2021-22: 61.7 pence profit per share) and adjusted basic EPS was a loss of 20.5 pence per share (2021-22: 60.0 pence profit per share).

In-year trading cash flow¹

(£m)	52 weeks ending March 2023			52 weeks ending March 2022		
	Royal Mail	GLS	Group	Royal Mail	GLS	Group
Adjusted operating (loss)/profit	(419)	348	(71)	416	342	758
Depreciation and amortisation	433	169	602	397	143	540
Adjusted EBITDA	14	517	531	813	485	1,298
Trading working capital movements	(70)	18	(52)	(36)	12	(24)
Share-based awards (LTIP and DSBP) charge adjustment	2	–	2	3	–	3
Gross capital expenditure	(255)	(152)	(407)	(441)	(162)	(603)
Estate Upgrade Programme ⁹	(14)	–	(14)	–	–	–
Net finance costs paid	(22)	(19)	(41)	(41)	(11)	(52)
Dividend received from associate undertaking	–	–	–	5	–	5
Income tax received/(paid)	39	(92)	(53)	(23)	(85)	(108)
In-year trading cash flow	(306)	272	(34)	280	239	519
Capital element of operating lease repayments ¹⁰	(104)	(75)	(179)	(102)	(64)	(166)
Pre-IFRS 16 in-year trading cash flow	(410)	197	(213)	178	175	353

1. Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, the Group's performance is explained through the use of Alternative Performance Measures (APMs) that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained on pages 238 to 242 and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group's functional currency of Sterling and Euro) are provided where appropriate.

9. Capital expenditure on the properties in this programme is funded via the disposal of other properties. The disposal proceeds are recognised outside of in-year trading cash flow.

10. The capital element of lease payments of £202 million (2021-22: £192 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £179 million (2021-22: £166 million) and the capital element of finance lease payments of £23 million (2021-22: £26 million).

Financial Review continued

In-year trading cash flow

Group in-year trading cash outflow was £34 million, compared with £519 million inflow in the prior period. This decrease was predominantly driven by the decline in the trading performance in Royal Mail offset by a reduction in Royal Mail capex of £186 million.

Royal Mail trading working capital cash flow decreased by £34 million year-on-year. This was driven by a number of factors including working capital outflows related to the voluntary redundancy programmes that took place in the prior year.

GLS trading working capital movements improved by £6 million. GLS in-year trading cash flow increased by £33 million year-on-year due to higher EBITDA, improved trading working capital and lower capital expenditure, partially offset by interest and income tax payments.

Total gross capital expenditure was £407 million (2021-22: £603 million), of which GLS spend was £152 million (2021-22: £162 million). Royal Mail capital expenditure was £255 million (2021-22: £441 million), of which £127 million (2021-22: £205 million) was transformational spend.

Transformational spend predominantly relates to our investment in parcel hubs and automation. Royal Mail maintenance spend was £128 million (2021-22: £236 million). The decrease is as a result of less capital expenditure on new vehicles and on personal digital assistants (PDA's), which were subject to extensive investment in the prior year.

Income tax paid decreased by £55 million. Royal Mail income tax received of £39 million mainly relates to a receipt following HMRC's agreement of the patent box claims and other repayments in respect of prior years. GLS income tax paid of £92 million was £7 million higher than the prior year due to increased tax payments on account following the Rosenau Transport acquisition and the timing of payments across other jurisdictions.

The capital element of operating lease repayments of £179 million (2021-22: £166 million) reflects the net impact on in-year trading cash flow as a result of adopting IFRS 16. The increase is due to new leases in the current and prior year. Adjusting for the capital element of operating lease repayments, pre-IFRS 16 in-year trading cash flow would have been £213 million outflow (2021-22: £353 million inflow).

Net debt¹

A reconciliation of net debt is set out below.

(£m)	52 weeks March 2023	52 weeks March 2022
Net debt brought forward at 28 March 2022 and 29 March 2021	(985)	(457)
Free cash flow	(89)	420
In-year trading cash flow	(34)	519
Cash cost of operating specific items	(53)	(4)
Proceeds from disposal of property (excluding Estate Upgrade Programme ¹¹ and London Development Portfolio) plant and equipment	3	10
Proceeds from disposal of property relating to the Estate Upgrade Programme ¹¹	8	–
Acquisition of business interests	(7)	(204)
Cash flows relating to London Development Portfolio	(6)	99
Purchase of escrow investments ¹⁵	(13)	–
Purchase of own shares	–	(17)
Movement in GLS client cash ¹²	(2)	(5)
New or increased lease obligations (non-cash)	(204)	(380)
New asset finance (non cash)	(27)	–
Foreign currency exchange impact	(53)	21
Share buyback	–	(201)
Dividends paid to equity holders of the Parent Company	(127)	(366)
Net debt carried forward	(1,500)	(985)
Operating leases ¹³	1,319	1,292
Pre-IFRS 16 net (debt)/cash¹⁴	(181)	307

1. Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, the Group's performance is explained through the use of Alternative Performance Measures (APMs) that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained on pages 238 to 242 and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group's functional currency of Sterling and Euro) are provided where appropriate.
11. Capital expenditure on the properties in this programme is funded via the disposal of other properties, the capital expenditure is presented within in-year trading cash flow.
12. GLS client cash movements are presented as part of the working capital movements line in the statutory cashflow. The movement in the period excluding foreign currency exchange impacts is £2 million outflow (2021-22: £5 million outflow). The foreign currency movement on GLS client cash in the period was a gain of £2 million (2021-22: £nil) which is included in the £53 million foreign currency exchange outflow line in the table (2021-22: £21 million inflow).
13. This amount represents leases that would not have been recognised on the Balance Sheet prior to the adoption of IFRS 16.
14. This measure is considered as the Group's banking covenants are calculated on a pre-IFRS 16 basis.
15. Net release of pension escrow investments (£8 million) in the consolidated statement of cash flows consists of £21 million release of RMSEPP pension escrow investments net of £13 million investment in RMCP pension escrow (2021-22: £nil movements).

The cash cost of operating specific items was an outflow of £53 million (2021-22: £4 million outflow) consisting mainly of the Ofcom regulatory fine payment of £52 million and Industrial Diseases claims of £3 million as well as £33 million relating to GLS settlement of VAT adjustments in Italy covering 2016-2021 offset by £35 million receipt of damages awarded following settlement of a court case. The prior year consisted mainly Industrial Diseases claims and National Insurance payments for Employee Shares.

Acquisition of business interests of £7 million outflow relates mainly to the acquisition of Tousfacteurs (£5 million) and payment of deferred consideration on other GLS acquisitions (£3 million) offset by a purchase price refund in respect of the acquisition of Rosenau Transport in the previous year. The outflow of £204 million in the prior year relates mainly to the acquisition of Rosenau Transport by GLS.

The net cash outflows relating to the London Development Portfolio were £6 million (2021-22: £99 million inflow). Further details are provided in the London Development Portfolio section below.

The amount of GLS client cash held at 26 March 2023 was £36 million (2021-22: £36 million).

New or increased lease obligations of £204 million (2021-22: £380 million) relate to additional lease commitments that were entered into during the year. Property lease additions, modifications and acquisitions totalled £139 million (2021-22: £335 million).

New asset finance of £27 million (2021-22: £nil) represents borrowings to fund the purchase of tangible fixed assets in GLS.

Net Debt (£m)

	2022-23 RM	2022-23 GLS	2022-23 Corporate Centre	2022-23 Group
Bonds	–	–	(922)	(922)
Asset finance	–	(25)	–	(25)
Financial leases	(32)	(11)	–	(43)
Cash and cash equivalent investments ¹⁶	445	326	2	773
Client cash	–	36	–	36
Inter-business loans	(616)	(191)	807	–
Net Debt pre-IFRS 16	(203)	135	(113)	(181)
Operating leases	(897)	(422)	–	(1,319)
Net debt	(1,100)	(287)	(113)	(1,500)

16. Cash and cash equivalents includes bank overdrafts of £89 million at 26 March 2023 that are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management.

Financial Review continued

Approach to capital management

Due to the current issues regarding profitability in Royal Mail and the unresolved industrial dispute, the Group capital allocation framework, including future dividend policy, is currently under review.

The Group capital allocation framework until now has been to: invest in our business to support growth, maintain our investment grade rating, pay a sustainable dividend and retain flexibility for selective acquisitions. Due to the high operational leverage in our business, we continue to keep low levels of financial leverage. The net debt position (pre-IFRS 16) at 26 March 2023 was £181 million (2021-22: net cash £307 million). GLS is cash generative and we believe Royal Mail has the potential to be an independently cash generative business. In line with this framework, the Group's key 2022-23 capital management objectives are detailed below together with a progress update.

Objectives	Enablers	2022-23 update
Meet the Group's obligations as they fall due.	Maintaining sufficient cash reserves and committed facilities to: <ul style="list-style-type: none"> – Meet all obligations, including pensions. – Manage future risks, including the principal risks. 	<p>At 26 March 2023, the Group had available resources of £1,698 million (2021-22: £2,096 million) made up of cash and cash equivalents of £773 million (2021-22: £1,101 million), current asset investments of £nil (2021-22: £70 million) and undrawn committed bank syndicate loan facilities of £925 million (2021-22: £925 million).</p> <p>At 26 March 2023, the Group met the loan covenants (which were amended on 24 March 2023 to replace Group EBITDA in the calculations with GLS EBITDA) and other obligations for its bank syndicate loan facility and €500 million and €550 million bonds.</p> <p>On 9 May 2023, the Group secured a backstop facility of €500 million from a syndicate of banks to provide additional flexibility on the timing for refinancing the €500 million bond maturing in July 2024.</p> <p>As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.</p>
Support a progressive dividend policy.	Generate sufficient in-year trading cash flow to cover the ordinary dividend. Maintain sufficient distributable reserves to sustain the Group's dividend policy.	<p>The Group reported £34 million of in-year trading cash outflow (2021-22: £519 million inflow), consequently no full year ordinary dividend is proposed (2021-22: 20.0 pence per share).</p> <p>Capital managed by the Group, excluding the pension scheme surplus net of withholding tax, is £1,845 million at 26 March 2023 (2021-22: £2,611 million).</p> <p>The Group had retained earnings of £3,761 million at 26 March 2023 (2021-22: £5,248 million). The Group considers it has a maximum level of distributable reserves of around c. £2 billion (2021-22: £2 billion), which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend.</p>
Reduce the cost of capital for the Group.	Target investment grade standard credit metrics i.e. no lower than BBB-under Standard & Poor's rating methodology.	During the year, the Group maintained a credit rating of BBB with Standard & Poor's but the outlook was revised from positive to negative.
Retain sufficient flexibility to invest in the future of the business.	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating.	<p>During the year, the Group made total gross capital investments of £407 million (2021-22: £603 million) and acquisition of business interests of £7 million (2021-22: £204 million) while retaining sufficient capital headroom. The gross capital investments of Royal Mail were £255 million (2021-22: £441 million), this reduction was undertaken as part of the five-point stabilisation plan for Royal Mail.</p> <p>The gross capital investments of GLS were £152 million (2021-22: £162 million).</p>
Maintain suitable financial leverage	Retain sufficient leverage, commensurate with the Board's assessment of the risk environment	<p>In November 2021, the Directors stated that they expect to move towards a net £nil cash position (pre-IFRS 16) over the next two years from a net cash position at 26 September 2021 of £685 million.</p> <p>During the year, the Group made dividend payments of £127 million (2021-22 £366 million including a special dividend of £199 million).</p> <p>The net debt position (pre-IFRS 16) at 26 March 2023 was £181 million (2021-22: net cash of £307 million).</p>

Financial risks and related hedging

The Group is exposed to commodity price and currency risk.

Royal Mail operates a three-year layered rolling hedging strategy for fuel and energy. Royal Mail has hedges in place for 87% of total underlying commodity costs for 2022-23; as a result, a further 10% increase in underlying commodity costs would reduce operating profit by just £2 million. However, a 10% increase in fuel duty/other additional costs would reduce operating profit by £15 million.

Without hedging, diesel and jet fuel costs for 2023-24 would be around £30 million higher, while gas and electricity costs would be around £19 million higher, based upon closing commodity prices at 26 March 2023.

GLS generally out-sources its collection, delivery and line-haul activities to subcontractors, and therefore is not significantly directly exposed to higher fuel costs. Nevertheless, there is an indirect exposure, as increasing fuel costs for subcontractors lead to higher rates for their services as they seek to pass on the higher fuel costs incurred.

GLS has very limited direct exposure to diesel costs. GLS does not hedge exposure to energy costs, a further 10% increase in energy costs would increase energy costs by £4 million.

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

The average exchange rate between Sterling and the Euro was £1:€1.16 (2021-22: £1:€1.18). This resulted in a £5 million increase in GLS' reported operating profit before tax in 2022-23 (2021-22: £16 million decrease). The net impact on Group operating profit before tax was a £5 million increase (2021-22: £16 million decrease).

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 26 March 2023, all the gross debt (excluding bank overdrafts which were part of a cash pool) of £2,309 million (2021-22: £2,213 million) was at fixed rates.

London Development Portfolio

In total we have invested £6 million in the period on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

1) Mount Pleasant

This site was sold to Taylor Wimpey in 2017 subject to completion of separation works. These works were completed in 2021, with £115 million received as at 26 March 2023 with the remainder of the cash due to be received through a stage payment in 2023-24 (£66 million) and a final payment in 2024-25 (£9 million).

2) Nine Elms

This 13.9 acre site with planning consent to develop 1,911 residential units, was split into various plots and sold. As at 26 March 2023 the sale proceeds received are £244 million. Further receipts of (£27 million) are expected in 2023-24.

Further investment by Royal Mail will be required in relation to infrastructure obligations.

Pensions

Royal Mail makes contributions to two main schemes in the UK; the Royal Mail Defined Contribution Plan (RMDCP) and the DBCBS of the Royal Mail Pension Plan (RMPP).

The Group also operates two additional UK defined benefit schemes which are closed to future accrual, the legacy section of the RMPP and the Royal Mail Senior Executives Pension Plan (RMSEPP).

The buy-out of the RMSEPP was completed in June 2022, when the bulk annuity policies held were exchanged for individual policies between the insurers and all remaining members.

The Group's obligations under the RMSEPP have now been fully extinguished and the Group expects to proceed to wind up the plan in the coming months. The scheme still holds residual assets of £8 million which are expected to be returned to the Group following the wind up of the scheme subject to the payment of any remaining closure expenses and the deduction of withholding tax.

Royal Mail also aims to introduce a new pension scheme, the Royal Mail Collective Pension Plan (RMCPP) which will replace the existing DBCBS and the RMDCP for future accrual and will comprise a Defined Benefit Lump Sum Section (DBLS), similar to the existing DBCBS, and a Collective Defined Contribution (CDC) Section. The Trustee's application to the Pensions Regulator for authorisation has been approved.

The CDC Section will be accounted for as a defined contribution scheme and the DBLS as a defined benefit scheme with the accounting treatment expected to be similar to the DBCBS. The new arrangements will have fixed employer contributions of 13.6%, plus an additional 1.0% for employees who choose to save for an additional lump sum payment. Standard employee contributions will be 6.0%.

Cash pension costs

The Group's cash pension costs in respect of all UK pension schemes were £376 million in the year, excluding Pension Salary Exchange (PSE).

When the design of the RMCPP was agreed in 2018, the fixed employer contribution rate of 13.6% of pensionable pay was designed to be affordable and sustainable for Royal Mail. The expected cost of RMCPP based on pensionable payroll at that time was approximately the same as the cost of the existing schemes, at around £400 million per year. The new RMCPP is expected to increase cash payroll costs by c.£30-35 million per annum, when it is introduced. The main reason for the increase is that although the estimated cost of the RMCPP as a percentage of pensionable pay will remain broadly the same as in 2018, payroll costs have increased. In addition, since the RMPP closed to accrual in 2018, the cost of existing plans has been reducing over time relative to overall pay costs, as DBCBS members leave and are replaced by new employees who join the RMDCP, at a lower employer contribution rate.

Defined benefit schemes – balance sheet position

An IAS 19 deficit of £145 million (27 March 2022: £390 million) is shown on the balance sheet in respect of the DBCBS; however, the scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The significant decrease in the deficit in the year is largely due to a considerable increase in the 'real' discount rate (the difference between RPI and the discount rate based on corporate bond yields), as a result of a large increase in corporate bond yields at the balance sheet date, versus the year end which has had the effect of significantly reducing liabilities.

Financial Review continued

The RMPP scheme closed to future accrual in its previous form from 31 March 2018. The pre-withholding tax accounting surplus of the legacy section of the RMPP at 26 March 2023 was £3,003 million (27 March 2022: £4,182 million). The pre-withholding tax accounting surplus has decreased by £1,179 million in the period. This was the result of a significant increase in index-linked gilt yields, against which the RMPP liabilities are hedged, driving a large proportion of the £3,538 million reduction in the value of this section's assets. This movement was however to a large degree offset by a significant increase in the 'real' discount rate driving a large proportion of an overall £2,359 million reduction to the value of the RMPP's calculated liabilities versus the prior year end. Although the surplus has decreased in absolute terms, the funding level on an accounting basis (assets as a proportion of liabilities) has improved since the year end as a result of the significant decrease in liabilities.

Further details of all the Group's pension arrangements can be found in Note 11 to the Consolidated Financial Statements.

Dividends

A final dividend for 2021-22 of 13.3 pence per share was paid on 6 September 2022.

Given the performance of Royal Mail in 2022-23, and increased investment in GLS, the Board has decided not to pay a final dividend in respect of 2022-23.

Outlook 2023-24

The trading environment continues to be uncertain for both Royal Mail and GLS. All of our markets are impacted by a challenging global economy, including high levels of inflation and expectations of lower future economic growth. Against that backdrop, we are targeting a Group adjusted operating profit in 2023-24.

Royal Mail

2022-23 adjusted operating profit was in line with guidance for the year, although revenue trading in the final quarter was slightly weaker than had been anticipated, offset by some one-off cost credits. The weaker revenue trajectory runs into 2023-24 as the time taken to resolve the industrial dispute and improve the reliability of service quality is prolonged.

Looking forwards, we are targeting to restore profitability in Royal Mail over the two remaining years of the recommended pay deal, with a return to adjusted operating profit (before voluntary redundancy costs) in 2024-25.

The key bridging items that explain the two-year turnaround include some items already known, plus a number of improvements that are planned.

Items currently quantifiable (subject to ratification of the CWU deal):

- CWU pay costs will increase by 8% (6% in 2023-24 and a further 2% in 2024-25). This will increase annual costs by c.£350 million.
- We have secured a reduction in FTEs of c.10,000 on exit from 2022-23. This equates to an annualised run rate saving of c.£300 million.
- 2022-23 included pay abatements during the days of strike action totalling c.£150 million. These are not expected to repeat.

Other planned improvements include:

- Recovery of revenues lost during the industrial action in 2022-23. We will target the recovery of c.80% of the customer revenue lost.

- Revenue growth from other initiatives, including from new and improved service offerings following the opening of the Midlands Super Hub.
- Cost efficiencies from the changes planned in the operation and other initiatives to control operating expenditure.
- Benefits of CWU agreement offset by pay costs over 2 years.

The revenue growth initiatives are reliant on quality of service improvement. A number of the operational efficiency initiatives are directed also at improving service to customers.

It is anticipated that the above will enable Royal Mail to return to profitability, excluding voluntary redundancy charges.

The current financial year, 2023-24 is expected to be another challenging one. In the first half, a combination of the 6% pay increase in April 2023 and the currently weaker revenue trajectory are expected to combine to mean the adjusted operating loss in H1 is expected to be higher year on year. H2 is expected to see significant year on year improvement, as we lap the main impacts of industrial disruption in the prior year and as revenue recovery and new efficiency initiatives contribute to the turnaround. The extent to which progress is made in 2023-24 will be dependent on our ability to improve service quality and the extent to which we are able to make progress on change in operations, which we must do, with or without a deal.

Our target is to offset in year trading cash outflows with proceeds from real estate disposals.

GLS

In 2023-24, we expect macro-headwinds to continue, especially in the first half, and a return to volume growth, whilst further pricing actions, supported by our ongoing investments in digitalisation and automation, should partially offset inflationary pressure.

GLS has the right strategy and business model, and will now increase investments in strategic areas which offer opportunities to grow and deliver good returns: parcel lockers, geographical expansion (e.g. Serbia) fulfilment and 2-person handling. GLS already has a leading position in lockers in Hungary and Slovenia, and further investment will enhance its position in a number of European markets. Serbia represents an attractive market and will further strengthen GLS' position in Eastern Europe.

Year-on-year revenue growth in Euros is expected to be in the 3% to 5% range. The impact from the initiatives above, taken together with adverse working day effects, is expected to result in an adjusted operating profit in the range €350 to €370 million. Underlying adjusted operating profit, excluding strategic investments and working day effects, is expected to be in the range of €380 to €400 million - only slightly below the 2022-23 outturn - despite challenging macro-economic conditions.

Capex is expected to increase to support growth opportunities, to around 5% of revenue, although should converge to the previous guidance range (3-4% of revenues) within 2 to 3 years.

In the medium term, GLS is targeting €500 million operating profit in 2026-27.

Non-Financial Information Statement



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

Environment	
Material policies	How we monitor effectiveness
ESG Policy Statement (Group) Environment and Energy Policy (Royal Mail) Environmental Standard (GLS) Outline our commitments to responsible management of natural resources, climate change mitigation and adaptation, pollution prevention and protection of the environment. Includes engagement with our people, customers and suppliers.	<ul style="list-style-type: none"> – Monitor the scores and rankings in sustainability benchmarks and indices. – Measure performance against key environmental metrics. – Regular audits against our environment management systems. – Include environmental criteria in supplier selection frameworks and monitor suppliers' performance (Royal Mail). – Board oversight of performance by the ESG Committee. Pages 101 and 102.
Outcomes	Risk management
<ul style="list-style-type: none"> – Our environment strategies, approach and policy outcomes. Pages 27 to 29. – Environmental performance against key metrics including carbon emissions and waste generation (pages 27 and 29). – The Board factors the impact of the Group's operations on the community and the environment into its decision making. Pages 24 and 25. 	<ul style="list-style-type: none"> – Principal risk: Climate change and environmental management. Page 53. – Implementation of TCFD recommendations. Pages 38 to 45.
Employees	
Material policies	How we monitor effectiveness
ESG Policy Statement (Group) Our Business Standards (Royal Mail) Code of Business Standards (GLS) Page 37. People Policy (Royal Mail) A single policy statement which sets out our overarching commitment to colleagues throughout their employment with Royal Mail. Royal Mail and GLS Speak Up (Reporting) policies Our commitments to investigating suspected wrongdoing, including the system for raising concerns and our respect for whistleblower confidentiality. Royal Mail and GLS Health and Safety policies Our commitments to managing health and safety risks, removing or reducing the likelihood of injury or harm to its employees or others. Equality, Diversity and Inclusion Statement (Royal Mail) Diversity Statement (GLS) Our commitments to ensure that equality, diversity and inclusion are at the heart of our business values, policies, processes and everyday practices. Pages 33 and 34.	<ul style="list-style-type: none"> – Monitor health and safety performance metrics and undertake regular audits against our SHE management systems. Pages 30 and 31. – Regular employee engagement forums and surveys allow us to monitor culture and engagement. Page 22 and 32. – Track workforce diversity (in GLS gender only) across job levels and different business areas against targets. Page 33 and 34. – Monitor the contact across our whistleblowing channels and investigate concerns/incidents raised. Pages 36 and 37. – Designated Non-Executive Director for engagement with the workforce. Page 84. – Board oversight of performance by the ESG Committee. Pages 101 and 102.
Outcomes	Risk management
<ul style="list-style-type: none"> – Our people strategies, approach and policy outcomes. Pages 30 to 34. – Our health, safety and wellbeing performance. Page 30 and 31. – Our gender diversity profile. Pages 33 and 34. – Feedback from employee engagement activities and surveys. Pages 17 and 32. – The Board factors the interests of our employees into its decision making. Pages 24 and 25. 	<ul style="list-style-type: none"> – Principal risks: Industrial action, Talent: workforce for the future, Actual or suspected breaches of material law and/or regulation and Health, safety and wellbeing. Pages 50, 54 and 55.
Social and community	
Material policies	How we monitor effectiveness
ESG Policy Statement (Group) Page 37. Sustainable Procurement Code of Conduct (Royal Mail) Supplier Code of Conduct (GLS) Page 37.	<ul style="list-style-type: none"> – Research in relation to Royal Mail's socio-economic impact in the UK to understand the level of benefit we deliver to the communities we serve. Page 34. – Monitor the scores and rankings in sustainability benchmarks and indices. – Monitor customer feedback. Page 22. – Monitor service performance. Page 22. – Investigating breaches to our supplier codes, plus effective monitoring and auditing of high-risk suppliers (Royal Mail). – Monitor payment practices (Royal Mail). – Board oversight of performance by the ESG Committee. Pages 101 and 102.
Outcomes	Risk management
<ul style="list-style-type: none"> – Our customer-centric strategy, service performance and customer feedback scores. Pages 16 and 17 and page 22. – Our community investment approach and policy outcomes including UK social and economic contribution. Pages 34 and 35. – Our supply chain approach and policy outcomes including monitoring of suppliers (monitoring for Royal Mail only). Page 37. – Payment practices, available at www.gov.uk/check-when-businesses-pay-invoices (Royal Mail). – The Board factors the interests of suppliers, customers and other stakeholders into its decision making. Pages 24 and 25. 	<ul style="list-style-type: none"> – Principal risks: Customer expectations and our responsiveness to market changes, Climate change and environmental management and Business continuity and operational resilience. Pages 52, 53 and 54.

Non-Financial Information Statement continued

Respect for human rights	
Material policies	How we monitor effectiveness
ESG Policy Statement (Group) Page 37.	<ul style="list-style-type: none"> – Embed human rights risks into our compliance risk monitoring programme. – Monitor high-risk supplier categories for evidence of breaches to our standards. – Operate strict resourcing controls that govern the onboarding of new permanent, temporary and contract staff to ensure compliance with vetting standards (Royal Mail). – Board oversight and review of Modern Slavery Act Statement by the ESG Committee.
Equality, Diversity and Inclusion Statement (Royal Mail) Diversity Statement (GLS) Pages 33 and 34.	
People Policy (Royal Mail) Modern Slavery Act Statement Sustainable Procurement Code of Conduct (Royal Mail) Supplier Code of Conduct (GLS) Page 37.	
Outcomes	Risk management
<ul style="list-style-type: none"> – Human rights approach and policy outcomes. Page 35. – Number of high-risk suppliers signed up to Sedex. Page 37. 	<ul style="list-style-type: none"> – Our risk management framework governs how we identify, assess and manage such risks. The risk appetite determines the level of risk we are prepared to accept. Pages 46 to 49. – Our Modern Slavery Act Statement is available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.
Anti-bribery and corruption	
Material policies	How we monitor effectiveness
Ethical Business Conduct Policy (Prevention of Bribery, Corruption, Conflicts of Interest, Money Laundering, Terrorist Financing and the Facilitation of Tax Evasion) (Royal Mail) Page 37.	<ul style="list-style-type: none"> – Provision of mandatory compliance training for employees. Pages 36 and 37. – Require annual manager attestations to maintain the Royal Mail Business Standards. Page 36. – Country Manager attestations as part of Quarterly Compliance Reporting (GLS). – Regular screening of suppliers to check for instances of corruption. – Monitoring the number of contacts made across our whistleblowing channels. Page 80.
Our Business Standards (Royal Mail) Code of Business Standards (GLS) Page 37.	
Sustainable Procurement Code of Conduct (Royal Mail) Supplier Code of Conduct (GLS) Page 37.	
Royal Mail and GLS Speak Up (Reporting) policies Pages 36 and 37.	
Outcomes	Risk management
<ul style="list-style-type: none"> – Our approach to ethics and compliance and policy outcomes. Pages 36 and 37. – Completion rate of compliance training against target. Page 36. 	<p>Our risk management framework governs how we identify, assess and manage such risks. The risk appetite determines the level of risk we are prepared to accept. Pages 46 to 49.</p> <p>Principal risks: Actual or suspected breaches of material law and/or regulation. Page 54.</p>
Other non-financial information	
Our Business Model	Page 12 and 13
Measuring Our Performance (non-financial KPIs)	20 and 21
ESG Review	26 to 37

Most of the policies and procedures referred to above are available at www.internationaldistributionsservices.com/sustainability/governance/policies and www.gls-group.eu/GROUP/en/about-us/compliance.

This Strategic Report was approved by the Board on 22 May 2023 and signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer

Corporate Governance

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Royal Mail

GLS.

Chair's Introduction



Keith Williams
Non-Executive Chair

Key priorities

- Monitoring Royal Mail's dispute with the CWU, including the impact of industrial action on the business and the effectiveness of contingency measures to mitigate the impact on our customers.
- Overseeing the development of Royal Mail's five-point plan to stabilise the business and monitoring its implementation through weekly meetings with the Royal Mail Executive Board.
- Overseeing Royal Mail's engagement with Ofcom and Government in relation to the USO reform proposals.
- Ensuring the safety of our people and customers.
- Overseeing the execution of GLS' strategy.
- Ensuring that the highest levels of governance continue to operate across the Group, including effective risk management measures and controls.

Compliance with the 2018 UK Corporate Governance Code¹ (the Code)

The Board confirms that for the year ended 26 March 2023 the Company complied with all relevant Provisions in the Code. This governance section explains how we have applied the Code's Principles during the year.

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

Dear Shareholder,

On behalf of the Board, I am pleased to present this year's Corporate Governance Report.

As explained in my letter on pages 4 and 5, this has been an extremely challenging year. Both of our businesses have faced significant external headwinds. While GLS has adapted well, Royal Mail has not.

The industrial dispute with the CWU, including 18 days of strike action, has had a significant impact on Royal Mail and the Group. A great deal of the Board's time during the year has been focused on the Royal Mail business and, in particular, the steps being taken to secure its long-term survival and the measures being implemented to mitigate the impact of industrial action on our customers. This has not been easy.

Last month, after lengthy negotiations, we were pleased that the CWU's Postal Executive Committee ratified the Business Recovery, Transformation and Growth Agreement (see page 16) and that it will put it to a ballot of its members with a recommendation to approve.

Board and Committee changes

As announced on 12 May 2023 Simon Thompson informed the Board of his intention to step down as CEO Royal Mail. The appointment of his successor is in advanced stages and in the meantime myself and fellow Board members will provide additional oversight and support to the Royal Mail business.

There were a number of other Board and Committee changes during the year. Jourik Hooghe joined the Board with effect from 1 June 2022 and became a member of the Nomination and Audit and Risk Committees. Biographical information about Jourik is included on page 77.

As previously announced, Rita Griffin stepped down from the Board following our AGM in July 2022. Lynne Peacock succeeded Rita as Chair of the ESG Committee. At the same time, Lynne stepped down as Chair of the Remuneration Committee, but remains a member. Maria da Cunha, who was an existing member of the Remuneration Committee, succeeded Lynne as Chair of this Committee. Maria continues in her role as Designated Non-Executive Director for engagement with the workforce.

In addition, on 18 May 2023, we announced the appointment of Ingrid Ebner. Ingrid will join the Board and the Nomination Committee with effect from 1 July 2023.

Purpose, culture and values

Our purpose – connecting customers, companies and countries – and the unique contribution our businesses make to society, remain as important and relevant as ever. However, we fully acknowledge that during the past year we have not always provided the service our customers and society need and expect.

Our culture, which is shaped by our values, is a key enabling factor in delivering our purpose, good service and our strategic ambitions. It is the Board's responsibility to review and monitor culture across our businesses. Further information on the mechanisms used to assess culture, the insight gained and the outcome of that insight is included on pages 79 and 80.

The Board continues to receive valuable feedback from our workforce from Maria da Cunha, our Designated Non-Executive Director for engagement with the workforce. See page 84 for further detail.

Stakeholders

Our purpose demonstrates the importance we place on our stakeholder relationships. Each member of the Board is fully aware of their duties under section 172 of the Companies Act 2006 and received Directors' duties refresher training, provided by Slaughter and May, during the year. Examples of how the Board factored stakeholder views and interests into its deliberations and decision-making process during the year are included on pages 24 and 25.

We are aware that the AGM is a key forum for the Board to engage with shareholders and, after being unable to welcome shareholders in person to our 2021 AGM, we were pleased to host a hybrid AGM in 2022 with all Directors attending in person.

Name change

During the year the Board considered and approved the Company's name change from Royal Mail plc to International Distributions Services plc. This change was made to better reflect the Group structure of two separate companies (Royal Mail and GLS), as well as the increased importance of GLS to the Group, our strength in markets outside the UK and our position in the wider logistics and distribution markets. This change took place on 3 October 2022.

Environmental, social and governance

The ESG Committee continues to monitor the application of our Group ESG Principles, including the implementation of Royal Mail and GLS' environmental strategies and the progress made against their respective targets (see pages 26 to 37).

We recognise climate change is a key global threat, and one that poses particular risks and opportunities for our businesses. During the year the ESG Committee oversaw the development of, and monitored progress against, the Company's TCFD implementation project. In March 2023, in line with the TCFD recommendations, the Board formally adopted oversight of climate-related risks and opportunities into its governance framework, and will embed this into its operating processes during 2023-24. See pages 38 to 45 for our TCFD Statement.

Dividend

As a result of the ongoing uncertainty in Royal Mail and to conserve the balance sheet position, the Board took the decision not to pay an interim dividend during the year. Given the performance of Royal Mail in 2022-23, and increased investment in GLS, the Board has decided not to pay a final dividend in respect of 2022-23.

Diversity, equity and inclusion (DEI)

To effectively fulfil our purpose and deliver long-term value for our stakeholders, we must foster an inclusive culture, employ people with different viewpoints and promote diversity in its broadest sense, including professional, educational, skills, age, gender and ethnicity. Our gender diversity profile and information on Royal Mail and GLS' respective DEI strategies is set out on pages 33 and 34.

During the year, we updated our Board Diversity Policy to incorporate the targets set by the FTSE Women Leaders Review (FWLR) and the Financial Conduct Authority's (FCA) Listing Rules. Whilst we already meet the targets for at least one of the senior Board positions to be held by a woman and for at least one Board member to be from an ethnic minority background, the proportion of women on our Board and in our Group Leadership Team¹ needs to increase to meet the 40% female representation targets. As at 19 May 2023, the proportion of women on our Board was 33% and the proportion of women in our Group Leadership Team was 35%. Further information can be found on pages 90 and 91.

We are also committed to increasing ethnic representation and are pleased to report that the composition of the Board complies with the Parker Review target for FTSE 250 boards to have at least one director from an ethnic minority background by 2024. Information on the progress made against Royal Mail's ethnic diversity targets is included on page 33.

Board evaluation

To ensure that it sets the correct tone and continues to operate effectively, we are committed to annually reviewing the Board's performance. In light of the challenges the Group has faced during the year, the Board took the decision to conduct its 2022-23 evaluation internally. While the overall outcome of the evaluation was positive, to ensure continuous improvement, the Board agreed that a number of actions should be implemented. Full details of the evaluation, including the methodology and actions arising, are set out on page 88.

Conclusion

I hope that you find this report useful and I look forward to engaging with shareholders at our forthcoming AGM on 20 July 2023.

Keith Williams
Non-Executive Chair
22 May 2023

1. The Group Leadership Team includes the Group CFO, the Group Company Secretary, the CEO Royal Mail and the CEO GLS and their direct reports.

Board of Directors



Keith Williams

Independent Non-Executive Chair



Appointed to the Board

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

Skills and experience

- Proven business leader with significant chair and board leadership experience. Keith spent 18 years at British Airways, including five years as CFO, three years as CEO and two years as Executive Chair, during which time he led the transformation of British Airways. Formerly a Non-Executive Director and Deputy Chairman of the John Lewis Partnership, a Non-Executive Director of Aviva plc and an Executive Board member and Chair of the Audit Committee at Transport for London.
- Extensive industrial relations, operational and customer service experience.
- Chartered accountant.

Significant external appointments

- Chair of Halfords Group plc



Martin Seidenberg

Chief Executive Officer of GLS

Appointed to the Board

1 April 2021

Skills and experience

- Significant international and logistics experience. Martin spent 15 years with Deutsche Post DHL in a variety of senior logistics, parcel-related and strategic roles including CEO of the DACH region at DHL Supply Chain.
- Deep knowledge of GLS, having joined in 2015 as Chairman of GLS Germany, becoming GLS CEO in June 2020.

Significant external appointments

- None



Mick Jeavons

Group Chief Financial Officer

Appointed to the Board

11 January 2021

Skills and experience

- Significant financial, logistics and industrial relations experience. Mick joined Royal Mail in 1993 and has held various senior roles, including Corporate Finance Director at the time of the IPO in 2013 and Chief of Staff to the then CEO.
- Chartered accountant.

Significant external appointments

- None



Maria da Cunha

Independent Non-Executive Director



Designated Non-Executive Director for engagement with the workforce

Appointed to the Board

22 May 2019

Skills and experience

- Extensive experience in industrial relations, transformation programmes and employee engagement gained through her 18-year career at British Airways, where Maria was the Director of People, Legal and Government and Industry Affairs, and the Director of People and Legal. Maria was formerly a Non-Executive Director of De La Rue plc.
- Qualified solicitor with significant risk, compliance and legal knowledge, having held various positions with Hogan Lovells, Lloyds of London and Law College of Europe.

Significant external appointments

- Panel Member of the Competition and Markets Authority



Michael Findlay

Independent Non-Executive Director



Appointed to the Board

22 May 2019

Skills and experience

- Extensive strategy, finance and M&A experience. Michael spent 27 years in investment banking at Robert Fleming & Co, UBS and most recently Bank of America Merrill Lynch, where he was Co-Head of Investment Banking and Corporate Broking for the UK and Ireland.
- Significant knowledge of the letters and parcel sector. He is a former Non-Executive Director of UK Mail Group plc, where he was also the Senior Independent Director, Chair of the Remuneration Committee and a member of the Audit Committee.

Significant external appointments

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



Lynne Peacock

Independent Non-Executive Director



Appointed to the Board

1 November 2019

Skills and experience

- Significant board and executive experience, having served as the CEO of National Australia Bank Europe Limited (NAB) and the CEO of Woolwich plc. Lynne was formerly a Non-Executive Director at Standard Life Aberdeen plc, Scottish Water, Jardine Lloyd Thompson Group plc and Nationwide Building Society.
- Transactional experience gained through her involvement in Woolwich plc's IPO and FTSE 100 listing and its sale to Barclays, the disinvestment of NAB's Irish operations and the integration of Clydesdale and Yorkshire Banks.

Significant external appointments

- Senior Independent Director of Serco Group plc
- Non-Executive Director of TSB Banking Group plc
- Senior Independent Director of TSB Bank plc (a subsidiary of TSB Banking Group plc)

**Baroness Hogg**

Senior Independent Non-Executive Director

(A) (E) (N)

Appointed to the Board

1 October 2019

Skills and experience

- Extensive board and governance experience, having served as Chair of 3i Group plc and as a Non-Executive Director of several companies, including BG Group and GKN plc. Baroness Hogg won the Sunday Times Lifetime Achievement Award for Non-Executive Directors in 2017.
- Significant political and regulatory experience through her former roles as Lead Independent Non-Executive Director of HM Treasury, Chair of the Financial Reporting Council and Head of the Prime Minister's Policy Unit under John Major. She was granted a life peerage in 1995 and sits in the House of Lords as a crossbencher.

Significant external appointments

- None

**Shashi Verma**

Independent Non-Executive Director

(E) (N)

Appointed to the Board

29 September 2021

Skills and experience

- Proven business leader with extensive experience in developing innovative technology. Shashi is the Director of Strategy and Chief Technology Officer at Transport for London (TfL), a role in which he is responsible for the operation of TfL's revenue collection system. He also led the development and implementation of contactless payments on TfL's systems.
- Significant customer service experience gained through his responsibility for integrating TfL's customer-facing activities and for running its customer service operations.

Significant external appointments

- None

Committee membership key

- (A) Audit and Risk
- (E) ESG
- (N) Nomination
- (R) Remuneration
- Committee Chair

**Jourik Hooghe**

Independent Non-Executive Director

(A) (N)

Appointed to the Board

1 June 2022

Skills and experience

- Extensive financial, accounting, operations and strategy experience in consumer goods and retail businesses. Jourik is Chief Financial Officer of Swissport International AG, and his responsibilities cover group finance, including controlling, accounting, M&A, IR, tax and procurement.
- Jourik was previously Executive Vice President and Group Chief Financial Officer of Wizz Air Holdings plc. Prior to that he spent 18 years at Procter & Gamble in various finance roles, including Head of Global Strategy and Regional CFO, in businesses across Europe, India, China, the Middle East and Africa. Jourik also spent time at Adecco Group, where he transformed the finance and accounting function into a data and technology-driven organisation.

Significant external appointments

- None

**Mark Amsden**

Group General Counsel and Company Secretary

Appointed

1 May 2019

Skills and experience

- Significant legal and company secretarial experience. Mark was the former General Counsel and Company Secretary of Wm Morrison Supermarkets plc and the interim Company Secretary of Yorkshire Water. Formerly a partner at Addleshaw Goddard LLP, where he specialised in corporate litigation and headed up the national IT litigation practice.
- Data and technological experience. Mark helped oversee Morrisons move online with Ocado and then Amazon, and dealt with the response to Morrisons' employee data theft in 2014.

Significant external appointments

- None

Application of Code Principles

Information about how we have applied the Code's Principles during the year ended 26 March 2023 can be found as indicated below.

Code Principle	Page
1. Board leadership and company purpose	
A. Effective leadership, promotion of long-term success, value generation and social contribution	24 and 25 76 and 77 79 to 84
B. Purpose, values, strategy and cultural alignment	2 14 to 19 79 and 80
C. Resources and controls	38 to 55 82 99 and 100
D. Stakeholder engagement	22 to 25 84
E. Policies and practices and mechanisms to raise workforce concerns	36 and 37 80
2. Division of responsibility	
F. Role of the Chair	85
G. Composition of the Board	86
H. Role and time commitment of the Non-Executive Directors	85 85 and 92
I. Effective and efficient Board	82 and 85
3. Composition, succession and evaluation	
J. Appointments to the Board and succession planning	89 to 92
K. Skills, experience and knowledge of the Board	76 and 77 86
L. Board evaluation	87 and 88
4. Audit, risk and internal control	
M. Internal and external audit	98 to 100
N. Fair, balanced and understandable	95
O. Risk management and internal control framework	46 to 55 99 and 100
5. Remuneration	
P. Remuneration policies and practices	108 110 to 118
Q. Executive remuneration	123 to 136
R. Remuneration outcomes and independent judgement	103 to 106

Board Leadership and Company Purpose

An effective Board

As outlined on pages 76, 77 and 86, our Directors have proven capabilities and the right balance of skills and expertise to oversee the delivery of the Royal Mail and GLS strategies and the Group's long-term success. In particular, their different backgrounds and experience ensure diversity of thought, constructive debate, due consideration of all relevant stakeholders and an effective decision-making process.

Purpose, values and culture

If we are to achieve long-term success, it is essential that the culture that is fostered across the Royal Mail and GLS businesses, and the values which shape it, are aligned with our purpose and each business' respective strategy. We aim to foster a trusting and inclusive culture. In addition, given our societal role and the strategic importance of strong customer relations, it is vital that customer-centricity underpins everything we do. The Board endorses Royal Mail and GLS' values, which are described on page 2, and regularly monitors each business' culture using several mechanisms. Through its monitoring this year, the Board was satisfied that GLS continues to operate a supportive and inclusive culture. Within the Royal Mail business, the Board recognised the need to drive a stronger culture and several initiatives have been implemented to address this. See below for further detail.

How the Board and/or its Committees monitored and assessed culture

Activity	Insight gained	Outcome
Board and ESG Committee review of employee survey feedback	<p>Detailed understanding of the views and issues that are important to our workforce.</p> <p>Findings of Royal Mail's 2022 Big Trust Survey indicated that the trust and engagement scores across the business' operational management community had decreased. In addition, whilst too few employees reported that they had seen action taken as a result of their feedback, the findings indicated that when action is taken, trust increases.</p> <p>Findings of Royal Mail's trust check-in survey programme, which ran from September 2022 to January 2023, indicated that the business could do more to look after its people.</p> <p>Findings of surveys conducted across various GLS countries (Austria, Hungary, Spain and Croatia) generally indicated high levels of employee satisfaction, though some country-specific improvements were suggested, including enhancing benefits, making communications between departments more effective, and further developing talent and performance management processes.</p>	<p>In response to the decline in trust and engagement scores across Royal Mail's operational management community, focus groups were held in each regional area to better understand operational managers' concerns. The trust check-in survey programme showed the overall trust score for operational managers had increased.</p> <p>In addition, to ensure that action was taken to address the findings of the 2022 Big Trust Survey results, Royal Mail's HR team worked with local teams to ensure that a robust local trust action plan was embedded in their day-to-day operations. The trust check-in survey programme showed the number of employees who agreed that action had been taken to address feedback provided by the previous trust survey in their area steadily increased up to December 2022, but significantly dropped in January 2023. Please see pages 17 and 32.</p> <p>On Royal Mail doing more to look after its people, the business is dialling up its wellbeing offering, starting with embedding its core proposition that includes giving all colleagues access to an online GP, physiotherapy support and mental health consultations, as well as increasing awareness of the Employee Assistance Programme and increasing the number of wellbeing ambassadors.</p> <p>In response to GLS' survey findings, action plans were implemented in relevant countries. Outcomes included the introduction of additional colleague benefits, regular meetings between department heads to optimise processes and improve coordination, and people development initiatives.</p>
ESG Committee review of Royal Mail and GLS sickness absence levels	<p>Information on Royal Mail frontline sickness absence rates, which had improved but were above target.</p> <p>Information on GLS' sickness absence rates, which had increased slightly due to an alignment of the calculation method in one country.</p>	<p>Initiatives to improve Royal Mail's frontline sickness absence rates were introduced. These included regular and consistent messaging from Royal Mail's Chief Operating Officer and Regional Operations Directors (RODs) and daily ROD-led calls with the sites with the highest sickness absence rates to reset performance and expectations.</p> <p>While frontline sickness absence rates are declining, Royal Mail is seeking to make changes to its attendance policies and sick pay arrangements through its talks with the CWU to enable a step change in performance.</p> <p>The ESG Committee will continue to monitor sickness absence rates for both Royal Mail and GLS.</p>
ESG Committee review of Royal Mail bullying and harassment cases	<p>The number of reported bullying and harassment cases at Royal Mail increased during the year as a result of more open channels of communication being available to colleagues to raise concerns. Information provided to the ESG Committee highlighted that employees in Processing raised bullying and harassment concerns at a higher rate than those in delivery. In Processing, certain local areas also recorded a higher rate of cases than average.</p>	<p>Royal Mail management will work with unions to improve the approach to bullying and harassment. For local areas with high rates of Processing employees raising bullying and harassment cases, Royal Mail's HR team will discuss with the relevant Processing managers appropriate support intervention measures.</p> <p>The ESG Committee will continue to monitor the volume of reported bullying and harassment cases.</p>

Board Leadership and Company Purpose continued

Activity	Insight gained	Outcome
Board and ESG Committee regular updates from the Designated Non-Executive Director for engagement with the workforce	<p>Direct and immediate feedback from our people and an opportunity to see our operations first-hand.</p> <p>Observations arising from dialogue with GLS colleagues this year included evidence of an agile and collaborative culture and a supportive and inclusive work environment. Colleagues suggested information sharing between departments and between GLS group entities could be improved.</p> <p>Feedback arising from dialogue with Royal Mail colleagues this year included concerns about a lack of diversity on the frontline and suggestions that communications on the proposed organisational changes and what they specifically meant for frontline employees lacked granularity. In addition, whilst there was recognition that Royal Mail had operating systems and policies, colleagues suggested that those policies were not applied fairly, resulting in widely varying individual daily work demands.</p>	<p>Feedback from GLS colleagues serves to inform decision making at GLS group level and within GLS countries.</p> <p>The ESG Committee will continue to track progress against the female, ethnic and youth representation targets that form part of Royal Mail's diversity, equity and inclusion strategy.</p> <p>Further information on the proposed organisational changes was posted on Workplace, Royal Mail's employee engagement platform, and leaflets explaining the specific impact of the changes on affected employees were distributed across all local offices.</p> <p>To ensure fair allocation of daily tasks, various initiatives have been implemented across the Royal Mail business, including a comprehensive process of revisions in delivery offices, and a programme to equalise performance.</p>
ESG Committee and Board meeting health and safety updates at each meeting	<p>Information on Royal Mail's health and safety performance showed that six fatalities had occurred during the year and the lost time accident frequency rate (LTAFR) had increased significantly. In addition, there was a need to improve health and safety culture across the business.</p> <p>Information on GLS' health and safety performance showed that 17 fatalities (related to activities of GLS transport partners) had occurred during the year and the LTAFR had decreased.</p>	<p>Initiatives to improve health and safety culture and accident rates across the Royal Mail business were discussed and implemented. These included the deployment of off-site risk assessments, the recruitment of additional resource into the safety team and increasing the health and safety competence of customer operations managers via the Royal Mail Academy.</p> <p>The ESG Committee and the Board will continue to monitor Royal Mail and GLS' health and safety performance, and the progress made against their respective health and safety programmes.</p>
ARC 'spotlight' discussion on talent risk	<p>The net risk position of principal risk 'Talent: workforce for the future' (see page 52) had regressed. Retention and recruitment within Royal Mail's corporate centre has become more challenging and the pool of next generation frontline talent has decreased due to the Group's declining performance, the industrial relations environment and sustained periods of pressure on personnel.</p>	<p>A number of initiatives have been launched to retain and recruit Royal Mail colleagues, including the Diamonds programme, leadership development, reinvention of the graduate programme and next generation initiatives. In addition, interim resource was added across critical transformation roles to bolster capacity and reduce the risk of burnout.</p>
ARC reviews of Royal Mail whistleblowing reports	<p>While the total number of whistleblowing reports registered quarterly within the Royal Mail business had dropped compared with 2021-22, overall levels remained high.</p> <p>Anonymous reporting rates, while also decreasing, still remained high, suggesting that fears around retaliation and confidentiality remain.</p> <p>Updates on key cases and actions being taken to address issues raised.</p>	<p>Further initiatives have been implemented to help reduce the percentage of anonymous reporting further and build greater trust in the whistleblowing process, including highlighting the confidentiality of the process through regular posts on Workplace.</p>
ARC and Board reviews of Royal Mail and GLS whistleblowing processes	<p>The end-to-end process of Royal Mail and GLS' whistleblowing processes demonstrate that both businesses continue to operate robust and effective systems that enable employees to raise issues of concern.</p> <p>Summary of material whistleblowing reports for Royal Mail and GLS.</p>	<p>The Board will continue to monitor the effectiveness of the whistleblowing processes on a bi-annual basis.</p>

Governance framework

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

Governance framework

The Board

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

Nomination Committee

Committee Chair:

Keith Williams

- Reviews the balance and composition of the Board and its Committees including in relation to skills, knowledge, independence, diversity and experience.
- Ensures a progressive renewal of Board membership through orderly succession planning.
- Considers talent reviews and succession planning for the Board of Directors and Royal Mail and GLS' Executive Boards.
- Oversees progress against the Board's Diversity Policy.

See pages 89 to 92.

Audit and Risk Committee

Committee Chair:

Michael Findlay

- Reviews, and recommends for the Board's approval, all Financial Statements and associated disclosures.
- Advises the Board on the Group's overall risk appetite, tolerance and strategy, and reviews the policies and processes for identifying and assessing the risks to which the Group is exposed and the management of those risks.
- Reviews reports received from the Internal Audit function, the effectiveness of internal controls and risk management processes more generally, including the Group's whistleblowing arrangements, and monitors actions to improve their effectiveness.
- Oversees the financial performance of the Group.
- Oversees the relationship with the external auditor, ensuring the effectiveness of the external audit process.

See pages 93 to 100.

Remuneration Committee

Committee Chair:

Maria da Cunha

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

See pages 103 to 136.

Environmental, Social and Governance Committee

Committee Chair:

Lynne Peacock

- Oversees Royal Mail and GLS' performance in relation to ESG matters and standards to ensure that they are in alignment with their respective strategies.
- Reviews, and recommends for the Board's approval, the Group's ESG Policy Statement, and approves relevant Royal Mail and GLS ESG policies and reports.
- Focuses its efforts on the ESG issues that are of most importance to the Group and its stakeholders and remains attuned to the changing needs and expectations of society.
- Monitors Royal Mail and GLS' culture.
- Monitors Royal Mail and GLS' health and safety arrangements.
- Monitors Royal Mail and GLS' community efforts and its help for vulnerable customers.

See pages 101 to 102.

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

Board and Committee agendas

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

Committee meeting agendas are informed by a forward planner which is developed from each Committee's Terms of Reference and reviewed and updated regularly to reflect areas identified by Committee members for additional focus.

Board Leadership and Company Purpose continued

Board meetings and attendance

The Board met on 10 scheduled occasions during the year in addition to a number of ad hoc meetings. Each Director has committed to attending all scheduled Board meetings and only fails to do so in exceptional circumstances. Similarly, every effort is made by Directors to attend ad hoc meetings. On the rare occasion that a Director cannot attend a meeting, they are provided with the papers in advance of the meeting and are given the opportunity to provide comments to the Chair. The table below shows the number of scheduled Board meetings each Director attended and the number of meetings they were entitled to attend during the year ended 26 March 2023.

Director	Joined	Attendance (scheduled meetings)
Keith Williams	Chair	10/10
Baroness Hogg	Senior Independent Director (SID)	10/10
Michael Findlay	Non-Executive Director	10/10
Maria da Cunha	Non-Executive Director	10/10
Lynne Peacock	Non-Executive Director	10/10
Shashi Verma	Non-Executive Director	10/10
Mick Jeavons	Group Chief Financial Officer	10/10
Simon Thompson	CEO Royal Mail	10/10
Martin Seidenberg	CEO GLS	10/10
Jourik Hooghe ¹	Non-Executive Director	6/7
Rita Griffin ²	Non-Executive Director	4/4

1. Jourik Hooghe joined the Board as a Non-Executive Director on 1 June 2022. Jourik was unable to attend one meeting due to illness; he was provided with all papers before the meeting and received a debrief after from the Chair.

2. Rita Griffin stood down from the Board on 20 July 2022.

In addition to formal Board meetings, since August 2022, the Board has held weekly meetings with the Royal Mail Executive Board, to closely monitor Royal Mail's performance and transformation, which is essential for the business' long-term survival.

The Non-Executive Directors and the Chair meet regularly without the Executive Directors present. These meetings are an important way to develop working relationships between the Non-Executive Directors and to assess the performance of senior management. The Non-Executive Directors also meet regularly with senior management, and spend time increasing their understanding of the business. These meetings also enable senior management to benefit from the Non-Executive Director skill set and experience and help to 'open out' discussions, enabling formal Board meetings to be more focused. It also helps the Non-Executive Directors recognise that attendance at Board meetings is only one part of their role.

Board activities

The specific areas the Board focused on during the year and up until 21 May 2023 are outlined on pages 83 and 84. In addition, at every Board meeting, a number of standing items are reviewed, including health and safety, regulatory and investor relations updates. Also, at every Board meeting, Committee Chairs update the Board on the recent work of their Committee. Individuals from relevant business areas, as appropriate, present on key items, which enables the Board to debate and challenge management's proposed initiatives and plans and meet key individuals from the businesses. During the year, over 60 senior managers from Royal Mail and GLS presented at or attended one or more Board or Committee meeting.

Effectiveness of risk management and internal control

The Board has overall accountability for the Group's risk management and internal control systems and has delegated to the ARC a number of activities, including objectives related to oversight of risk management, governance, financial control and statutory reporting. Information about the ARC's activities is included on pages 93 to 100.

During the year, the Board reviewed the Group's risk management and internal control systems, covering financial, operational and compliance principal risks, and determined that whilst they were generally effective in the year, there is a recognition of the continued need to improve its effectiveness.

The Board also determined the Group's risk appetite and carried out a robust assessment of the Group's principal and emerging risks. Information about the Group's principal risks is included on pages 46 to 55.

Conflicts of interest

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

Board activities

Matter considered Activity

Strategy and business plan

Strategy	<ul style="list-style-type: none"> – Dedicated a significant amount of time to discussing, monitoring and reviewing the implementation of Royal Mail and GLS' respective strategies, including participating in a dedicated strategy day. – Received regular updates on Royal Mail's transformation including 'spotlights' on key transformation initiatives. – Considered and approved GLS' acquisitions of Tousfacteurs SAS, iLogistic and Pesaro. – Received updates on Royal Mail's pricing strategy. – Reviewed and discussed a Group strategy presentation from Accenture.
Business plans	<ul style="list-style-type: none"> – Oversaw the development of Royal Mail's five-point business plan to stabilise the business and monitored its implementation through weekly meetings with the Royal Mail Executive Board. – Reviewed and approved Royal Mail and GLS' business plans and budgets. – Monitored progress against the annual budgets and the Group's financial targets.

Leadership

Board composition	– Considered and approved the appointments of Jourik Hooghe and Ingrid Ebner as new Non-Executive Directors.
Organisational change	<ul style="list-style-type: none"> – Considered and approved headcount reduction targets for Royal Mail. – Reviewed and discussed the Group structure, including how best to protect shareholder value. – Considered and approved changing the Group's holding company name from 'Royal Mail plc' to 'International Distributions Services plc'. – Reviewed and discussed potential preparatory steps for a separation of Royal Mail and GLS were such a decision to be made.
Stakeholders	<ul style="list-style-type: none"> – Regularly reviewed the Directors' section 172 duties and responsibilities. – Reviewed feedback from Royal Mail's 2022 Big Trust Survey. – Received updates from the Designated Non-Executive Director for engagement with the workforce on Employee Voice Forums. – Received regular updates on shareholder sentiment and the Group's investor relations programme. – Received regular updates on Royal Mail's dispute with the CWU and industrial action. – Considered and approved serving notice on Agenda for Growth protections and other union agreements. – Received regular updates on Royal Mail's engagement with Ofcom and Government in relation to USO reform. – Received regular updates on the Business, Energy and Industrial Strategy review (under the National Security and Investment Act 2021) in relation to VESA Equity Investment S.à r.l. seeking to increase its shareholding to more than 25%.
Operational	<ul style="list-style-type: none"> – Reviewed and discussed operating performance reports prepared by the CEOs of Royal Mail and GLS. – Received regular detailed updates during weekly meetings with Royal Mail Executive Board about contingency plans to mitigate the impact of industrial action on customers. – Received an update on Royal Mail's plan for the Christmas peak. – Received updates on aspects of the Group's property portfolio and approved an extension to Royal Mail's National Distribution Centre lease.

Financial

Performance	<ul style="list-style-type: none"> – Regularly discussed and considered the Group's financial performance. – Regularly reviewed the cost-control initiatives being implemented across the Group.
Investment	– Reviewed and approved investment to upgrade the GLS Neuenstein hub.
Dividend	– Considered and approved the decision to not pay an interim dividend or a final dividend for 2022-23.
Reporting	<ul style="list-style-type: none"> – Considered and approved the Group's full-year results, interim results and trading updates. – Considered and approved this Annual Report, including the going concern and viability statements on page 58.

Risk and/or internal controls

Health and safety	<ul style="list-style-type: none"> – Received updates on health and safety within Royal Mail and GLS. – Received a health and safety training session led by the Royal Mail Safety Director.
Principal and emerging risks	<ul style="list-style-type: none"> – Received an update on the Group's principal and emerging risks. – Reviewed the Group's risk appetite position.

Board Leadership and Company Purpose continued

Board activities continued

Matter considered	Activity
Cyber security	– Received updates on the cyber incident at Royal Mail International, and the Group's preparedness for similar threats.
Whistleblowing	– Reviewed Royal Mail and GLS' whistleblowing processes and material cases raised.
Material litigation	– Reviewed reports in relation to Royal Mail and GLS' material litigation.
Insurance	– Reviewed and approved Royal Mail's insurance renewal approach.
Pensions	– Reviewed and recommended to the Board of Royal Mail Group Limited that it execute the trust deed and rules for the new Royal Mail Collective Pension Plan.
Governance	<ul style="list-style-type: none"> – Considered findings of the 2022-23 Board evaluation and agreed actions to improve and enhance a number of areas (see page 88). – Reviewed progress against the 2021-22 Board evaluation actions (see page 87). – Reviewed and approved changes to the Matters Reserved for the Board, the Committees' Terms of Reference and the Role of the CEOs, including changes to formalise oversight and management of climate-related risks and opportunities. – Reviewed and approved changes to the Role of the Company Secretary and the Group Communications Policy. – Reviewed and approved, upon recommendation from the relevant Committee, the Group's Modern Slavery Act Statement, the Board Diversity Policy, the Group ESG Policy Statement, the Royal Mail ESG Report, the Royal Mail Health and Safety Policy and the Royal Mail Speak Up (Reporting) Policy. – Received Directors' duties training, provided by Slaughter and May. – Received a Corporate Governance update. – Received updates on AGM planning.
Remuneration	<ul style="list-style-type: none"> – Conducted a detailed review of the Remuneration Policy, taking into account the views of shareholders, the strategic objectives of the Group, the remuneration of the wider workforce, as well as current best practice. – Discussed shareholder feedback on the proposed changes to the Remuneration Policy.

The Board's engagement with stakeholders

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

Our stakeholders and the channels we use to engage with them at Group and Board level are described on pages 22 and 23. Our section 172 statement is on pages 24 and 25 together with examples of principal decisions and how the Board considered the section 172 matters.

Engagement with our workforce

Many of the decisions we make could impact our colleagues and it is therefore important that we engage with them and understand their views. As our people are pivotal to our long-term success, it is also important that they understand our strategy and objectives, and have an opportunity to share their insights, particularly about our customers, who they engage with daily. The Board was therefore pleased to be able to resume site visits this year. In April 2023, the Board visited GLS' Madrid hub and met with GLS employees, who shared their thoughts on working at GLS. Maria da Cunha, the Designated Non-Executive Director for engagement with the workforce, also held an Employee Voice Forum during the visit and was able to conduct the session in Spanish, which greatly facilitated engagement on the day.

In addition, throughout the year, several Board members undertook individual site visits, including the CEO Royal Mail and CEO GLS, who visited multiple sites across their respective businesses and updated the Board on their engagement with employees during those visits.

The role of the Designated Non-Executive Director for engagement with the workforce provides the Board with valuable feedback on the views of our workforce. Maria da Cunha has held this role since January 2021. During the year, Maria held five Employee Voice Forums with GLS colleagues across Poland, Canada, Romania, Germany and France, and four Employee Voice Forums with Royal Mail colleagues. Colleagues from operational and central functions, including marketing, finance, IT, sales, customer service, processing, delivery, fleet and HR, participated in these forums. Maria periodically reports to the Board and ESG Committee on key observations and themes arising from her discussions. See page 80 for insight gained through her dialogue this year.

Division of Responsibilities

The role of each Director, which is summarised below, ensures a clear division of responsibility between executive and non-executive Board members, which supports the integrity of the Board's operations.

Non-Executive

Chair

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

Senior Independent Director

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

Independent Non-Executive Directors

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

Designated Non-Executive Director for engagement with the workforce

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

Executive

Group Chief Financial Officer

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

Chief Executive Officer – Royal Mail

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

Chief Executive Officer – GLS

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

Group Company Secretary

- Provides advice to Board members, particularly in relation to corporate governance practices, induction training and personal development.
- Ensures that Board procedures are complied with, applicable rules are followed and that good information flows exist to the Board and between its Committees.
- Communicates with shareholders as appropriate and ensures that due regard is paid to their interests.
- Ensures that the Board has high-quality information, adequate time and appropriate resources in order to function effectively and efficiently.
- Considers Board effectiveness in conjunction with the Chair and provides support to the Chair as required.
- Considers the appropriateness of risk management across the Group.
- Ensures that relevant policies of the Group, Royal Mail and GLS are reviewed by the Board or the relevant Board Committee on an annual basis.

Composition, Succession and Evaluation

Board composition

The delivery of the Group's strategy and long-term success depends on attracting and retaining the right skills across the Group. This starts with the Board. The Board comprises six independent Non-Executive Directors, an independent Non-Executive Chair and two Executive Directors. They have wide-ranging backgrounds and relevant and complementary skills and experience. Biographical information for each Director is included on pages 76 and 77.

Board key skills and experience

Industrial relations/employee engagement	5
Customer	5
Transformation	5
Finance	3
Regulated industries	8
Corporate governance	7
Audit, risk management and compliance	5
ESG and sustainability	1

Board appointments

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

The Board and the Nomination Committee actively consider the structure, size and composition of the Board and its Committees when considering new appointments and succession planning. They also take account of a range of diversity factors together with the need to balance the composition of the Board and Committees and refresh them over time to meet the changing needs of the Group. Further details on the Nomination Committee's work in this area are included on pages 89 to 92.

Board terms of appointment

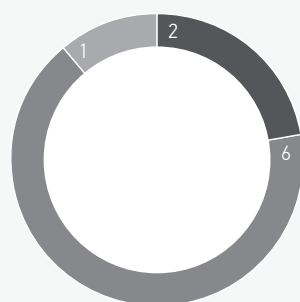
Copies of the Executive Directors' service contracts and the Non-Executive Directors' letters of appointment are available for inspection by appointment at the Company's registered office during normal office hours and at the AGM.

Board induction programme

We develop a tailored and comprehensive induction programme for each externally appointed Director which aims to ensure that new appointees are equipped to fulfil their role and participate in Board discussions as quickly as possible. The programme includes one-to-one meetings with the Chair, the Group CFO, the CEO Royal Mail, the CEO GLS, the Group Company Secretary and the Non-Executive Directors. It also includes various meetings with senior management, visits to key operational sites and postie walks. Jourik Hooghe joined the Board in June 2022. His induction programme, which ran from July to September, included the following:

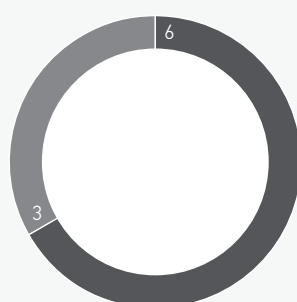
- Individual meetings with the Group CFO, the CEO GLS and various members of the Royal Mail Executive Board.
- Site visit to GLS Budapest hub with the CEO GLS, the CFO GLS and GLS Group Area MD Europe East.
- Participation in an external Non-Executive Directors' training programme.
- Overview of health and safety at Royal Mail and GLS provided by the Royal Mail Safety Director, GLS' Compliance and Directives Officer and the Director for Corporate Compliance and Data Protection.
- Overview of other key areas provided by relevant personnel including:
 - Royal Mail's ESG programme (Head of ESG, Royal Mail).
 - Regulation (Director of Regulation, Royal Mail).
 - Pensions (Head of Corporate Pensions, Royal Mail).
 - Remuneration (Reward and Performance Director).
 - Competition law (Assistant General Counsel of Competition, Regulation and Data, Royal Mail).

Board tenure



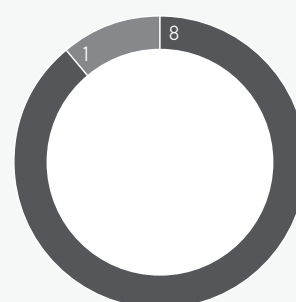
0-2 years	2
2-5 years	6
5+ years	1

Board gender balance



Male	6
Female	3

Board ethnicity



British or other White	8
Asian/British Asian	1

2021-22 Board evaluation progress report

During 2021-22, the Board's performance and effectiveness were evaluated internally. Details of how the evaluation was conducted can be found in the Annual Report and Financial Statements 2021-22. The key actions arising from the evaluation and progress to date are set out below.

Actions	Progress
Strategy	
<ul style="list-style-type: none"> – Revisit the wider Company strategy, ensuring more regular discussions take place. – Ensure that Royal Mail develops, in conjunction with its stakeholders, a clear, longer-term plan for its transformation. – Reconsider the key KPIs used in both businesses, to determine that they remain appropriate in current market conditions, and especially with Royal Mail's move to being a more balanced business. 	<ul style="list-style-type: none"> – The Company engaged Accenture during the year to assist with developing a wider Group strategy and a presentation was shared with the Board in July 2022. Further discussion on Group strategy is pending. – The Board spent a considerable amount of time overseeing the development of Royal Mail's three-year business plan during the year and is now closely monitoring its transformation via weekly meetings with the Royal Mail Executive Board. Having engaged with stakeholders, the Board believes that shareholders, regulators, unions, and many of Royal Mail's employees understand the need for transformation. – Royal Mail and GLS both developed dashboards to help monitor performance, which have been used in regular updates to the Board.
Workforce and unions	
<ul style="list-style-type: none"> – Be cognisant of the views of our workforce and of the negotiations with our unions. – Increase the time spent on employee engagement, particularly within GLS now that international travel has become easier. 	<ul style="list-style-type: none"> – The Board has received regular updates on union negotiations and has factored these, and the views of our workforce, into its discussions, while at the same time recognising that Royal Mail must transform into a more balanced business to ensure its long-term survival. – Maria da Cunha continues in her role as Designated Non-Executive Director for engagement with the workforce and updates the Board on the output of Employee Voice Forums. During the year, she held nine Employee Voice Forums, five of which were with GLS colleagues (see page 84). – The Board was pleased to resume site visits this year, with its first site visit taking place in April 2023 at the GLS Madrid hub. Several Board members also undertook individual site visits during the year, including Jourik Hooghe, who visited GLS' Budapest hub as part of his induction programme.
Reporting	
<ul style="list-style-type: none"> – Develop more standardised and consistent ways for reporting to the Board. – Further improve the quality of papers, particularly the executive summaries. 	<ul style="list-style-type: none"> – New dashboards and reports have been developed and are now a key element of the CEO Royal Mail and CEO GLS' respective updates. – A 'Guide to Better Board Reporting' was circulated to members of management who regularly submit papers to the Board. The Board will continue to monitor the quality of papers and will consider further training if required.
Composition	
<ul style="list-style-type: none"> – Recruit two additional Non-Executive Directors, preferably one with audit and finance experience and one with international logistics experience. 	<ul style="list-style-type: none"> – Jourik Hooghe joined the Board in June 2022. He has strong international and finance experience, and is currently Chief Financial Officer of Swissport International AG. Previously Jourik served as the Executive Vice President and Group Chief Financial Officer of Wizz Air Holdings Plc. – Ingrid Ebner will join the Board on 1 July 2023. She has strong international logistics experience and is currently Vice President, Global Fulfilled by Maersk Standards and Regional Delivery IMEA & LAM of A.P Moller-Maersk.

Composition, Succession and Evaluation continued

2022-23 Board and Committee evaluation

In early 2023, the performance and effectiveness of the Board and its Committees were evaluated internally through the process detailed below, which was facilitated by the Senior Independent Director (SID).

2022-23 evaluation process

Stage 1

Evaluation development

The SID, with support from the Group Company Secretary, developed a framework of questions.

Stage 2

Evaluation process and review

The questions framework was shared with Board members ahead of one-to-one discussions between the SID and each Board member plus the Group Company Secretary, which took place during January 2023. The SID then prepared a draft report of the findings for discussion and shared it with the Chair for feedback.

Stage 3

Actions agreed

The report was presented, and actions agreed by the Board, in February 2023.

The priority actions agreed for 2023-24 are detailed below.

Priority actions for 2023-24 arising from 2022-23 evaluation

- Recruit an additional Non-Executive Director with accountancy experience.
- Increase focus on talent retention as a key risk, by both the ARC and Remuneration Committee.
- Nomination Committee to consider Non-Executive Director succession planning (taking note of Committee needs) and talent management.
- As far as possible, Committee Chairs to ensure that topics are considered by only one Committee and/or the Board to minimise overlap and ensure effective management of issues.

Individual Director performance

Individual Director performance was considered by the SID and Chair as part of the Board evaluation. The findings, in combination with the individual skills and time commitment of each Director, confirmed that all Directors are considered to contribute effectively, and support the proposal for those Directors to stand for re-appointment at the 2023 AGM.

Chair performance

The performance of the Chair was evaluated by the SID, with feedback also provided by the rest of the Board. The feedback confirmed that Keith Williams provided strong leadership to the Board throughout the year, facilitated constructive and inclusive Board discussions, and helped to call on individual Non-Executive Director experiences to support the Executive as appropriate. It also confirmed that he devoted sufficient time to the role.

Nomination Committee Report



Keith Williams
Non-Executive Chair

Main objectives for 2022-23

- Review talent capability and development, and succession planning within Royal Mail and GLS, particularly with a view to longer-range succession planning.
- Consider succession plans for the CEO Royal Mail, CEO GLS and Group CFO.
- Recruit up to two additional Non-Executive Directors, preferably one with audit and finance experience and one with international logistics experience.

Key activities in 2022-23

- Concluded extensive external searches leading to the appointment of Jourik Hooghe as a Non-Executive Director in June 2022 and the appointment of Ingrid Ebner, who will join the Board on 1 July 2023.
- Reviewed talent capability and development, and succession planning within Royal Mail and GLS.

2023-24 priorities

- Finalise the appointment of a new Royal Mail CEO.
- Monitor talent capability and development and succession planning within Royal Mail and GLS.
- Consider succession plans for the Non-Executive Directors, the CEO Royal Mail, the CEO GLS and the Group CFO.
- Recruit one additional Non-Executive Director with accountancy experience.

Committee membership and attendance

Director	Joined	Attendance (scheduled meetings) ²
Keith Williams (Chair since 22 May 2019)	19 April 2018	2/2
Maria da Cunha	25 September 2019	2/2
Michael Findlay	25 September 2019	2/2
Baroness Hogg	1 October 2019	2/2
Lynne Peacock	1 November 2019	2/2
Shashi Verma	29 September 2021	2/2
Jourik Hooghe	1 June 2022	1/1
Rita Griffin¹	19 April 2018	1/1

1. Rita Griffin stood down from the Board and as a member of the Committee on 20 July 2022.
2. In addition a number of ad hoc meetings took place during the year to address specific issues.

Dear Shareholder,

I am pleased to update you on the Committee's activity for the year ended 26 March 2023.

Committee composition and meetings

The table in the adjacent column contains information about the Committee's membership and the number of scheduled meetings each Director attended and was entitled to attend during the year ended 26 March 2023.

The composition of the Committee changed during the year following changes to the Board's membership. Rita Griffin stepped down as a member of the Committee at the conclusion of the 2022 AGM and I would like to thank her for the valuable contribution and support she provided during the past four years. In June 2022, following his appointment to the Board, Jourik Hooghe joined the Committee.

Committee meetings were attended by the Group Company Secretary, the Royal Mail Chief People Officer and other members of senior management, where relevant. In line with our Conflicts of Interest Policy, Directors are asked to absent themselves from any discussions regarding their own re-appointment or succession. The Committee is supported by the Group Company Secretary.

Role of the Committee

The Committee's role and responsibilities are summarised on page 81.

Committee activity

The key activities of the Committee during 2022-23 are set out in the adjacent column.

Board composition

During the year, the Committee reviewed Board composition, assessing the tenure, experience, skills, knowledge, re-appointment and independence of each Director. In response to the findings of the 2021-22 Board evaluation (see page 87), the Committee oversaw the external search for two new Non-Executive Directors. As a result, the Committee recommended to the Board the appointment of Jourik Hooghe, which was subsequently approved by the Board and announced on 19 May 2022. In addition, the Committee recommended to the Board the appointment of Ingrid Ebner, which was subsequently approved by the Board and announced on 18 May 2023.

CEO Royal Mail succession

As explained on page 5 the process to appoint a new CEO Royal Mail is in advanced stages and an announcement will be made when the process concludes.

Non-Executive Director succession and re-appointments

The Committee monitors the tenure of Non-Executive Directors to ensure that it plans sufficiently in advance of retirements from the Board to ensure orderly succession of Non-Executive Directors.

All Directors are required to stand for appointment or re-appointment at each AGM. Ahead of the 2023 AGM, the Committee considered the performance and effectiveness of each Director as well as their skills and time commitment. The Committee concluded that all Directors were valuable members of the Board and subsequently recommended to the Board that all Directors should stand for re-appointment at our forthcoming AGM. Biographical information for each Director is included on pages 76 and 77. Ingrid Ebner, who will join the Board on 1 July 2023, will also stand for re-appointment at the AGM. Biographical information for Ingrid is included in our Notice of AGM.

Nomination Committee Report continued

Our Non-Executive service agreements cover a term to expire at the end of the third AGM after their appointment. Baroness Hogg and Lynne Peacock will complete their first term at the conclusion of our 2023 AGM. Following their confirmation that they were willing to continue to serve, the Committee considered and recommended to the Board that their respective terms be extended for a further three years, subject to annual re-appointment by shareholders at the 2023 AGM.

Talent and succession planning

During the year the Committee spent a significant proportion of its time considering talent capability and development, and succession planning within senior levels of Royal Mail and GLS.

Royal Mail

Acknowledging Royal Mail's financial and operational performance and the impact of industrial action, the Committee considered the significant pressure this has had on Royal Mail's senior leadership population, which has resulted in increased attrition and challenges in recruiting external senior leader talent. To mitigate key talent flight risks, retention programmes were put in place during the year and additional interim resource was added across critical transformation roles to bolster capacity and reduce the risk of burnout.

Against a challenging backdrop, the Committee was pleased that progress was made against Royal Mail's success profile, which sets out the competencies, experiences, traits and drivers the business' 'leaders of the future' should possess. This profile was developed in 2020-21, in conjunction with Korn Ferry, as part of the senior leaders' development programme. During the year, all dimensions in the experiences and competencies categories saw improvement. Within the traits and drivers categories, some dimensions improved, but a few 'watch out' areas emerged.

The Committee also considered the outputs from a succession mapping exercise undertaken across Royal Mail's Executive Board and senior leaders, and identified a need to improve the pipeline. In response, the Committee noted that Royal Mail had launched the Diamonds programme (see page 32), which is designed to strengthen the succession pipeline by identifying potential future leaders earlier in their careers.

GLS

The Committee considered the findings of a succession mapping exercise across GLS' leadership team and the outputs from a talent review which assessed GLS' key leaders' talents against several competencies including vision and strategy, ensuring tactical success, relationship and communication, motivation, business acumen, fit to situation and fit for future. The talent review confirmed that GLS had a strong leadership team with the skills and experience required to deliver the business' strategy and growth ambitions. However, the Committee noted that the team was not sufficiently diverse. To further strengthen its talent pool, GLS has established a new group HR function which will focus on attracting and retaining the best talent and addressing diversity challenges. In addition, to support the development and leadership skills of its middle managers, GLS continued to roll out its individual coaching programme 'Better Manager' (see page 32).

DEI

We recognise the importance of fostering a diverse and inclusive culture across the Group. To fulfil our purpose and support the delivery of Royal Mail and GLS' growth strategies, it is essential that our workforce reflects the broad diversity of the customers and communities we serve. We must offer an inclusive, fair and accessible workplace where all our people can grow, develop and succeed. Further information on Royal Mail and GLS' progress in this important area is included on pages 33 and 34.

Board Diversity Policy objectives

Endeavour to achieve 40% female representation on the Board.

Implementation and results

Female representation on the Board as at 19 May 2023 was 33%. See page 91.

Endeavour to have at least one woman in a senior Board role (Chair, Senior Independent Director, Chief Executive or Chief Financial Officer)

Our Senior Independent Director is a woman. See page 77.

Encourage management to achieve 40% women's representation in the Group's Leadership Team¹.

Female representation in the Group Leadership Team as at 19 May was 35%. See page 91.

Place emphasis on development of diversity within the Group and commit to further pursuing diversity, as appropriate and on merit, within the senior leaders of the Group.

See pages 33 and 34.

Endeavour to have at least one Director on the Board from an ethnic minority background.

A member of our Board is from an ethnic minority background. See page 91.

Only engage executive search firms who are signatories of the Voluntary Code of Conduct for Executive Search Firms.

See page 92.

When recruiting Non-Executive Directors, ensure that the Board's Diversity Policy's objectives are considered.

See page 91.

Consider candidates for appointment as Non-Executive Directors from a wider pool.

See page 91.

1. The Group Leadership Team includes the Group CFO, the Group Company Secretary, the CEO Royal Mail and the CEO GLS and their direct reports. This cohort aligns with the FWLR definition of 'leadership teams' and the Code's definition of 'senior management' and their direct reports.

Our Board Diversity Policy aims to ensure that the Board has the appropriate balance of skills, experience and background to deliver stakeholder value. During the year, we updated the policy to incorporate the targets set by the FWLR and the FCA's Listing Rules. A copy is available at www.internationaldistributionsservices.com/about-us/governance.

The table on the previous page sets out the policy's current objectives, how the Committee has implemented them and the outcomes as at the date of this Annual Report.

Our primary objective when appointing members to Board Committees is to ensure that the Committee members have the correct skills and experience necessary for the particular Committee. Notwithstanding this, we have successfully applied our Board diversity objectives collectively across our Board Committees.

Statement on compliance against regulatory targets on gender and ethnicity

The Board confirms that as at 19 May 2023 (being the reference date selected by the Board for the purposes of this disclosure), the Company complied with the following regulatory targets:

- One of our senior Board positions (Chair, CEO, SID or CFO) is held by a woman.
- One member of our Board is from a non-white ethnic minority background.

As at 19 May 2023, the proportion of women on our Board was 33%. Whilst we have not met the target for at least 40% of our Board to be women, female representation on the Board has been at or above the 40% target in the two prior years (FY2021: 50%; FY2022: 40%) and we are committed to achieving 40% by the end of 2025.

The data required in relation to this statement and the Board and Executive Management diversity table below are based on information contained within our payroll systems.

Group Leadership Team diversity

As at 19 May 2023, the gender balance of our Group Leadership Team was 35% female and 65% male. Female representation increased by 7% on last year, putting us on track to meet the 40% target by the end of 2025.

Board and Executive Management¹ diversity as at 19 May 2023

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
Men	6	67%	3	4	100%
Women	3	33%	1	0	0%
Not specified/prefer not to say	0	0%	0	0	0%

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
White British or other White (including minority-white groups)	8	89%	4	4	100%
Mixed/Multiple Ethnic Groups	0	0%	0	0	0%
Asian/Asian British	1	11%	0	0	0%
Black/African/Caribbean/Black British	0	0%	0	0	0%
Other ethnic group, including Arab	0	0%	0	0	0%
Not specified/prefer not to say	0	0%	0	0	0%

1. Executive Management includes the Group CFO, the Group Company Secretary, the CEO Royal Mail and the CEO GLS. This cohort aligns with the FCA's Listing Rules definition of Executive Management.

Nomination Committee Report continued

Recruitment process

In response to the 2021-22 Board evaluation (see page 87), the Committee oversaw two external searches for up to two additional Non-Executive Directors during the year.

The Committee agreed the candidate specifications and engaged two external search agencies, Audeliss and Korn Ferry, to undertake the searches on behalf of the Committee. The Audeliss search took place at the start of the year. The Korn Ferry search concluded in May 2023. Audeliss has specialist expertise in sourcing candidates from diverse backgrounds. Korn Ferry have assisted the Company since 2021/22 in assessing and improving its executive talent requirements and is also a leading search agency for Non-Executive Director recruitment. The Committee determined that both firms had the relevant skills and experience to successfully undertake the briefs. Both are signatories to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate board recruitment searches. Neither has any other connection to the Group or any of its Directors.

With Audeliss, a longlist of candidates was prepared and compared against the Committee's latest Board composition, diversity and skill set review. Due consideration was given to the Board Diversity Policy.

A shortlist of candidates was then prepared and those shortlisted attended interviews with the Chair and the Directors.

Following those interviews, feedback was gathered and Jourik Hooghe was identified as the preferred candidate for audit experience due to his extensive financial, accounting, operations and strategy experience in consumer goods and logistics. Biographical information about Jourik is included on page 77 and details about his induction programme are set out on page 86.

Following successful completion of background checks and references, the Committee considered Jourik's time commitments and potential conflicts of interest and confirmed that, in their opinion, Jourik would be able to devote sufficient time to the Company and did not have any current conflicts of interest.

Following a recommendation from the Committee, the Board approved the appointment of Jourik, and it was announced on 19 May 2022. Jourik was re-appointed by shareholders at the 2022 AGM.

Korn Ferry assisted with the search for an international logistics expert. In May 2023 Ingrid Ebner was identified as the preferred candidate and the Board considered, including in light of time commitments and conflicts, and approved her appointment as announced on 18 May 2023. Ingrid has strong international logistics experience and is currently Vice President, Global Fulfilled by Maersk Standards and Regional Delivery IMEA & LAM of A.P. Moller-Maersk.

Time commitments

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

The Committee has reviewed the time each of the Non-Executive Directors has spent discharging their duties to the Company and confirms that each has demonstrated that they have sufficient time to fulfil their role properly.

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

Committee evaluation

The Committee's annual evaluation of its performance was undertaken as part of the Board effectiveness evaluation (see page 88).

Keith Williams
Chair of the Nomination Committee
22 May 2023

Audit and Risk Committee Report



Michael Findlay
Chair

Main objectives for 2022-23

- Ensure the accuracy of the Group's financial and risk reporting, and recommend for approval to the Board the Group's trading announcements.
- Focus on strengthening and monitoring financial reporting controls.
- Continue to enhance the quality of financial reporting, including the application of accounting judgements.
- Enhance the effectiveness of actions in place to mitigate all principal risks with a particular emphasis on cyber security risk.
- Monitor progress against Risk Assurance's three-year strategy.
- Establish a regional risk management process within GLS and integrate it within the Group Framework.
- Develop a framework to provide further clarity and more effective management of key fraud risks.
- Monitor developments in relation to the Business, Energy and Industrial Strategy White Paper 'Restoring trust in audit and corporate governance' (the BEIS White Paper).

Key activities in 2022-23

- Approved the Group's trading statements for recommendation to the Board.
- Monitored the Group's pension developments, including moves to implement a collective pension plan.
- Oversaw progress against a programme to improve the effectiveness of the Group's financial reporting controls.
- Monitored progress made against Risk Assurance's three-year strategy.
- Monitored and reviewed the Group's principal and emerging risks through an enhanced 'spotlight on risk' process and dashboards, which cover mitigations/controls in place and status update on key actions. See page 94 for risks covered during the year.
- Held two cyber security 'spotlight on risk' discussions and received regular updates on the cyber incident at Royal Mail International.
- Received updates on the establishment of regional risk management and principal risk profiles within GLS.
- Reviewed progress on the fraud risk management project.
- Formalised the Committee's role in reviewing climate-related risks.
- Reviewed the draft Royal Mail assurance map.
- Reviewed the BEIS 'Response Statement to the Restoring trust in audit and corporate governance consultation' (the BEIS Response Statement) issued in May 2022 and Financial Reporting Council position paper issued in July 2022. Set up a working group to review the proposals in detail and oversee the Group's response to topics covered including effectiveness of internal controls, audit and assurance policy, fraud reporting and resilience statement.

2023-24 priorities

- Ensure the accuracy of the Group's trading statements, including discussing with the external auditor the carrying value of Royal Mail, given its current financial situation.
- Increase focus on principal risks, with particular emphasis on climate change, cyber security and talent across the Group as well as cost reductions specifically in Royal Mail.
- Oversee progress against the Group's risk management agenda and internal control system improvement, including the financial reporting controls programme.
- Continue to monitor the progress of the Risk Assurance three-year strategy.
- Oversee the implementation of a fraud risk management framework.
- Review the rollout of assurance mapping to the GLS business and the development of an Audit & Assurance policy for the Group.
- Oversee the BEIS working group and review any guidance issued by the Financial Reporting Council and/or the Auditing, Reporting and Governance Authority in relation to the BEIS Response Statement.

Dear Shareholder,

I am pleased to update you on the Committee's activity for the year ended 26 March 2023.

Committee composition and meetings

The table below contains information about the Committee's membership and the number of scheduled meetings each Director attended and was entitled to attend during the year ended 26 March 2023.

Director	Joined	Attendance (scheduled meetings)
Michael Findlay (Chair since 30 May 2019)	30 May 2019	5/5
Baroness Hogg	1 October 2019	5/5
Lynne Peacock	1 November 2019	5/5
Jourik Hooghe	1 June 2022	4/4

Additional meetings were held in October and November 2022 and March 2023 to consider matters in relation to the half-year results announcement and remediation proposals in relation to certain of the Group's principal risks. The Committee also attended several other meetings to receive training updates on issues relevant to the Committee's activities.

The Board considers that I have recent and relevant financial experience, having spent nearly 30 years in investment banking. I was also previously a Non-Executive Director of UK Mail Group plc and a member of its audit committee. To further strengthen the Committee, Jourik Hooghe was appointed on 1 June 2022. Jourik has extensive financial and accounting experience (see page 77). The Board considers that the Committee, as a whole, has the competence relevant to the Group's businesses (see pages 76, 77 and 86).

Committee meetings were routinely attended by the Non-Executive Chair, the CEO Royal Mail, the CEO GLS, the Group CFO, the Royal Mail CFO, the Global Director of Risk Assurance, the Director of Financial Control, the Group General Counsel and Company Secretary, and representatives from the external auditor, KPMG. Other non-members were invited to attend certain meetings as appropriate.

The Committee meets regularly with the external auditor and the Global Director of Risk Assurance, independent of the Executive Directors, to ensure that reporting, forecasting and risk management processes are subject to rigorous review throughout the year.

Role of the Committee and its advisers

The Committee's role and responsibilities are summarised on page 81.

To support the Committee in carrying out its responsibilities, it receives independent assurance from the Risk Assurance and Compliance functions. The Committee is also supported by the Royal Mail Audit and Risk Committee (Royal Mail ARC), the GLS Audit and Risk Committee (GLS ARC), the Group General Counsel and Company Secretary, and the Group CFO. I regularly attend the GLS ARC along with the Global Director of Risk Assurance, the Group General Counsel and Company Secretary, and the Group CFO.

Audit and Risk Committee Report continued

The Committee is also supported by the Group's actuary, Willis Towers Watson Limited, which provides expert opinion and long-term assumption advice with respect to pension accounting, and Aon Limited, which provides similar expertise in relation to other long-term liabilities.

The Committee receives regular reports from the external auditor across a wide range of issues related to its oversight responsibilities.

Committee activity

The key activities of the Committee during 2022-23 are set out in the table below.

Matter considered	Activity
Financial Reporting	
Half-year and full-year results	– Reviewed and satisfied itself on the integrity of the half-year and full-year results, including consideration of the significant accounting judgements, legal claims, contingent liabilities and contingent assets, the policies being applied, and the statutory audit findings.
Significant matters and judgements	
Fair, balanced and understandable	– Reviewed and assessed the Annual Report and Financial Statements to be fair, balanced and understandable (see page 95).
Going concern and viability statements	– Considered the going concern basis of preparation of the Financial Statements (see page 95). – Considered the Viability Statement (see pages 56 to 58).
Impairment assessment	– Considered an impairment assessment of the Royal Mail business excluding Parcelforce Worldwide cash generating unit and the respective investments in subsidiaries in the legal entity companies impacted for the half-year and full-year financial statements.
Pension assumptions	– Reviewed the Group's key pension assumptions for the half-year and full-year financial statements.
Covenant compliance	– Reviewed covenant compliance at the half-year, and at full-year both covenant compliance and the amendment to the revolving credit facility covenant, agreed on 24 March 2023.
Regulatory accounts	– Reviewed and approved the regulatory financial statements 2021-22.
External Auditor	
Re-appointment	– Recommended to the Board the re-appointment of KPMG as external auditor. – Reviewed and approved the external auditor's engagement letter. – Reviewed and recommended to the Board the approval of the external auditor's letter of representation.
KPMG reports	– Reviewed KPMG's control findings and audit findings, including significant judgements, the audit opinion for the full-year results and its review for the half-year results. – Reviewed and approved KPMG's audit plan and strategy.
Effectiveness	– Conducted a review of the effectiveness of the external audit process (see page 98).
Independence and objectivity	– Reviewed the independence and objectivity of the external auditor (see page 98).
Audit and non-audit services and fees	– Reviewed and approved the external audit fee, as well as the review and pre-approval of fees in relation to non-audit services.
Audit cycle	– Reviewed the external audit cycle and identified improvements for future audits.
Internal Control and Risk Management	
Financial control	– Received regular updates on internal financial reporting controls and the Group's programme of activity to enhance the controls environment.
Royal Mail and GLS ARC meetings	– Received regular updates on the proceedings of the Royal Mail and GLS ARC meetings.
Risk appetite	– Discussed, made recommendations to the Board and monitored the Group's risk appetite.
Principal and emerging risks	– Assessed the risks that might impact the achievement of the Group's strategy, including consideration of whether these should be categorised as a principal risk to the business. – Reviewed the principal risks and uncertainties statement for inclusion in the Annual Report and Financial Statements. – Discussed new and emerging risks and the interrelationships between the principal risks.
Risk profile / spotlights on risk	– Reviewed changes to the Group's risk profile and progress towards target on a bi-annual basis. – Held spotlight discussions on the Group's principal risk areas, including major breach of information security, data protection regulation and/or cyber attack, health, safety and wellbeing, environment and climate (now called climate change and environmental management) and talent: workforce for the future for both Royal Mail and GLS, and customer expectations and our responsiveness to market changes, failure to reduce our operational cost base, business continuity and operational resilience, and actual or suspected breached of material law and/or regulation for Royal Mail. See pages 50 to 55 for further detail.
Cyber security	– Received regular cyber security updates, including on the cyber incident at Royal Mail International. – Held two 'spotlight on risk' discussions on cyber security and GDPR. – Reviewed the status of the control environment around cyber security and strategic remediation plans, including investments to build a sustainable cyber team.
Effectiveness	– Reviewed the effectiveness of the risk management and internal control systems (see page 99).
BEIS Response Statement	– Discussed the BEIS Response Statement and any changes to the Company's impact assessment of the BEIS White Paper.
Royal Mail assurance map	– Reviewed the assurance map that assessed the adequacy of the second lines of defence in place over Royal Mail's principal risks and improvement actions required.

Matter considered	Activity
Internal Audit	
Internal Audit	<ul style="list-style-type: none"> – Reviewed and approved the Internal Audit plan. – Received reports and regular updates on Internal Audit activity.
Effectiveness and strategy	<ul style="list-style-type: none"> – Oversaw progress against Risk Assurance's three-year strategy (see page 100). – Reviewed the effectiveness of the Internal Audit function.
Risk Assurance Charter	<ul style="list-style-type: none"> – Reviewed and approved changes to the Risk Assurance Charter.
Independence and objectivity	<ul style="list-style-type: none"> – Reviewed the independence and objectivity of Internal Audit.
Treasury and Taxation	
Treasury Policy	<ul style="list-style-type: none"> – Reviewed the Group's Treasury Policy and made recommendations to the management team.
Tax strategy and risk	<ul style="list-style-type: none"> – Reviewed and recommended to the Board the approval of the 2023-24 tax strategy. – Reviewed bi-annually the Group's tax risks.
Pensions	
Pensions Committee	<ul style="list-style-type: none"> – Received Pensions Committee meeting updates.
Pension schemes	<ul style="list-style-type: none"> – Received updates on the progress for the launch of the proposed Royal Mail Collective Pension Plan.
Whistleblowing, Compliance and Fraud	
Whistleblowing	<ul style="list-style-type: none"> – Reviewed regular whistleblowing reports. – Reviewed the Royal Mail Speak Up (Reporting) Policy in relation to whistleblowing.
Compliance	<ul style="list-style-type: none"> – Received regular Royal Mail compliance updates.
Fraud	<ul style="list-style-type: none"> – Reviewed the output of the fraud risk identification workshops held at Royal Mail and GLS, and next steps towards implementing a formalised fraud risk management framework.
Ethics and Business Conduct	<ul style="list-style-type: none"> – Reviewed and approved the Royal Mail Ethical Business Conduct Policy (Prevention of Bribery, Corruption, Conflicts of Interest, Money Laundering, Terrorist Financing and the Facilitation of Tax Evasion).
Governance	
Forward planner	<ul style="list-style-type: none"> – Reviewed the Committee's 2023 forward planner.
Terms of Reference	<ul style="list-style-type: none"> – Reviewed and recommended the Board approve changes to the Committee's Terms of Reference. – Approved changes to the Terms of Reference for the Royal Mail ARC, the GLS ARC and the Pensions Committee.
Risk management	<ul style="list-style-type: none"> – Reviewed and approved changes to the Group Risk Management Policy.
Payment practices	<ul style="list-style-type: none"> – Received an update on duty to report payment practices and performance for the half-year and full-year.
ARC report	<ul style="list-style-type: none"> – Approved the Committee's report for the Annual Report and Financial Statements 2022-23.
Evaluation	<ul style="list-style-type: none"> – Received updates on the status of actions identified in the 2021-22 Committee evaluation.

Going concern and viability statements

The Board's going concern and viability statements are set out on page 58.

The Committee considered the basis of preparation of the Financial Statements as a going concern, as set out in Note 1 to the Financial Statements. The Committee also reviewed the form and basis of conclusion underlying the long-term Viability Statement.

In undertaking these assessments, the Committee reviewed the business plan, taking account of the Group's principal risks (see pages 50 to 55), capital structure and the severe but plausible downside scenarios (see pages 56 and 57). The Committee reviewed and challenged the appropriateness of the scenarios modelled, the mitigating factors, and the three-year viability assessment period reflecting the Group's outlook and the effects of the macro-economic uncertainties faced by the Group.

As a result of the procedures performed, and the responses received from management on the challenges raised, the Committee satisfied itself that the going concern basis of preparation is appropriate and that the Group is commercially viable over the duration of its assessment period.

Fair, balanced and understandable

At the request of the Board, the Committee assessed whether the Annual Report and Financial Statements 2022-23, taken as a whole, were fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Committee's assessment took into account the disclosures, as well as the processes and controls underlying its production, including:

- Internal verification of factual content.
- Comprehensive reviews undertaken by the Group's legal team and key members of the senior management team.
- Consistency checks against the Group's market disclosures and strategy.
- External reviews undertaken by advisers and the external auditor.

The Committee concluded that the Annual Report and Financial Statements 2022-23 were fair, balanced and understandable, and the Board confirmed this view. The Board's statement is contained on page 141.

Audit and Risk Committee Report continued

Significant matters and application of judgements

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

Matter	Action taken by the Committee
<p>Deferred revenue – advance customer payments</p> <p>The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not used at the balance sheet date. The majority of the balance is made up of stamps sold to the general public. Consistent with the previous reporting period, management has used a number of different data sources to calculate the estimated deferred revenue liability. These data sources include: revenue data related to stamp sales through the Post Office network, historic trends of deferred revenue balances, changes to the number of working days during the period, price rises and adjustments to reflect posting patterns around key events close to the reporting year end, e.g. Mothering Sunday and Easter.</p> <p>Management uses judgement in applying a weighting to the components of the data sources. This judgement impacts revenue, profit and net assets.</p> <p>At 26 March 2023 the Group recognised £140 million (March 2022: £160 million) of deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date.</p>	<p>The Committee examined a report from management summarising the deferred revenue calculation and compared this against the level of deferred revenue recognised by management at each reporting date to ensure a consistent approach.</p> <p>Separately, the external auditor reviewed the statistical processes and assessed the assumptions made.</p> <p>The Committee concluded that the level of deferred revenue remained appropriate.</p> <p>Royal Mail has now introduced barcoded stamps to replace non-barcoded stamps. A Stamp Swap Out scheme was launched on 31 March 2022 where non-barcoded stamps can be swapped for stamps with barcodes. The Committee has reviewed with management the impact on the Stamps in the Hands of the Public (SITHOP) balance of both the swap out and customers using up their existing stamp stocks. In addition, the Committee received an update from management in relation to the proposed new methodology to calculate the deferred revenue balance in relation to stamps sold to the general public, and in particular, that once this new methodology is implemented in 2023-24, it could result in a deferred revenue balance that is materially different to the current balance.</p>
<p>Pensions – defined benefit obligations</p> <p>The valuation of the defined benefit pension plan obligations relies on the estimation of long-term assumptions, i.e. discount rate, inflation, mortality and pension increases. Small movements in these assumptions can lead to material impacts on the balance sheet.</p> <p>The valuation of certain unquoted pension scheme assets also includes a high degree of estimation uncertainty.</p> <p>In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.</p>	<p>Key long-term assumptions were prepared by the Group's actuary, Willis Towers Watson Limited, and benchmarked against prevailing economic indicators and other large pension schemes. All of these assumptions are disclosed in Note 11 (pages 192 to 202) to the Financial Statements. Changes in the assumptions were summarised for the Committee, including changes in demographic assumptions resulting from mortality studies undertaken for the recent triennial valuation, and explanations were provided for the movements in returns on scheme assets, particularly as a result of the liability hedging strategy. The results of the assumption benchmarking were also discussed.</p> <p>The external auditor used its own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.</p> <p>The Committee was also satisfied with the approach taken to verify third-party valuations for unquoted scheme assets and the associated disclosures.</p>

Matter	Action taken by the Committee
<p>Impairment testing</p> <p>During the year an impairment test was carried out in respect of:</p> <p>Royal Mail CGU</p> <p>Royal Mail UK has significant non-current assets both tangible and non tangible that form part of the Royal Mail UK (excluding Parcelfore Worldwide) cash generating unit (CGU). Judgement is exercised in reviewing the carrying value in respect of possible impairment. As a result of the poor trading performance of the Royal Mail UK business, exacerbated by industrial action, management identified an indicator of impairment, and as a result performed an impairment assessment. In assessing whether the CGU was impaired, the carrying value of the CGU of £1,439m (2021-22: £1,412m) was compared to its recoverable amount. Management assessed the recoverability of the CGU using the higher of a Value in Use (VIU), or Fair Value less cost to Dispose (FVLCD). The FVLCD methodology resulted in a higher recoverable amount. The FVLCD considers a discounted cash flow modelling from the perspective of a 'market participant'. The model includes a number of assumptions in relation to trading expectations, execution risk associated with realising the transformational benefits in the business plan, long-term growth rate, and discount rate.</p>	<p>The Committee reviewed and challenged the methodology and results of the impairment review, including the appropriateness of key assumptions and data points used. This included review and challenge over the growth rates, risk associated with the transformational benefits and the discount rate used. Particular focus and challenge was given to the risk and opportunities associated with the cashflows, the wider economic environment and the impact of the industrial relations landscape. The Committee also considered the sensitivity of the proposed impairment charge and the wide range of possible outcomes. The Committee satisfied itself that the assumptions used within the CGU impairment model, together with the resulting impairment charge, were reasonable. The Committee also reviewed the allocation of the impairment charge and the associated disclosure for inclusion within the Financial Statements.</p>
<p>Parent Company, IDS plc (see pages 234 to 236)</p> <p>The carrying amount of the Parent Company's investments in, and amounts due from, subsidiaries represents 83% (2021-22: 83%) and 17% (2021-22: 17%) of the Parent Company's total assets respectively. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to the materiality in the context of the Parent Company Financial Statements, this is considered to be the area that has the greatest effect on the Parent Company balance sheet.</p>	<p>The Committee received confirmation from management that it had adequately assessed the recoverability of investments in subsidiaries and intercompany indebtedness, by assessing and confirming that the net assets of the relevant subsidiaries (being an approximation of their minimum recoverable amount) were in excess of their carrying value at the balance sheet date.</p>
<p>Provisions for liabilities</p> <p>The Group has significant provisions totalling £208 million, including £61 million in respect of the frontline pay award; £12 million in relation to voluntary redundancy (£15 million has been reclassified as accruals - see Note 25 on pages 226 and 227) which relates mainly to the rightsizing of the operational frontline; £44 million industrial diseases claims; £50 million in relation to litigation claims; and £25 million property decommissioning costs. Judgement is exercised in making these assumptions that form the basis of the provisions calculations (see Notes 1 and 25 to the Financial Statements on pages 167 to 180 and pages 226 and 227 respectively).</p>	<p>The Committee reviewed the methodology and key assumptions used in determining significant provisions, including the basis for any release of provisions. The Committee considered the past utilisation of each provision, when reviewing the appropriateness of the provision. The Committee concluded that the amounts recorded in respect of provisions were appropriate, represented the current best estimate of each liability, and that associated disclosures were appropriate.</p>

Audit and Risk Committee Report continued

External auditor

KPMG was appointed by shareholders as the Group's statutory auditor at the 2015 AGM following a formal tender process undertaken in 2014. The firm's re-appointment was confirmed by shareholders at the 2022 AGM. The current lead audit partner is Andrew Bradshaw, who was appointed at the beginning of the 2022-23 audit process. The external audit contract will be put out to tender at least every ten years in line with the provisions of the UK Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the CMA Order). The Committee therefore considers that it would be appropriate to conduct an external audit tender by no later than the 2025-26 reporting year, by which time KPMG will have been the Group's external auditor for ten years.

We have complied in all material respects throughout the year with the CMA Order.

Effectiveness of the external audit process

The Committee is responsible for the relationship with the external auditor, including examining the effectiveness of the audit process.

At its meeting in May 2023, the Committee carried out its annual review of the external auditor's performance and the effectiveness of the external audit process, taking into account:

- The terms and scope of the external auditor's engagement, as set out in its engagement letter.
- The audit work plan for the financial year 2022-23.
- The effectiveness of the working relationship and interactions with the Committee.
- The quality of the audit, the handling of significant judgements by the external auditor and responses to questions from the Committee.
- A report from KPMG on its own internal quality procedures.
- Feedback from the Committee evaluation process which confirmed that KPMG's performance during the year was good.
- Feedback from the external auditor effectiveness survey, which was completed by key stakeholders involved in the external audit process and confirmed that the KPMG audit team had sufficient experience and technical and industry knowledge, was well resourced with sufficient continuity of people within the team, communicated clearly and constructively, and displayed adequate professional scepticism.

Based on its review, the Committee concluded that the external audit process had been completed effectively, that KPMG's engagement had been managed well and that there had been an appropriate level of challenge from the audit team. To ensure a continuous improvement in the audit process, the Committee identified a number of areas which could be enhanced, including the provision of more insight and added value in terms of communicating future potential business risks and more proactive engagement with Committee members. These matters will be discussed with KPMG and addressed as part of the overall 2023-24 audit planning.

Assessment and safeguarding the independence and objectivity of the external auditor

The Committee considered the independence and objectivity of the external auditor through:

- Assurances provided by the external auditor on the safeguards in place to maintain independence.
- Oversight of the Non-Audit Services Policy (see below).
- Reviewing the external auditor's non-audit services and fees (see below).
- Oversight of the Ex-Auditor Employment Policy.

The Committee considered two reported breaches of auditor independence in the year in relation to a spouse of an employee of KPMG holding a small shareholding in the Group during July 2022; and the provision of accounts preparation assistance services by a KPMG member firm to a GLS subsidiary. The Committee do not consider these breaches to impair the independence of the Group auditor.

Non-Audit Services Policy

Our Non-Audit Services Policy governs the process for approving certain non-audit services provided by the external auditor. The purpose of the Policy is to ensure that the level of fees earned from non-audit services and the type of services provided do not impair the external auditor's independence and objectivity. The Policy is overseen and was reviewed by the Committee during the year to ensure that it remained fit for purpose.

In general, the external auditor is not approached to perform non-audit work. The Committee does, however, currently permit the external auditor to provide non-audit-related services, insofar as permitted by auditor independence rules, and the external auditor may be engaged to perform such non-audit services if it is uniquely placed to undertake them, or if the performance of the non-audit services will support a future statutory audit (including the provision of buyer assist due diligence) and would not compromise the auditor's independence. The engagement may follow a competitive tender process. The Committee has delegated authority to the Group CFO to pre-approve assignments up to £25,000, with an annual limit of £500,000.

During both the current and prior years, the Committee permitted the auditor to provide non-audit services in relation to the half-year review and the regulatory audit required by Ofcom, as the auditor was uniquely placed to complete them and the Committee was comfortable that these services did not compromise its independence.

External auditor fees

The Committee keeps under review the services and fees incurred by the external auditor. Total fees for audit and audit-related work during the year amounted to £4,416,000, and total fees for non-audit services during the year amounted to £705,000, which represented around 16% of the external audit fee. Non-audit services primarily related to the Financial Statements, regulatory audit, the half year Condensed Consolidated Financial Statements and other non-audit services relating to regulatory reporting. The Committee was satisfied that the non-audit work was best handled by the external auditor because of its knowledge of the Group, and that undertaking the work did not put under threat the independence of the external auditor. All non-audit services were approved in accordance with the Non-Audit Services Policy.

In addition to the fees earned from the Company, KPMG has been engaged by the respective Pension Trustee as external auditor of the Royal Mail Pension Plan, the Royal Mail Defined Contribution Plan and Royal Mail Trustees Limited, the fees for which were £181,900 in 2022-23.

Re-appointment of external auditor

The Committee concluded that it is satisfied with the independence and objectivity of KPMG. This, together with the findings that the external audit process was effective, supports the Committee's recommendation to the Board that it seeks shareholder approval at the 2023 AGM for the re-appointment of KPMG as the external auditor for the year ending 31 March 2024.

Business combination disclosures

In 2022, the Company's 2021-22 Annual Report and Financial Statements was subject to a thematic review of business combination disclosures by the FRC. Its objective was to assess the quality of these disclosures and to identify good practice. As a result of its review, the FRC did not wish to raise any questions or queries, however, noted the omission of some information required in relation to certain aspects of the Group's acquisitions.

Management has considered the points raised and as a result has included additional disclosure on page 203. In making its comments to us, the FRC provided no assurance that the Company's 2021-22 Annual Report and Financial Statements was correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Risk management and internal control

The Board believes that effective risk management and a sound internal control environment are fundamental to the Group's success. It has established a risk management framework that seeks to identify, assess and manage risks that could impact our businesses (see pages 46 to 49) and reviews the effectiveness of this framework annually. The Committee supports the Board through its ongoing review of the Group's principal and emerging risks (see pages 50 to 55) and by advising the Board on the Group's overall risk appetite and the effectiveness of risk management and internal control systems.

In relation to the Group's financial reporting process, the Committee relies on a number of specific internal control mechanisms to ensure that the Group provides accurate, timely financial results and implements accounting standards and judgements effectively, including in relation to going concern and viability. The Committee receives:

- Regular updates on the evolving regulatory environment, including FRC advice, best practice guidance and the requirements of the Code and the Disclosure Guidance and Transparency Rules. The Committee also receives reports on proposed changes to legislation and regulatory reviews and the potential impacts.
- Management reports, including analysis of results, forecasts and comparisons against last year's results.
- Reports from the external auditor, including management letters on controls.

Review of risk management and internal control systems

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems. This covered financial, operational and compliance principal risks.

The evaluation process is ongoing throughout the year. An annual paper is presented to the Committee and Board providing a summary of risk and assurance activity to support their annual assessment. The assessment included consideration of the following:

- Status of principal risks and the assurance activity undertaken in relation to them in accordance with the Group's risk management framework (see page 46).
- 'Spotlights' on risks sessions led by relevant Executive Board member risk owners that take place throughout the year and focus on existing controls and additional remediation required.
- Assurance map for the Royal Mail principal risks, assessing the adequacy of second-line controls and actions required to improve them.
- Quarterly reporting from Compliance and Ethics on the operating effectiveness of compliance controls.
- Progress made against the Internal Audit plan and the conclusions provided by the internal audit reports issued in the year.
- Timeliness of implementation of actions agreed to mitigate any risk and control gaps identified during internal audits.
- Year-end finance letters to the Group CFO to confirm completeness of key risks impacting the Group, compliance with relevant legislation, any known fraud instances, financial reporting and controls requirements.
- Testing of key controls over the higher-risk processes/and balances in the preparation of the Financial Statements.
- Reports from the Finance team on the progress and status of the financial reporting control programme.
- The opinion and reports of the external auditor.

Whilst the Committee considered the system of risk management and internal control across the Group to be generally effective in the year, in light of the increasing risks facing the Royal Mail business as it transforms, there is a recognition of the continued need to improve its effectiveness. Key activity underway and scheduled for 2023-24 includes:

- Continued focus on formalising, systemising and remediating our financial reporting controls, with a particular focus on remediating IT controls, controls over payment processes and outsource suppliers.
- Further improving our cyber security controls to address identified control weaknesses in response to increasing external threats and lessons learned from recent incidents.
- Developing a formalised Audit & Assurance policy across the Group's principal risks and external reporting.
- Continue to enhance risk management across the Group, particularly risks pertaining to reducing costs and enabling transformation of the Royal Mail business.

Audit and Risk Committee Report continued

Internal audit

Internal Audit provides independent assurance to the Committee and the Board on the effectiveness of the internal control systems and elements of the risk management process through its Internal Audit projects. Internal Audit sits within the Risk Assurance function, which is led by the Global Director of Risk Assurance, who has direct access to me and the Board Chair, which ensures the independence of the function.

At each Committee meeting, an update on Internal Audit activity is provided, including an overview of audits completed in the period, with a focus on unsatisfactory audits; progress made against the Internal Audit plan; and the status of actions arising from completed audits.

An Internal Audit plan aligned to the Group's principal risks is developed annually and updated for changes in risks and priorities with the Committee's approval. Prior to the start of the new financial year, the Committee reviewed and approved the Internal Audit plan for the next financial year, which incorporates risk-based audits that encompass both the Royal Mail and GLS businesses.

During the year, the Committee also oversaw progress against Risk Assurance's three-year strategy. The Committee noted that good progress had been made in relation to several strategic pillars, including integrating risk management and audit globally, talent development, digital and technology auditing, and assurance mapping.

Effectiveness of Risk Assurance

During FY22, in accordance with the Chartered Institute of Internal Auditors Standards (CIIA Standards), Deloitte, on behalf of the Committee, conducted an independent external quality assessment (EQA) on the effectiveness of Royal Mail and GLS' respective Internal Audit functions. CIIA's Standards recommend that an external assessment must be conducted at least once every five years by a qualified, independent external assessor or assessment team. The Committee therefore considers that it would be appropriate to conduct the next EQA no later than the 2026-27 reporting year.

During the year the Committee reviewed the effectiveness of Risk Assurance, including a review of the implementation of the recommendations of last year's EQA. In particular, it was noted that the following progress had been made:

- Royal Mail Internal Audit digital and IT skills developed through the implementation of a number of digital tools and practices, including data analytics and more modern audit software and the recruitment of specialist technology audit and data analytics managers.
- Mapping assurance activity across Royal Mail's principal risks to better understand second-line assurance activity that can be leveraged in its internal audits.
- Developing a true independent, third-line assurance function in GLS focused on the principal risks of that business, improving the quality of assurance activity through recruitment and training, and integrating within the Global Risk Assurance framework.

Committee evaluation

The Committee's annual evaluation of its performance was undertaken as part of the Board effectiveness evaluation (see page 88).

Michael Findlay
Chair of the Audit and Risk Committee
22 May 2023

Environmental, Social and Governance Committee Report



Lynne Peacock
Chair

Main objectives for 2022-23

- Monitor implementation and progress against Royal Mail and GLS' environmental strategies and targets.
- Oversee the development of a TCFD implementation project.
- Monitor Royal Mail and GLS' health, safety and wellbeing performance.
- Monitor Royal Mail and GLS' culture and DEI strategies.
- Review Royal Mail and GLS' supply chain engagement on ESG issues.

Key activities for 2022-23

- Received updates on the implementation and progress against Royal Mail and GLS' environmental strategies and targets.
- Oversaw the development of, and progress against, the Company's TCFD implementation project and formalised the Committee's role in ensuring that the Group has suitable systems and processes in place to manage climate-related risks and opportunities.
- Introduced 'safety moments' at each Committee meeting, alongside regular updates on Royal Mail and GLS' health, safety and wellbeing performance.
- Received regular updates on culture metrics and reviewed output from Employee Voice Forums and employee surveys.
- Reviewed Royal Mail and GLS' DEI strategies and monitored progress against diversity targets.
- Reviewed Royal Mail and GLS' supply chain engagement on ESG issues.
- Reviewed Royal Mail and GLS' engagement with society, vulnerable customers and the communities they serve.

2023-24 priorities

- Monitor implementation and progress against Royal Mail and GLS' environmental strategies and targets.
- Monitor the Company's alignment with TCFD, including reviewing Royal Mail and GLS' systems and processes to manage climate-related risks and opportunities.
- Monitor Royal Mail and GLS' health, safety and wellbeing performance.
- Monitor Royal Mail and GLS' culture and DEI strategies, including progress against diversity targets.
- Review Royal Mail's strategy for implementing processes, systems and resource in its supply chains to achieve its long-term ESG ambitions.
- Monitor Royal Mail and GLS' engagement with society, vulnerable customers and the communities they serve.
- Review Royal Mail and GLS' systems to manage and review labour and human rights in their respective businesses and supply chain.

Committee membership and attendance

Director	Joined	Attendance (scheduled meetings)
Lynne Peacock (Chair since 20 July 2022)	1 February 2022	4/4
Rita Griffin¹	25 September 2019	2/2
Maria da Cunha	25 September 2019	4/4
Baroness Hogg	4 February 2021	4/4
Shashi Verma	29 September 2021	4/4

1. Rita Griffin stood down from the Board and as a member and Chair of the Committee on 20 July 2022.

Dear Shareholder,

I am pleased to update you on the Committee's activity for the year ended 26 March 2023. I became Chair on 20 July 2022, when Rita Griffin stepped down from the Board. I would like to thank Rita for leading the Committee since it was established in 2019 and for her support during the transition period.

Information about the Group's ESG Principles and Royal Mail and GLS' respective ESG programmes and performance during the year is included on pages 26 to 37.

Committee composition and meetings

The table in the adjacent column contains information about the Committee's membership and the number of scheduled meetings each Director attended and was entitled to attend during the year ended 26 March 2023.

Committee meetings were routinely attended by the Non-Executive Chair, the CEO Royal Mail, the CEO GLS, the Group CFO and the Group Company Secretary. Other members of senior management were invited to attend certain meetings as appropriate. The Committee is supported by the Group Company Secretary and members of the Royal Mail and GLS ESG teams.

Role of the Committee

The Committee's role and responsibilities are summarised on page 81.

Committee activity

The key activities of the Committee during 2022-23 are set out in the adjacent column.

At its meetings, the Committee also reviews an ESG horizon scanner as well as the ESG performance of Royal Mail and GLS, covering performance across key areas, including health and safety, people and environment.

Environment

During the year the Committee received updates on the implementation of Royal Mail and GLS' environmental strategies and progress against their respective carbon reduction targets (see page 27). The Committee also held a spotlight discussion on Royal Mail's fleet and the role it plays in delivering Royal Mail's carbon reduction targets.

The Committee also oversaw the development of, and progress against, the Company's TCFD implementation project. As a result, the Committee updated its Terms of Reference to formalise its role in ensuring that the Group has suitable systems and processes in place to manage climate-related risks and opportunities. See pages 38 to 45 for our TCFD Statement.

In addition, in March 2023, the Committee received a training session from an external adviser on key ESG trends and upcoming regulatory changes to environmental reporting.

Health, safety and wellbeing

The health and safety of our workforce, and those impacted by our operations, is of the utmost importance to the Board. Reflecting this, each Committee meeting begins with a 'safety moment' from either the CEO Royal Mail or the CEO GLS, during which they cover a topical safety matter from their respective business. The Committee also monitors key health, safety and wellbeing metrics within Royal Mail and GLS and receives a standing update on health and safety performance across the two businesses at every meeting.

Environmental, Social and Governance Committee Report continued

In relation to Royal Mail, the Committee focused on the need to drive a stronger safety culture within the business and in this respect discussed and monitored progress against several actions to improve safety culture. The Committee also reviewed and suggested changes to the Royal Mail Health and Safety Policy during the year, and received an update on how the Policy is deployed in practice.

In relation to GLS, the Committee continued to monitor the rollout of the Occupational Health and Safety (OHS) awareness programme, which comprises ten individual projects, all aimed at creating sustainable, long-term change in GLS' safety culture.

Culture

The Committee is responsible for monitoring Royal Mail and GLS' culture. The data which the Committee used to monitor culture throughout the year, as well as the insight gained and the outcomes of that insight, is included on pages 79 and 80.

DEI

The Committee receives regular updates on a number of DEI metrics. For Royal Mail, this includes youth recruitment and attrition, frontline employees under 30, overall female and ethnic minority employees, and female and ethnic minority senior leaders. For GLS, this includes administrative and operational female employees.

During the year the Committee held a spotlight discussion on DEI within Royal Mail and GLS.

In relation to Royal Mail, the Committee discussed the progress the business had made against its 2025 diversity targets (see page 33), with a specific focus on increasing female representation at senior leadership level.

In relation to GLS, the Committee discussed the launch of the business' DEI strategy, including the activities planned for 2023-24 in relation to increasing gender diversity within GLS (see page 34).

Supply chain

During the year the Committee discussed Royal Mail and GLS' engagement with their respective supply chains on ESG issues to enable a positive impact on society and the environment.

In relation to Royal Mail, the Committee discussed the findings of a review conducted by Accenture on Royal Mail's responsible sourcing, which identified where Royal Mail needed to implement new processes, systems and resource to achieve its long-term ESG ambitions. In the coming year Royal Mail will present its strategy for dealing with this to the Committee.

In relation to GLS, the Committee noted the business had accelerated efforts in its supply chain to support transport partners to switch their fleet to zero- and low-emissions vehicles through various incentives, including free charging at GLS depots, financing charging infrastructure at subcontractor depots, remuneration for electric vehicles, bonuses for electric van purchases and leasing or organising trials for subcontractors to test new zero-emission vehicles.

Society, vulnerable customers and community engagement

The Committee held a spotlight discussion on Royal Mail and GLS' engagement with societal issues, vulnerable customers and communities.

In relation to Royal Mail, the Committee discussed the launch of the business' four-year charity partnership with British Heart Foundation and made suggestions on how to use Royal Mail's scale to improve heart health amongst its employees and in the communities it serves (see page 34).

In relation to GLS, the Committee discussed plans to enhance the reporting and sharing of activities and knowledge between countries through GLS' ESG coordinators.

Committee evaluation

The Committee's annual evaluation of its performance was undertaken as part of the Board effectiveness evaluation (see page 88).

Lynne Peacock

Chair of the Environmental, Social and Governance Committee
22 May 2023

Directors' Remuneration Report



Maria da Cunha
Chair

2023–24 priorities

Specific priorities for the Remuneration Committee in the forthcoming year, in addition to its usual scheduled activities, will include:

- Review of the ongoing pay considerations for the wider Royal Mail workforce as we re-engage and re-focus employees following the recent industrial dispute.
- Review of the Group's pay for performance opportunities to align reward with the short-term objectives, namely continuing to grow GLS and the turnaround of Royal Mail.
- Continue to explore opportunities to provide more transparency and consultation with various employee groups in the development and application of the executive remuneration policy.
- Monitor and ensure the alignment of future incentive plans with Royal Mail and GLS environmental strategies.

Committee membership, meetings and attendance

The table below shows the number of scheduled meetings each Director attended, and the number of meetings they were entitled to attend during the year ended 26 March 2023.

Director	Joined	Attendance (scheduled meetings)
Maria da Cunha (Chair since 1 July 2022)	25 September 2019	6/6
Lynne Peacock (Chair until 1 July 2022)	1 November 2019	6/6
Michael Findlay	25 September 2019	6/6
Keith Williams	4 February 2021	6/6

Dear Shareholder,

On behalf of the Board, I am pleased to present our 2022–23 Directors Remuneration Report, my first as Chair of the Remuneration Committee. As announced in January 2022, Lynne Peacock stepped down as Committee Chair in July 2022 when she became Chair of the ESG Committee. I would like to extend my thanks to Lynne for her hard work and commitment that built a strong foundation for me to inherit. I am pleased that Lynne has agreed to remain as a Remuneration Committee member and continue to provide her counsel.

2022–23 has been a challenging year, with post-pandemic macro-economic turbulence remaining across the supply chain and retail sectors, which has impacted letter and parcel volumes across the UK, continental Europe and in the US. Furthermore, nationally the UK has seen levels of industrial action unparalleled for decades. High inflation has placed significant pressure on household budgets which has impacted consumer behaviour as well as creating significant cost pressure for our own workforce and the Group as a whole.

Review of the Remuneration Policy for 2023–24

We have undertaken a review of our Directors' Remuneration Policy in accordance with the normal three-year review cycle. Our proposed policy will apply from 2023–24 if supported by shareholders. I have set out below details of the context and findings of the policy review, and how the policy will support both the growth opportunities at GLS and the turnaround needed at Royal Mail in order to create value for shareholders.

The Committee considered the current policy in the context of the differing dual requirements of both our businesses and decided that in the most part it remains fit for purpose, but that a small number of changes are needed, as set out below:

- The current policy restricts deferral to one third of any bonus earned in all circumstances. It is proposed that this becomes the minimum level of deferral, to provide flexibility for the Committee to defer a greater portion of the bonus, where it considers that this will further increase alignment with shareholders, taking into account such factors as the Committee deems appropriate, for example, the profitability of the relevant business in the year.
- The current policy requires a minimum level of earnings before any bonus is paid. Whilst earnings are a critical measure of success, the Committee felt there may be other measures that better represent successful performance during different stages of growth or turnaround of our businesses. It is therefore proposed that this provision is changed to allow the Committee to select from a broader range of financial or non-financial measures as underpins across the Group and/or an appropriate business unit.
- It is proposed that the benefits policy is updated to allow for international relocation benefits when a current member of the leadership relocates at the request of the Group.

In early 2023 we consulted with our 15 largest shareholders on these proposed minor changes to our policy. Shareholders who commented were supportive of our proposals and no adverse comments were received.

Directors' Remuneration Report continued

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

In continental Europe, GLS saw softer retail sales, resulting in a decline of 1% in volumes in the year with beneficial pricing helping to minimise the financial disruption. Since 2019-20 volumes remain up 29% as households continue to shop online and send more parcels worldwide.

The lengthy pay and change talks between Royal Mail and the Communication and Workers Union and the resulting 18 days of strike action resulted in significant disruption in the year, which our managers worked hard to mitigate. After almost a year of talks a deal has been reached that will provide Royal Mail employees with a pay rise and allow the business to make the changes needed to meet evolving customer needs and secure the long term survival of the organisation. The Committee is conscious of the important role of our services for our customers and the wider communities that we operate in and the fact that disruption to the delivery of these services has a negative impact on all of our stakeholders.

- We took action to mitigate the impact of strikes, and despite seven days of industrial action in December 2022, robust contingency planning meant that more than 110 million parcels and 600 million addressed letters were delivered. Up to c.12,500 CWU grade employees returned to work on strike days.
- In January 2023, the Royal Mail International postal service was the target of a cyber incident which prevented customers posting letters and parcels overseas. Whilst the business was disrupted, overseas services resumed after necessary checks were made to ensure the ongoing safety of our customers personal details.
- Quality of Service levels at Royal Mail have remained a considerable challenge within the UK.
- Right sizing the UK workforce based upon the reduction in volumes experienced post pandemic has been undertaken. This necessary adjustment to the overall fixed cost of the business has seen a reduction of approximately 10,000 FTE, achieved through natural attrition, a reduction in the use of third-party agency staff and tighter controls on the use of variable pay.

Group performance

As detailed elsewhere in this Annual Report and Financial Statements, it has been a challenging year with contrasting performance across the Group:

- Group adjusted operating profit decreased 109.4% year on year to £71 million. Group revenue decreased 5.3% to £12.04 billion, with parcels making up 71% of Group revenue.
- GLS continued to deliver and perform, driven by a combination of better pricing and acquisition effects (principally the full-year effect from Rosenau), which offset a decline in parcel volumes. Year-on-year revenue increased by 10.2% (8.6% in Euro terms) to £4.7 billion (2021-22: £4.2 billion), with revenue in Germany, the largest GLS market by revenue, growing by 5.1% in Euro terms. Despite the good revenue growth, inflationary cost pressures resulted in a decline in adjusted operating profit margin by 60 basis points to 7.5%. GLS adjusted operating profit was £348 million, up 1.8% on 2021-22 (0.2% higher in Euro terms including the benefit from acquisitions).
- Royal Mail revenue decreased 13.0% to £7.4 billion. This was driven by a 21% decline in parcel volumes following the surge in home shopping during the pandemic as well as industrial action. Revenue from parcels accounted for 53% of total Royal Mail

revenue (2021-22: 56%). Adjusted operating loss was £419 million (2021-22: £416 million profit) and adjusted operating loss margin was 5.7%.

2022-23 remuneration outcomes

Short-term incentive plan (STIP)

When assessing the performance of the STIP measures against the targets set for Executive Directors, the Committee considered broader aspects of the Company's performance during the year, including the outcomes for shareholders and customers as described above.

For the Royal Mail STIP scorecard, financial measures account for 75% of the potential payout. As a result of prolonged industrial action and a downturn in parcel volumes against expectations, a loss was realised in the year for STIP purposes of £419 million. This disappointing loss resulted in no payout under this element of the scorecard for the CEO Royal Mail and Group CFO, as a profit was not achieved in the year. Revenue performance in the year was also behind threshold performance, resulting in no outcome for this component of the STIP.

Threshold performance was not achieved under either the Quality of Service measure which was also impacted by industrial action and higher than expected absence levels, or against the health and safety measure resulting in no pay out for both of these measures.

Despite progress being made against Royal Mail's environmental targets, the overall financial performance during the year was below expectations and as a consequence the overall STIP outcome for Royal Mail was 0%.

Financial performance at GLS was good and there was strong progress against the non-financial measures (which had a 25% weighting). This resulted in a payout between target and maximum under the scorecard for the CEO GLS.

The Group CFO has a Group STIP scorecard with a combination of GLS and Royal Mail financial measures (amounting to 75% of the scorecard). Non-financial measures (ESG and strategic priorities) made up the balance of the scorecard.

This means that the respective awards for 2022-23 are:

Executive Director	Scorecard	STIP payout (as a % of maximum)
Mick Jeavons – Group CFO	Group	38.5%
Martin Seidenberg – CEO GLS	GLS	85.5%
Simon Thompson – CEO Royal Mail	Royal Mail	0.0%

In respect of GLS, the Committee decided that STIP payments should be made to its Executive Board in light of the good financial performance during 2022-23: each of the area managing directors in GLS have STIP scorecards which are aligned to their individual areas of geographical responsibility.

Long-term incentive plan (LTIP)

The performance period for the 2020 Royal Mail LTIP concluded at the end of March 2023. Following an assessment of the performance conditions and in accordance with the mandatory reporting regulations, the estimated aggregate level of awards vesting is 60%, broken down as follows:

- Relative Total Shareholder Return (TSR): 40% vesting (40% weighting).
- Group EBITDA: 0% vesting (40% weighting).
- Group parcel revenue: 20% vesting (20% weighting).

The 2020 LTIP has a vesting date of November 2023, the Committee will continue to monitor the financial performance of the organisation ahead of the final vesting date.

The value delivered by the estimated 60% vesting outcome and included in the single total figure of remuneration is based on a share price of £2.279 (the 13-week average to 26 March 2023) compared with the share price at grant in 2020 of £3.044.

Martin Seidenberg was granted cash and share-based GLS LTIP awards prior to his appointment as an Executive Director. These are subject to GLS financial performance and in respect of the performance period ending 31 March 2023 the awards vested in full. The Committee felt this outcome fair and appropriate in the context of the GLS' good performance over recent years. More information is set out on page 126.

Total remuneration

Based on the above STIP and LTIP, each Executive Director's 2022-23 remuneration is shown below. The Committee believes the respective single figures of total remuneration are appropriate in the context of the wider stakeholder experience.

2021 LTIP grants

As outlined in the 2021-22 Annual Report, the Committee delayed the grant of the 2022 LTIP awards until August 2022. Due to the uncertainty created by the operational disruption, the Committee did not feel able to set long-term financial targets. Ultimately, the Committee decided to replace the Royal Mail measures for this award with an increased weighting on relative TSR. The measures and targets were confirmed at the time of grant via a stock exchange announcement and full details of the targets are set out in this report. The terms of these awards also provide the Committee with the ability to review the outcome at vesting, taking into account the underlying performance of the Group.

Group CFO Mick Jeavons £'000s

Total	936
LTIP	175
STIP	251
Pensions/benefits	75
Salary	435

CEO GLS Martin Seidenberg £'000s

Total	1,484
LTIP	189
STIP	678
Pensions/benefits	89
Salary	528

CEO Royal Mail Simon Thompson £'000s

Total	634
LTIP	0
STIP	0
Pensions/benefits	90
Salary	544

Wider Employee Context

- Within GLS, we awarded pay rises between 3.3% and 8.6% to reflect varying local pay inflation in the countries that we operate in.
- For Royal Mail middle managers we reached an agreement with Unite which saw a 5.5% pay award from 1 September 2023.
- A 2% interim pay rise for CWU grade employees was awarded, with a further rise delayed because of prolonged pay and change talks. Resolution reached with CWU in April 2023 for a multi-year pay deal equivalent to 10% over three years plus a £500 lump sum. This pay award will be payable once the deal is ratified by the membership.
- A simplified new starter contract was launched in December 2022, providing a variation of terms e.g. shift patterns over seven days, location flexibility, monthly paid and competitive pay and overtime rates.
- A new profit share scheme for CWU grade employees will commence for the financial year 2023-24 providing 20% of net operating profit as a bonus pool, subject to acceptance of the proposal by union members.
- To support the physical and mental wellbeing of our employees, Royal Mail implemented a virtual GP service which provides unlimited 24/7 access to a GP.

2023-24 executive remuneration

Executive Director salary changes

The Committee reviewed the salaries of its Executive Directors in the context of increases for the wider workforce.

The Committee decided to apply no increases for UK-based Executive Directors, effective 1 April 2023 in light of the current financial position.

Directors' Remuneration Report continued

An increase of 6.6% was agreed in respect of the CEO GLS, Martin Seidenberg, who is based in continental Europe (the Netherlands) and oversees GLS operations throughout Europe and North America. This is below the budgeted annual salary increase for employees in the Netherlands of 7.7%.

Pension arrangements

All Executive Directors receive a pension of 13.6% of salary, which is aligned with the benefit that will be provided to all eligible employees under the proposed Royal Mail Collective Pension Plan which will be launched after all the relevant enabling regulations have been passed and The Pensions Regulator has authorised the plan. The 13.6% is less than the 15.6% of salary benefit currently received by the majority of Royal Mail colleagues in the UK.

Changes to the 2023-24 STIP

ESG-related measures are included within the STIP scorecard. Ten percent of the scorecard for the CEOs of Royal Mail and GLS is based on environmental metrics. Health and safety is an important priority for the Group and it has been a key measure in Royal Mail's incentive plans for number of years across the broader UK management population.

For the 2023-24 STIP, the Health and Safety performance will become an underpin in the STIP. If performance against a range of identified Health and Safety metrics is not in line with expectations, the Committee will have the ability to reduce the level of STIP earned.

During recent months, the Committee reviewed the emerging best practice in relation to the use of ESG performance measures in incentive plans and considered whether to adapt or extend the use of ESG measures to long term incentive plans, with specific environmental quantitative targets.

GLS and Royal Mail continued to develop their respective ESG strategies to achieve their zero emission goals. The Committee will conduct further work to consider including ESG measures in the LTIP as the environmental strategies develop.

2023 LTIP awards

The measures that will apply to the 2023 LTIP awards are set out on page 133. These measures, broadly replicate the previous structure that applied prior to 2022 and are designed to ensure that the Executive Directors are incentivised to deliver the key long-term priorities relevant for their role, with 40% of the award based on Group TSR to ensure alignment with overall Group performance.

The associated targets will be reaffirmed at the time of grant via a stock exchange announcement. The grant of the 2023-24 LTIP awards is likely to be made, no later than 6 weeks post publication of the 2022-23 annual report.

At closure on Friday 24 March 2023, the Company's share price was 230.4 pence, which compares with the 2022 LTIP grant price of 272.6 pence: a decrease of 15.48%. However, over the last two financial years until 26 March 2023, the share price has been as low as 183.2 pence and the average share price during this period was 371.0 pence, and therefore the current share price is within the range over this period. As the stock markets remain unsettled in light of the ongoing economic environment, the Committee will monitor share price performance up to the point of grant of the 2023 LTIP to ensure that award levels are appropriate. As in previous years, the Committee will retain the discretion to review vesting outcomes to ensure that these are reflective of the underlying performance during the period.

Consideration of the wider workforce views

In addition to its primary role of reviewing Executive Directors' remuneration and the remuneration of other executives in GLS and Royal Mail, the Committee, and the Board more generally, continue to exercise oversight of other colleagues' remuneration. The Committee takes into consideration pay policy and pay settlements across the wider workforce as part of its decision making on executive remuneration.

This year, in response to feedback from the workforce on the lack of opportunity for CWU represented employees to share directly in the financial success of Royal Mail, the Board has committed, as part of the pay deal negotiated with the CWU, to introducing a profit share plan for CWU employees for 2023-24 and 2024-25.

As in previous years, the Committee reviewed the gender pay gap reporting and remuneration practices across the Group. In 2022-23 the ARC discussed the ongoing challenges of recruiting, retaining and engaging key talent (all Committee members were invited to this session).

Further information on our workforce engagement is included on pages 22, 32 and 84.

Board changes and implications for remuneration

On 12 May 2023 it was announced that Simon Thompson was stepping down as CEO Royal Mail. Details of the treatment of his remuneration on his departure were disclosed at the time of the announcement and are set out on page 131 of this report.

Summary

The Committee has sought to make fair and balanced decisions on remuneration outcomes that reflect the differing performance of its two operating entities in the year. Going forward we will continue to focus on ensuring our incentive structures support the turnaround required at Royal Mail and promoting growth at GLS

I trust that you find the Remuneration Report clear and informative. We hope that you will support our Remuneration Report and Remuneration Policy at the forthcoming AGM.

Maria da Cunha



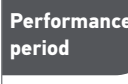
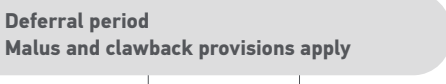

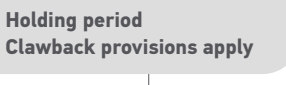
Chair of the Remuneration Committee

22 May 2023

Our Remuneration at a Glance (unaudited)

2023-24 Executive Directors' remuneration structure

The table below summarises the implementation of the Policy for Executive Directors in 2023-24.

Financial year	2023-24	2024-25	2025-26	2026-27	2027-28	Implementation for 2023-24
Salary						Salaries for 2023-24 are to be as follows: – Mick Jeavons – £435,000 (no increase). – Martin Seidenberg – £653,510 (6.6% increase). – Simon Thompson – £543,750 (no increase). – Martin's salary increase for 2023-24 is set below the rate of the wider workforce in his local Netherlands market of 7.7%. Workforce increases across GLS' largest markets are up to 13.8%. – Salaries may be reviewed during the year.
Benefits						– No change in how Remuneration Policy is intended to operate. – Pension contribution and/or allowance 13.6% in line with the wider workforce. – Other benefits may include healthcare and car allowance (or car).
STIP						– Maximum 150% of salary (at least one third of any award will be deferred into shares for three years). – Target 75% of salary. – Measures 75% financial and 25% ESG or other strategic priorities.
LTIP						– Maximum 150% of salary. – Shares vest after three years subject to performance, with a further two-year holding period. – Relative TSR 40% and financial measures 60%.

On 12 May 2023 it was announced that Simon Thompson was stepping down as CEO Royal Mail. Details of the treatment of his remuneration on departure were disclosed at the time and are provided on page 131.

























Our Remuneration at a Glance (unaudited) continued

Aligning our remuneration approach to business strategy and stakeholder interests

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

Our remuneration approach is aligned to our strategy, thereby incentivising, as appropriate, great customer service and the creation of long-term value for all of our stakeholders.

The following table provides a summary of how our incentive framework in 2023-24 is aligned with our business strategy and the results that it delivers. Many of the incentive measures are key performance indicators (KPIs) (see pages 20 and 21).

	Financial measure			ESG measure		Other measure	
	RM Operating profit (loss)/ GLS EBITA	RM cashflow	GLS cashflow	RM service quality	Environmental	Relative TSR	Individual priorities
Short-term incentive plan	✓	✓	✓	✓	✓		✓
Long-term incentive plan	✓	✓	✓			✓	
Link to strategy							
Royal Mail	  	 		 	 	 	 
GLS	  	 	 				  




Cash flow is defined as in-year trading cash flow post IFRS16 (STIP only).

Strategic icon key

Royal Mail

-  Customer
-  Trust
-  Growth

GLS

-  Connect Europe
-  Strengthen 2C parcel market position and lead in 2B
-  Inspire the market

The Committee believes that its executive remuneration policies and practices support the respective strategies in Royal Mail and GLS and promote long-term sustainable success, with reward linked to the successful delivery of such long-term strategy. The remuneration, including incentive arrangements for the respective executive teams, is aligned to our purpose and values (see page 2), with a focus on customers and other stakeholders an integral part of our executive remuneration approach.

Executive Directors' variable remuneration in 2022-23

As a result of the Company's 2022-23 performance (against financial, ESG and strategic measures), STIP awards are payable to some of the Executive Directors as shown below. The Committee considered that these outcomes were appropriate in the context of the Group, GLS and Royal Mail's overall performance and that of the Executive Directors during the year.

The performance period for the 2020 RM LTIP concluded at the end of March 2023. The outcome is shown below and more details on the progress against individual measures is shown on page 126.

	M Jeavons	M Seidenberg	S Thompson
2022-23 RM STIP (% of salary)	57.8%	128.3%	0.0%
2020 RM LTIP vesting (% of maximum)	60.0%	n/a	n/a
Executive Directors' total single figure of remuneration	M Jeavons	M Seidenberg	S Thompson
2022-23 total remuneration (£'000s)	936	1,484	634

Additional information	Percentage/Ratio
UK CEO (and other Executive Directors) shareholding requirement (% of salary)	200%
Mean gender pay gap	+1.4%
Mean gender bonus pay gap	-14.4%
CEO pay ratio	19:1

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

The table below details how the Committee addressed Provision 40 of the Code in respect of Directors' remuneration:

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

In accordance with Code Provision 41, the Directors' Remuneration Report describes the work of the Committee, including those areas mentioned in that Provision. The table below highlights some of those areas:

Provision	Approach
Operation of Policy	<ul style="list-style-type: none"> – The Committee believes that the Remuneration Policy operates as intended in terms of Company performance and the quantum of remuneration delivered.
Shareholder engagement	<ul style="list-style-type: none"> – We undertook substantial engagement with our shareholders as part of the development of the new Remuneration Policy in 2023, and our intended operation of the Policy for 2023-24. We are grateful for this feedback and input received over the last 36 months that has shaped our thinking and decision making.
Workforce engagement	<ul style="list-style-type: none"> – An outline of our approach to workforce engagement is set out on pages 22, 32 and 84. – The Committee will be exploring in the coming years how such engagement can be further strengthened in relation to the development of executive remuneration policy.

New Directors' Remuneration Policy (unaudited)

The Company's existing Directors' Remuneration Policy was approved by 99.3% of shareholders at the AGM on 8 September 2020. Under the normal three-year renewal process, the Company is proposing a new Directors' Remuneration Policy, as set out below. Subject to shareholder approval at the AGM to be held 20 July 2023, this Remuneration Policy will take effect from the date of the 2023 AGM and, if approved, will apply for up to three years.

The Board and Remuneration Committee conducted a detailed review of the Remuneration Policy during 2022-23 and considered the views of shareholders, strategic objectives of the Group, the remuneration of the wider workforce, market benchmarking and elements of best practice. As part of this process ahead of the 2023 AGM, the Chair of the Remuneration Committee consulted with the Company's largest shareholders and proxy agencies to discuss the proposed changes to the Remuneration Policy. The Committee greatly values feedback from our shareholders and considered their views when finalising proposals.

Following the review and consultation, the Remuneration Committee concluded that the existing remuneration structure for Executive Directors across IDS, GLS and Royal Mail, which has been strongly supported by shareholders in the past three years, remains appropriate and consistent with best practice. We are therefore proposing only minor changes to the Policy, which aim to support our developing strategy.

Overview of the changes to the Remuneration Policy

Area of Remuneration Policy	Description of change
STIP (performance measures)	The proposed Policy updates the current earnings gateway to include selected gateways from a broader range of financial and/or non-financial measures
STIP (deferral)	The proposed Policy is for at least one third of any bonus earned to be deferred into shares in all circumstances, allowing for higher levels of deferral where the Committee considers that this is appropriate and where further increases align with shareholders' interests.
Benefits	The proposed Policy related to relocation allowances has been updated to recognise the Company has a leadership team spread across different jurisdictions and who may need to relocate at the request of the business.

Proposed Remuneration Policy

Executive Director Fixed Remuneration

At a glance – maximum opportunity

Operation

Base salary

Purpose and link to strategy

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

Salaries for 2023-24 will be as follows:

M Jeavons (Group CFO) – £435,000

M Seidenberg (CEO GLS) – €653,510

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

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

Benefits

Purpose and link to strategy

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

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

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

UK based Executive Directors are entitled to participate in any Share Incentive Plan (SIP) or Save As You Earn (SAYE) schemes currently available to employees.

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

Pension

Purpose and link to strategy

To provide a competitive post-retirement income.

All Executive Directors currently receive a pension of 13.6% of salary, which is aligned with the majority of the workforce.

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

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

New Directors' Remuneration Policy (unaudited) continued

Executive Director Variable Remuneration

At a glance – maximum opportunity

Operation

Performance measures

Short-Term Incentive Plan (or annual bonus)**Purpose and link to strategy**

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

Maximum total annual incentive opportunity of 150% of salary, with a target opportunity of 75% of salary.

Normally at least one third of any bonus earned is deferred into shares in the Company which are normally released after three years.

Deferred share awards will be granted to Executive Directors in the form of a conditional share award. The Committee will normally award dividend equivalents on deferred shares to plan participants to the extent that they vest.

Malus and clawback provisions will apply to both elements of the award.

Annual performance measures and weightings will be selected at the start of each financial year to align with the key strategic, financial and operational priorities of the business. The measures themselves may change on an annual basis as financial and operational priorities of the business change.

In addition, the Committee will select an underpin or underpins that must be achieved (which may be at a Group or an appropriate business unit level) before any bonus is payable to an Executive Director. Financial and/or non-financial measures can be used as underpin measures.

The Committee may use its discretion to:

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

Long-Term Incentive Plan**Purpose and link to strategy**

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

Maximum award level of 150% of salary.

Awards are granted annually to Executive Directors in the form of a conditional share award.

These will vest at the end of a three-year period subject to:

- The Executive Director's continued employment at the date of vesting.
- The satisfaction of the performance conditions.

The Committee will normally award dividend equivalents on those shares to the extent that they vest. Following the vesting, there is a holding period of two years when Executive Directors cannot sell the vested shares other than to pay tax.

Malus provisions apply over the performance period. Clawback will apply over the holding period.

Performance measures and/or weightings reflect the business strategy at the time and are measured over or at the end of three years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.

The underlying performance of the business will also be taken into account when determining the vesting.

In exceptional circumstances the Committee retains the discretion to vary or waive the performance conditions applying to LTIP awards, if the Board considers it appropriate and the new performance conditions are deemed reasonable and are not materially more or less difficult to satisfy than the original conditions.

Application of malus and clawback

At a glance – maximum opportunity

Operation

Malus and clawback may be applied by the Committee in the event of:

- i. Discovery of a material misstatement resulting in an adjustment in the Company's accounts.
- ii. Discovery that the grant or vesting of an award was based on error or inaccurate or misleading information.
- iii. Conduct by an Executive Director that amounts to fraud or gross misconduct.
- iv. Conduct by an Executive Director that results, or could result, in serious reputational damage to the Group.
- v. Conduct by an Executive Director that has caused a material failure of risk management.
- vi. The Company enters involuntary administration or insolvency process.
- vii. An Executive Director breaching any restrictive covenants or confidentiality obligations that apply after the termination of their employment.

Events iv) to vii) only apply to awards granted after 1 April 2019.

Shareholding guidelines – during employment

Purpose and link to strategy

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

Shareholding guideline of 200% of salary

Executive Directors are expected to keep any shares they already own and any shares released under the LTIP and the Deferred Share Bonus Plan (DSBP) (except for those sold to cover any tax and social security obligations) until this is achieved.

Shareholding guidelines – post cessation

Purpose and link to strategy

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

200% of salary to be held in granted shares for two years after leaving.

On cessation, Executive Directors are required to maintain their shareholding guideline for two years. The number of shares to be held will be based on the shares vested under executive share schemes only (including the shares from any DSBP award that are yet to vest, based on a net calculation) and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200% of salary guideline at the point of departure, they will be required to hold any shares granted under executive share schemes for two years. The post cessation shareholding requirement will be included in Settlement Agreements for Executive Directors on leaving the business.

New Directors' Remuneration Policy (unaudited) continued

Approach to recruitment remuneration

Element	Policy
Salary	Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. In particular, they will take account of the appointee's skills and experience as well as the scope and market rate for the role.
Benefits	Benefits consistent with those offered to other Executive Directors under the approved Remuneration Policy in force at the time of appointment will be offered, including the discretion to offer additional benefits including but not limited to a) relocation allowance on recruitment and b) covering additional tax incurred by a non UK based Executive Director when performing their duties outside their home country (such as visiting the UK for Board or other meetings) to ensure that they are not subject to a greater tax burden as a result.
Pension allowance	The pension allowance paid to any newly appointed Executive Director will be aligned to the wider workforce pension arrangements as outlined in the Remuneration Policy.
Incentives	<p>Incentive arrangements will be in accordance with the approved Remuneration Policy in force at the time of appointment to the role. Under the Remuneration Policy:</p> <ul style="list-style-type: none"> – Maximum total annual incentive opportunity award in any year would be 150% of salary. – Maximum LTIP award would be 150% of salary (with the ability to offer up to 300% of salary for the year of starting the role). <p>For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be forfeited on recruitment. Any such arrangements would reflect the type of award (for example, cash or shares); time horizons; and levels of conditionality of the remuneration foregone. In order to facilitate buy-out arrangements, existing incentive schemes will be used to the extent possible, and the Committee will retain discretion on the application of holding periods, performance conditions and performance periods.</p> <p>For an internally appointed Executive Director, any outstanding variable pay element, such as an LTIP awarded in respect of the prior role, will continue on its original terms.</p>
Other	<p>The Committee always seeks to use its judgement to ensure that any remuneration package is set such that the Company is able to attract the right calibre of individual required, whilst maintaining a responsible attitude to executive compensation.</p> <p>The terms and conditions for any new Executive Director contract as outlined in this Policy shall always be subject to local laws in any applicable jurisdiction and be amended to ensure compliance with such local laws where necessary.</p>

Policy on payment for loss of office

The Committee reserves the right to make any other payments in connection with an Executive Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

The Company may meet ancillary costs, such as outplacement consultancy and/or reasonable legal costs, if the Company terminates the Executive Director's service contract.

Element	Policy
Payment in lieu of notice	The Company may terminate the contract by making a payment in lieu of any unexpired notice period (unless dictated by applicable law). The payment in lieu of notice is limited to a maximum of 12 months' base salary (unless dictated by applicable law). Service contracts for Executive Directors will expressly provide for the use of monthly phased payments (unless dictated by applicable law) in the event of a payment in lieu of notice with a reduction in amounts paid if the executive obtains alternative paid employment.
Other payments	Payment in lieu of accrued holiday, incidental expenses, outplacement services and payments relating to post-termination restrictions may be paid/provided for as appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice) would be paid as the Committee considers necessary.
Post-cessation shareholding	Executive Directors will be required to maintain their shareholding guideline for two years. The number of shares to be held will be based on the shares granted under executive share schemes only and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200% of salary guideline at the point of departure, they will be required to hold any shares, granted under executive shares schemes for two years.

The following table sets out the position under the incentive plans on cessation of employment:

Element	Good leaver reason ¹	Other reason ²	Committee discretion
Annual bonus (cash)	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated.	No bonus payable for year of cessation.	<ul style="list-style-type: none"> – To determine that an executive is a good leaver. – To determine whether to pro-rate the bonus to time. <p>The normal approach is that bonus will be pro-rated provided that where any discretion is exercised there is an appropriate business case which will be explained to shareholders.</p>
Annual bonus (deferred)	All subsisting deferred share awards will normally vest on the normal vesting date.	Lapse of any unvested deferred share awards.	<ul style="list-style-type: none"> – To determine that an executive is a good leaver. – To vest deferred shares at the date of cessation of employment. – To determine whether to pro-rate the award to time. <p>The normal approach for existing awards is that they will not be pro-rated provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders. In respect of the year of cessation, discretion may be exercised to provide a pro-rated deferred share award based on achievement of performance conditions as measured at the bonus measurement date.</p>
LTIP	Pro-rated to time and performance in respect of each LTIP award. Awards will vest on the normal vesting date and the holding period will apply, except in the case of death when awards will vest on date of cessation of employment (and no holding period will apply).	Lapse of any unvested LTIP awards.	<ul style="list-style-type: none"> – To determine that an executive is a good leaver. – To measure performance over the original performance period or at the date of cessation of employment. – To vest the shares on date of cessation of employment. – To determine whether to pro-rate the award to time. <p>The normal approach is that awards will be pro-rated and to disapply the holding period provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders.</p>

1. A good leaver reason is defined as cessation in the following circumstances: death; injury, ill health or disability, as established to the satisfaction of the Committee; redundancy with the agreement of the Committee; retirement with the agreement of the Committee; the company employing the executive ceasing to be a member of the Group; the business or part of the business to which the executive's office or employment relates being transferred to a person who is not a member of the Group; or any other reason where the Committee in its discretion so permits.
2. Cessation of employment in circumstances other than those set out above is cessation for other reasons.

New Directors' Remuneration Policy (unaudited) continued

Policy on a takeover or other corporate events

The Committee's Policy on the vesting incentives on a change of control is summarised below.

Element	Take-over	Committee discretion
Annual bonus (cash)	Pro-rated to time and performance to the date of the takeover.	The Committee's normal approach is that it will pro-rate the bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.
Annual bonus (deferred)	Subsisting deferred share awards may vest on a takeover.	The Committee has discretion regarding whether to pro-rate the award to time. The Committee's normal approach is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the takeover.
LTIP	Subsisting LTIP awards may vest on a takeover, pro-rated to time and performance.	The Committee will determine the proportion of the LTIP award which vests taking into account, among other factors, the period of time the LTIP award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time.

In the event of a demerger, the Committee has wide flexibility as to what should happen to awards, including whether all or part of an award should vest and on what terms, or whether an award should continue on amended terms.

Legacy commitments

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed (i) before 8 September 2020 AGM (the date of the previous shareholder-approved Directors' Remuneration report came into effect); (ii) before this Policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration policy in force at the time they were agreed; or at a time when the relevant individual was not an Executive Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director of the Company. For these purposes, 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

This policy applies equally to any individual who is required to be treated as an Executive Director under the applicable regulations.

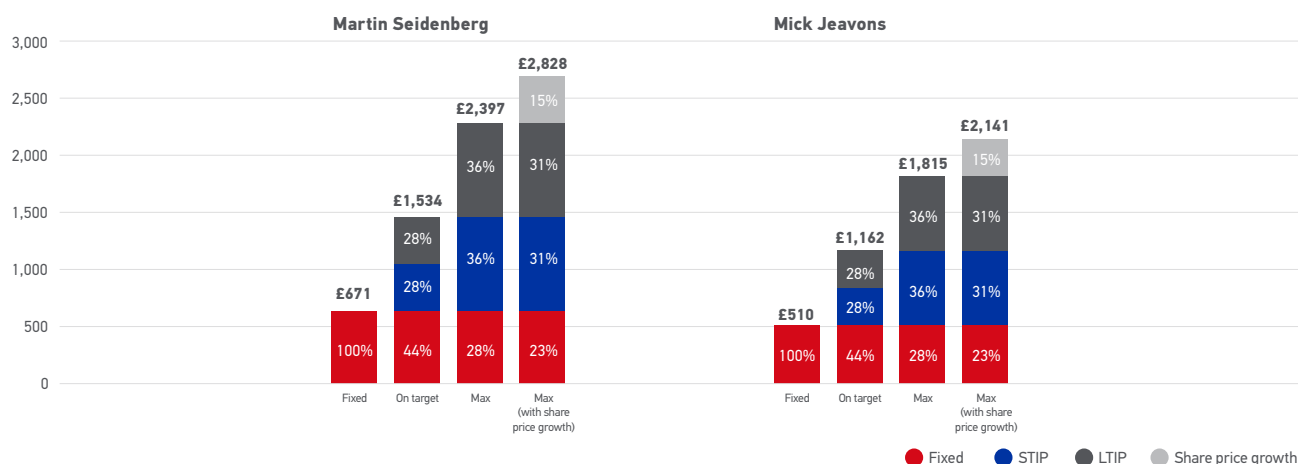
Executive Directors' Remuneration opportunity under the new Policy

The following charts set out the remuneration scenarios under the Policy for the Executive Directors in 2023-24.

It should be noted that there is no change to the target or maximum incentive opportunities receivable for the Executive Directors, compared with the previous Policy scenarios.

No chart has been provided for Simon Thompson following the announcement on 12 May 2023 that he will step down as CEO Royal Mail.

Illustrative remuneration scenarios (£'000s)



Assumptions

Fixed remuneration: Includes current salary, pension allowance at 13.6% and, in the case of the Group CFO, a benefits value of c.£16,000 and, in the case of the CEO GLS, a benefits value of c.£17,000 (including company car and grossed up taxes).

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

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

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

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

Martin Seidenberg's remuneration converted using a year end average exchange rate of £1: €1.136 for the purposes of this illustration.

New Directors' Remuneration Policy (unaudited) continued

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

At a glance

Operation

Purpose and link to strategy

Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chair of the Board with the necessary experience to fulfil the leadership role required of them.

Non-Executive Directors are paid an annual fee and additional fees for being Chair of a Committee or a member of a Committee and, if appropriate, other additional time commitments.

The Chair of the Board does not receive any additional fees for membership of Committees.

The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chair of the Board's fees.

The fees for Non-Executive Directors and the Chair of the Board are set at broadly the median of the comparator group. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. In general, the level of fee increase for the Non-Executive Directors and the Chair of the Board will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.

The Company will pay reasonable expenses incurred by the Non-Executive Directors and the Chair of the Board and may settle any tax incurred in relation to these. Non-Executive Directors and the Chair of the Board do not participate in any variable remuneration or benefits arrangements.

Service contracts and letters of appointment

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

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

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

Consideration of employment conditions elsewhere in the Group

In developing the 2023 Remuneration Policy, the Committee carefully considered the remuneration arrangements across the Group. The Committee receives information on wider workforce demographics and remuneration on a regular basis, to ensure that the Committee has a good understanding of the structure and application of reward policies throughout the Group.

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

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

When making decisions about executive remuneration, the Committee ensures, for example, that pay review budgets for Royal Mail executives are typically set at levels which mirror those being applied for managerial populations, which in turn are set in the context of pay levels agreed with our trade unions for employees whose pay is collectively bargained. In addition, the different incentive and commission plans in operation across Royal Mail support the delivery of the Company-wide priorities which are part of the STIP, through which the Executive Directors are incentivised. The broader workforce did not have direct input into the Policy, but its application is heavily influenced by remuneration arrangements for all employees. As well as being Committee Chair, Maria da Cunha is also the Designated Non-Executive Director for engagement with the workforce, which allows any key themes from employee engagement activity to be fed into Committee discussions. Further information about our workforce engagement activities is set out on pages 22, 32 and 84.

All Employee Remuneration (unaudited)

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

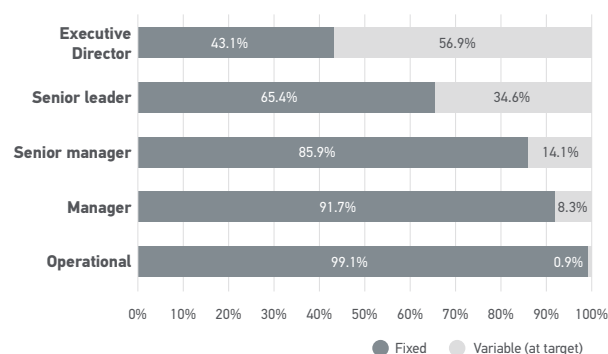
	Operational	Managers	Senior managers	Senior leaders
Salary	Based on role, location and service, progression typically based on service. Salary increases negotiated with the CWU and applied to the pay scales. No personal or performance-related element.	Middle and junior managers typically have a similar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

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

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

All Employee Remuneration (unaudited) continued

Illustration of typical split of fixed and variable remuneration



Transforming company car provision

Royal Mail announced in July 2021 its 2025 roadmap for the decarbonisation of its company car and business mileage allowances policies. These changes are part of Royal Mail's commitment to reduce its environmental impact and achieve net zero by 2040 and should ensure that we deliver an all-electric company car fleet by 2030.

The roadmap consists of three key dates:

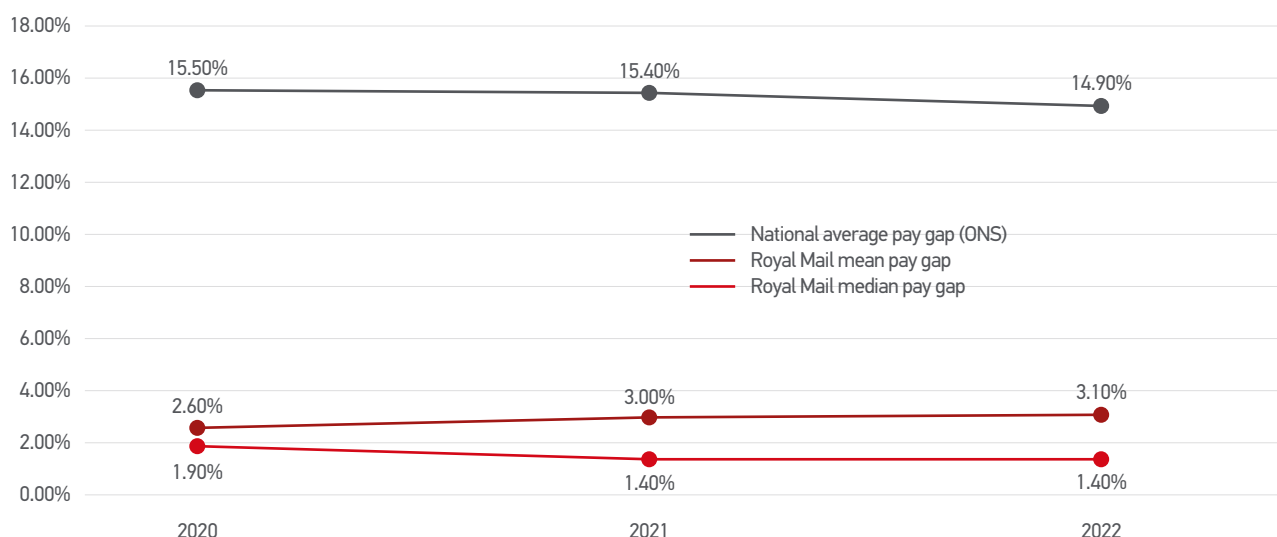
- 1 October 2021: from this date, the 1,500 senior managers have only been able to order EVs through MyDrive.
- 1 January 2023: from this date, the 1,500 senior managers have only been reimbursed for business travel (in private company cars) at an EV rate.
- 1 April 2025: from this date, only EVs will be available to order through MyDrive. Business mileage reimbursed for all employees (in a private or company car) will only be available at appropriate EV rates.

We are delighted with the uptake since the announcement last summer. Colleagues are able to acquire a company car (leased with our partner, Zenith) through our salary sacrifice arrangement. As at March 2023, there were 2,829 company cars in the fleet, of which 1,294 were EV. Of the orders placed between October 2022 and March 2023, 80% were EV.

Gender pay gap reporting

The Company's 2022 Gender Pay Gap Report, published during 2022-23, continues to show that average pay for men and women is broadly the same. On a median basis, our gender pay gap is 3.1% (a nominal increase of 0.1% from the prior year). This compares with a national average gender pay gap on a median basis of 14.9% across all industries, calculated by the Office of National Statistics (ONS) in 2022. On a mean basis, the pay gap has remained the same at 1.4%.

We expect to see small changes in the total pay gap each year due to changes in the composition of the workforce, and the payment of allowances and shift pay, which can vary between men and women year on year as shown below.

Gender pay gap – multi-year view
Royal Mail and national average (ONS survey)

In 2022, 97% of men and 96% of women received bonuses (in 2021, this was 98% for both men and women). Those who are ineligible have typically not reached the minimum service requirement or not obtained a minimum personal performance threshold, in the year to qualify. In 2022, the median bonus gap was in favour of women at -1.9% and -14.4% on a mean basis.

Our mean Bonus Gap remains in favour of women due to the higher proportion of women in our management population.

2022	Total pay gap	Bonus gap
Mean	1.4%	-14.4%
Median	3.1%	-1.9%

A negative percentage means the gap is in favour of females whereas a positive percentage means a gap in favour of males.

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

CEO pay ratio

The CEO pay ratio is set out below, as required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Regulations), with the required explanation, and further contextual information in relation to methodology and assumptions used. The CEO pay ratio for 2019 and 2020 is based on the remuneration of the former Group CEO. Since 2021 it has been based on the remuneration of the CEO Royal Mail.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2023	Option A	21:1	19:1	16:1
2022	Option A	26:1	23:1	20:1
2021	Option A	22:1	20:1	17:1
2020	Option A	31:1	28:1	24:1
2019	Option A	28:1	26:1	22:1

The table below sets out the salary, full pay and benefits value received by UK employees identified at the 25th, 50th and 75th percentiles, during 2022-23. There are over 81,783 operational colleagues on the salary of £24,361 on a full-time equivalent basis across the business. The difference in total pay and benefits is due to the different allowances, overtime, shift payments and pension arrangements received by these employees during 2022-23.

2022-23	25th percentile	50th percentile	75th percentile
Salary	£24,361	£24,361	£25,311
Total pay and benefits	£29,622	£33,193	£38,851

The material decrease in the pay ratio between 2022-23 and 2022-21 is essentially driven by the STIP outcome for the CEO Royal Mail as a result of financial performance.

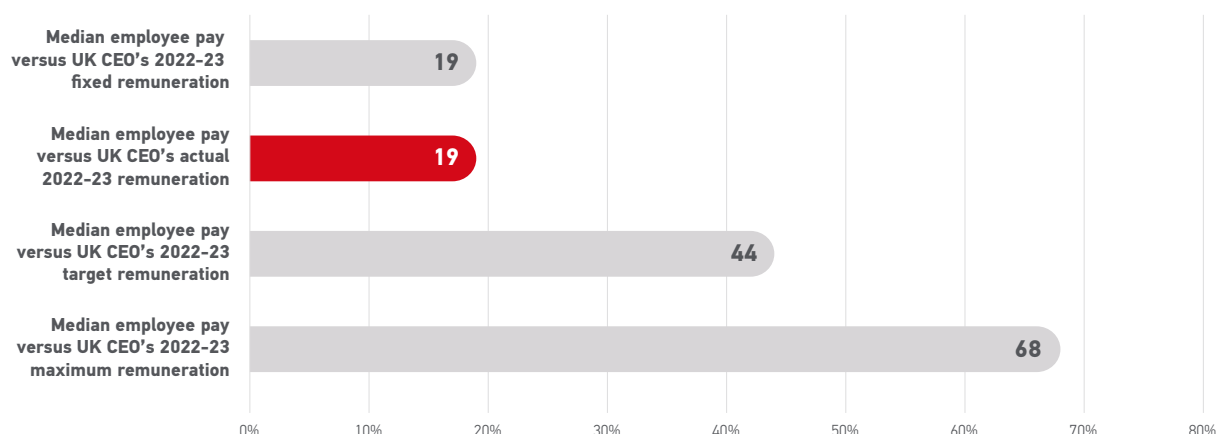
The headline amount of fixed remuneration for the CEO Royal Mail is broadly unchanged year on year. However, he received an STIP payment in respect of 2021-22 in contrast to 2022-23 where no STIP is payable.

The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies.

Pay relativities are just one of many factors that we take into consideration in developing a fair remuneration framework in Royal Mail.

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

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



All Employee Remuneration (unaudited) continued

How we have calculated our pay ratios

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

The Company has chosen to use Option A to identify the employees at the 25th, 50th and 75th percentiles and their respective pay and benefits, as it is recognised that this is the most accurate approach. All UK employees as at year end have been included in the reporting, with employees ranked based on their 2022-23 remuneration. The data assumptions included in our reporting are set out below:

Element	Description
Base salary	The Regulations require that full-time equivalent salaries are used to identify P25, P50 and P75 in order to ensure comparability across Royal Mail. At Royal Mail, over 47,000 colleagues work part-time, primarily in operational roles, and may have working hours changes through the year. We have, therefore, used the full-time equivalent salary, as at year end, as the salary figure to rank our employees.
Allowances and overtime	This includes a range of functional, shift, location, role-based allowances, and overtime, included on an actual basis (not pro-rated for part-time colleagues, or annualised for new starters).
Taxable benefits	Taxable benefits included are car allowance and healthcare.
Employer pension contributions	Actual employer pension contributions have been included (not pro-rated for part-time colleagues or annualised for new starters).
Incentives	The Regulations require that incentives relating to the relevant financial year are included. In some cases, the decision on the level of bonuses and LTIP vesting is not made until after the publication of this report.

Annual Report on Directors' Remuneration (audited)

This part of the Directors' Remuneration Report sets out how the Policy has been applied for 2022-23. This detailed information, set out below, has been audited by the Company's independent auditor, KPMG LLP.

Single figure table – Executive Directors (audited)

£'000	Salary ²		Benefits ³		Pension ⁵		Total fixed		Short-term incentive ⁶		Long-term incentive ^{7,8,9,10}		Total variable ^{9,10}		Total ^{9,10}	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Mick Jeavons ⁹	435	420	16	15	59	57	510	492	251	306	175	379	426	685	936	1,177
Martin Seidenberg ^{1,4,10}	528	493	17	13	72	67	617	573	678	703	189	315	867	1,018	1,484	1,591
Simon Thompson	544	525	16	15	74	71	634	611	-	142	-	-	-	142	634	753

Notes

- Martin Seidenberg's remuneration is set in Euros. The values above have been converted to British Pounds using the following exchange rate £1: €1.16.
- As disclosed in last year's report, the Committee reviewed the Executive Directors' salaries for 2022-23 and decided to apply a 3.6% increase for UK based Executive Directors, effective 1 April 2022 in line with the 3.6% effective increase in 2021-22 for frontline Royal Mail colleagues represented by the CWU. An increase of 5.7% was agreed in respect of the CEO GLS, Martin Seidenberg equal to the weighted average salary increase in GLS' eight largest markets.
- Benefits in the case of UK-based Executive Directors include healthcare provision with notional annual premium of up to £2,309 and the cash allowance of £13,160 which can be used to fund (under a salary sacrifice arrangement) the lease of an electric company car. Martin Seidenberg is based in Netherlands and has elected to take a company car, which had an annual cost of €18,260.
- Under the Remuneration Policy the Company may provide to Executive Directors, in certain circumstances, additional benefits, including covering additional tax incurred by a non-UK-based Executive Director when performing their duties outside their home country (such as visiting the UK for Board or other meetings) to ensure that they are not subject to a greater tax burden as a result. At the time of this report, Martin Seidenberg's relevant country tax returns covering the period to 31 March 2023 had not been finalised. If the Company has to make additional payments in respect of related tax liabilities for this period, details will be disclosed in next year's Annual Report.
- For 2022-23, the pension amount shown for Mick Jeavons and Martin Seidenberg was paid as a cash allowance in lieu of pension. For Simon Thompson, up to £4,000 (on an annualised basis) was paid into the Royal Mail Defined Contribution Plan, with the balance paid as a cash allowance.
- Any STIP has at least one third deferred into shares subject to continued employment for three years. No further performance conditions are attached. Details of the 2022-23 STIP outcome are set out on pages 124 to 126.
- Mick Jeavons' RM 2020 LTIP has an estimated 60% performance vesting outcome (see page 123 for more detail). Based on a share price of £2.279, the 13-week average to 26 March 2023, the estimated value of the 2020 LTIP to be delivered to Mick Jeavons is £175,175. As the grant price was £3.0443, there has been no share appreciation. The final value will be restated in the 2023-24 Directors' Remuneration Report.
- The 2022 LTIP figure shown for Martin Seidenberg relates to historic grants under the GLS LTIP with performance period(s) ending in 2022-23. More information on the GLS LTIP is shown on page 126. Part of the 2020 LTIP is delivered in shares. Based on a grant price of £1.8002 and a 13-week average price of £2.279, the amount relating to share price appreciation is £18,661, i.e. 206% (see below).
- The 2022 long-term incentive figure for Mick Jeavons has been restated with the actual value on vesting of his 2019 LTIP award, based on a share price of £2.702 on 08 August 2022 inclusive of dividend equivalents.
- The 2022 long term incentive figure for Martin Seidenberg has been restated (tranche 2 shares) using a 13 week average share price of £2.279.

LTIP vesting and share appreciation

Recipient	Mick Jeavons	Martin Seidenberg
Award	2020 RM LTIP	2020 GLS LTIP (shares)
Value at award	£390,000	£70,161
Value lapses	£156,000	-
Adjusted value at award	£234,000	£70,161
Share price growth	-	£18,661
Current estimated value	£175,175	£88,822

Annual Report on Directors' Remuneration (audited) continued

2022-23 short-term incentive outcome (unaudited)

The Committee followed a four-step process for determining STIP awards.

1. Assess the earnings (financial) gateway: The Committee concluded that a minimum level of financial performance had been attained at GLS, but not at Royal Mail.

2. Consider eligibility: The Committee considered if each Executive Director had exhibited an appropriate level of personal performance and conduct and was deemed to have met the gateway requirement to be eligible for an incentive.

3. Evaluate performance against the relevant business scorecard for the Executive Director: Details of the scorecard outcomes can be seen below. Setting STIP targets at the outset of 2022-23 was challenging in the context of an uncertain and fluid outlook. Notwithstanding this, the Committee set targets at the outset of the year, considering internal and external forecasts. The Committee was satisfied that the ranges set out in the table below

represented challenging but realistic targets, and that significant out-performance of internal reference points at the time they were set would be required to achieve a maximum payout.

4. Review broader business performance and finalise awards:

The Committee can make an upwards or downwards adjustment to the scorecard outcome for broader performance. In line with the provisions of the Code, the Committee carefully considered whether the respective formulaic outcome could be justified in the context of Royal Mail and GLS' overall performance. In so doing the Committee reviewed the following:

- Business performance during 2022-23, including progress against operational and strategic goals.
- The quality of underlying earnings and whether any significant one-off factors influenced the results.
- The experience of our shareholders and customers over the year.

2022-23 STIP scorecards

Measure	Weighting	Targets	Assessment	Outcome
CEO Royal Mail – Simon Thompson				
Adjusted Royal Mail UK operating profit¹	37.5%	Threshold – £252m Target – £316m Maximum – £379m	(£419m)	0.0/37.5
Royal Mail UK revenue	37.5%	Threshold – £8,055m Target – £8,304m Maximum – £8,553m	£7,411m	0.0/37.5
Health and safety	10.0%	Threshold – No outstanding P1 CAR's, Target – No outstanding P1 or P2 CAR's Maximum – No outstanding P1, P2 or P3 CAR's	Outstanding P1 CAR's	0.0/10.0
First Class Quality of Service	5%	Improved service levels. Aim to achieve regulatory minimum by 30 September 2022 but monitor ongoing performance and appropriateness of the target in the context of the Ofcom review	Service not to the high standards that we would expect	0.0/7.5
Environment	5%	Committee assessment of progress around the execution of a strategy on the sustainable impact of our business and in-year progress towards environment commitments	Targets exceeded at stretch, although outcome is not directly correlated with the financial gateway not being met.	0/5
Strategic Priorities	5%	Committee assessment of progress around the execution of a strategy (financial and non-financial) from increased best practice		0/5

1. Alternative performance measures are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 238 to 242.

In terms of the Royal Mail STIP, scorecard financial measures account for 75% of the potential payout. Operating loss for STIP purposes was £419m. As a result, there was no payout under the STIP as the overall financial gateway had not been met.

2022-23 STIP scorecards (continued)

Measure	Weighting	Targets	Assessment	Outcome
CEO GLS – Martin Seidenberg				
Adjusted GLS EBITA¹	75%	Threshold – €362m Target – €390m Maximum – €418m	€403.67m	62.0/75.0
Health and safety	10%	Reduction of Lost Time Accident Frequency Rate (LTAFR) and strengthening the group-wide Health & Safety programme.	LTAFR reduced by more than 7%	10.0/10.0
Environmental	7.5%	Committee assessment of the roll out of the GLS environment programme.	Installation of charging infrastructure, implementation of low and zero emission vehicles and sustainable building solutions	6.75/7.5
Strategic Priorities	7.5%	Committee assessment of : – Progress to optimise the benefits (financial and non-financial) from increased best practice and knowledge-sharing between Royal Mail and GLS. – Progress against the main pillars of the Vision 2031 strategy, digitalisation, geographic expansion, moving into adjacent segments and development of global cross border	New start up company established in Serbia, a number of M&A initiatives in-flight and global cross border initiatives enhanced	6.75/7.5
Group CFO – Mick Jeavons				
Adjusted Royal Mail UK operating profit¹	37.5%	Threshold – £252m Target – £316m Maximum – £379m	See above	0.0/37.5
Adjusted GLS EBITA¹	37.5%	Threshold – €362m Target – €390m Maximum – €418m	See above	31.0/37.5
Health and safety	10%	Threshold – No outstanding P1 CARs Target – No outstanding P1 or P2 CARs Maximum – No outstanding P1, P2 or P3 CARs	See above	0.0/10.0
Strategic priorities	15%	Committee assessment of: – Progress to optimise the benefits (financial and non-financial) from increased best practice and knowledge-sharing between Royal Mail and GLS. – Progress against Royal Mail transformational milestones. – Continuing to optimise a) financial management and reporting to drive benefits across the Group and b) tax and treasury management for cashflow benefit	Strong progress across Royal Mail transformation and financial management.	7.5/15.0

Notes

1. Alternative performance measures are not defined under IFRS. The APMs used to describe the Group's performance, including a reconciliation to reported results, are explained on pages 238 to 242.

Annual Report on Directors' Remuneration (audited) continued

2022-23 STIP outturn

	M Jeavons	M Seidenberg	S Thompson
Maximum award (% of salary)	150%	150%	150%
Salary	£435,000	€ 613,050	£543,750
Committee assessment on performance under the relevant scorecard	38.5%	85.5%	0%
Discretion applied (+/- % pts)	0.0%	0.0%	0.0%
Final outcome for 2022-23			
– as a % of maximum	38.5%	85.5%	0%
– as a % of salary	57.8%	128.3%	0%
– as an amount	£251,430	€ 786,543	£0

Royal Mail LTIP (audited)**2020 LTIP outcomes**

The 2020 LTIP was based on performance against a relative TSR measure, with a performance period from 1 April 2020 to 31 March 2023 and financial performance, as set out below:

Measure	Weighting	Performance vesting		
		Threshold	Maximum	Achievement
TSR vs FTSE 50-150 (excluding mining and financial companies)	40%	Median 10%	Top quartile 40%	80th percentile 40/40
Group EBITDA ^{1,2}	40%	£1.07bn 10%	£1.38bn 40%	£524m 0/40
Group parcels revenue	20%	£7.65bn 5%	£8.45bn 20%	£8.54bn 20/20
Total vesting				60/100

The Committee agreed that the estimated level of vesting (60%) is a reasonable outcome against the associated performance measures, having reviewed Royal Mail's wider performance and the share price performance over the three-year period. The Committee concluded that the level of vesting will be reviewed at the end of November 2023 prior to vesting.

GLS LTIP outcomes

Martin Seidenberg was granted cash and share-based GLS LTIP awards prior to his appointment as an Executive Director. These awards continue to vest on their normal schedule. Since 2021, Martin Seidenberg has been eligible for the Royal Mail LTIP and has not received any further grants under the GLS LTIP. Under the GLS LTIP, the maximum possible award was 98% of salary.

The performance conditions are based on adjusted GLS profit performance with a separate target set for each of the three financial years of the vesting period: 25% of the award is based on achievement in year one; with 37.5% based on achievement in years two and three respectively. Although performance is assessed annually, awards vest after three years subject to continued employment.

The single figure table includes the third tranche of Martin Seidenberg's 2020 GLS LTIP award, for which the performance period ends in FY2022-23. The 2020 award vests in July 2023, subject to continued employment.

Award	Outcome (% of max)	Value vesting (€)	Shares vesting	Value vesting (£) ^{1,2}
2020 GLS LTIP – tranche 3 (cash)	100%	115,763	–	99,796
2020 GLS LTIP – tranche 3 (shares)	100%	–	38,974	88,822

1. Cash awards converted for reporting purposes using the average exchange rate of £1:€ 1.16.

2. Share awards converted for reporting purposes using the average 13-week share price to 26 March 2023 £2.279.

Other outstanding LTIP awards (unaudited)

The following grants under the 2021 and 2022 Royal Mail LTIP remain outstanding at 26 March 2023. The performance conditions are set out below.

As disclosed in last year's Remuneration Report, target setting for the 2022 LTIP award was delayed due to continuing uncertainty around the long-term business environment resulting from the geopolitical uncertainty in Europe and the status of pandemic restrictions in our market. After careful consideration, the Committee concluded that it would not set three-year Royal Mail operating profit and parcel revenue targets, and instead would replace these elements of the performance framework with TSR. The Committee consulted with shareholders at the time and was grateful for the input from shareholders on this matter.

		Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
Measure	Weighting				
2021 RM LTIP					
TSR vs FTSE 51-150 (excluding mining and financials) comparator group	40%	Median	10%	Upper quartile	40%
Adjusted Royal Mail UK operating profit	Mick Jeavons 20%	£656.1m	5%	£801.9m	20%
Royal Mail UK parcels revenue	Mick Jeavons 10%	£5,344.7m	2.5%	£5,907.3m	10%
Adjusted GLS EBITA	Martin Seidenberg 40%	€410m	10%	€449.9m	40%
	Mick Jeavons 20%		5%		20%
GLS cash flow	Martin Seidenberg 20%	€281.2m	5%	€310.8m	20%
	Mick Jeavons 10%		2.5%		10%
2022 RM LTIP					
TSR vs FTSE 51-150 (excluding mining and financials) comparator group	Martin Seidenberg 40%	Median	10%	Upper quartile	40%
	Mick Jeavons 70%		17.5%		70%
GLS EBITDA	Martin Seidenberg 40%	€420m	10%	€500m	40%
	Mick Jeavons 20%		5%		20%
GLS cash flow	Martin Seidenberg 20%	€283m	5%	€343m	20%
	Mick Jeavons 10%		2.5%		10%
Total	100%		25%		

The amount of the LTIP share awards outstanding for each of the Executive Directors is shown in the following table, as at 26 March 2023. The Committee is aware of the impact of ongoing stock market volatility and, as disclosed in previous years, will retain the discretion to review vesting outcomes to ensure that these are reflective of the underlying performance during the period.

Award	Max value of award at grant (% of salary)	Max value of award at grant (£'000)	% vesting at threshold performance (% of salary)	Final year of performance period	Number of shares at grant
Mick Jeavons					
2020 RM LTIP ¹	150%	390	37.5%	2022-23	128,108
2021 RM LTIP ²	150%	630	37.5%	2023-24	125,831
2022 RM LTIP ³	150%	652	37.5%	2024-25	239,361
Martin Seidenberg					
2020 GLS LTIP (cash) ⁴	–	266	–	2022-23	–
2020 GLS LTIP (shares) ⁴	–	–	–	2022-23	103,929
2021 RM LTIP ²	150%	736	37.5%	2023-24	147,098
2022 RM LTIP ³	150%	788	37.5%	2024-25	288,888
Simon Thompson					
2021 RM LTIP ²	150%	788	37.5%	2023-24	157,289
2022 RM LTIP ³	150%	816	37.5%	2024-25	299,202

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

2. The 2021 RM LTIP award was granted on 12 August 2021 at a price of £5.0067 per share.

3. The 2022 RM LTIP was granted on 1 September 2022 at a price of £2.726 per share.

4. The 2020 GLS LTIP, granted on 24 July 2020, comprises a cash-based award and a share-based award. The maximum cash award value of the 2020 LTIP is €308,700. The values in the table above have been converted using an illustrative FX rate of £1: €1.16.

Annual Report on Directors' Remuneration (audited) continued

Shareholder dilution

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

Shareholding levels (audited)**Directors' shareholdings**

The table below sets out details of the shareholdings of the Directors as at 26 March 2023 (except where noted below). There has been no change in the Directors' interests in the Company's ordinary share capital between 26 March 2023 and 19 May 2023 (being the latest practicable date prior to the publication of this Annual Report) except as noted below. Executive Directors are required to retain any share based awards, until they achieve 200% of salary. Other PDMRs are required to retain a shareholding equivalent to 100% of salary.

	Number of shares owned on 26/03/23 ¹	Number of shares owned on 27/03/22	Policy shareholding requirement	Current shareholding (as a % of salary) ²	Share awards not subject to performance	Share awards subject to performance (LTIP 2020, 2021, 2022)
Chair of the Board						
Keith Williams	56,800	56,800	–	–	–	–
Executive Directors						
Mick Jeavons	149,605	62,693	200%	34.4	35,096	493,300
Martin Seidenberg	9,800	9,800	200%	1.8	79,870	539,915
Simon Thompson	20,982	20,982	200%	3.8	16,254	456,491
Non-Executive Directors						
Maria da Cunha	15,000	15,000	–	–	–	–
Michael Findlay	16,690	16,690	–	–	–	–
Sarah Hogg	12,000	12,000	–	–	–	–
Lynne Peacock	11,309	11,309	–	–	–	–
Shashi Verma	0	–	–	–	–	–
Jourik Hooghe	0	–	–	–	–	–

- For Directors who have stepped down from the Board, the number of shares owned is shown as at the date they stepped down. The number of shares is based on beneficial shareholdings, excludes any unvested share awards and includes (if appropriate) any shares held by persons closely associated with the Directors.
- Value of beneficial shareholding based on the average share price during 2022-23 (371 pence) and where required converted using an illustrative FX rate of £1:€1.16. Values include any vested LTIP shares subject to a holding period but exclude any unvested DSBP awards. Mick Jeavons, Martin Seidenberg and Simon Thompson were appointed Executive Directors on 11 January 2021, 1 April 2021 and 11 January 2021 respectively. Each is expected to build their shareholding over time. As at 26 March 2023, none have met their shareholding requirement.

Executive Director fees from external positions (unaudited)

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

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

Executive Director terms of employment (unaudited)

The Executive Directors are employed under service contracts with an indefinite term.

	Date of contract	Notice period from RMG (months)	Notice period from employee (months)
Mick Jeavons	10 January 2021	12	6
Martin Seidenberg	25 June 2020	12	6
Simon Thompson	10 January 2021	12	6

Copies of the Executive Directors' service contracts will be available for inspection at our forthcoming AGM.

Relative importance of spend on pay (unaudited)

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

	2022-23	2021-22	% change
Ordinary dividend per share (pps) – paid in the year	0.0	16.7	(100)
People costs (£m) ¹	6,440	6,491	(0.8)
Group revenue (£m)	12,044	12,712	(5.3)

- Group adjusted people costs include £68 million transformation costs, of which £33 million relates to voluntary redundancy (2021-22: £115 million, of which £81 million relates to voluntary redundancy costs). Excludes any pension adjustments. See page 62 and pages 183 to 185.

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

We monitor year-on-year changes between the movement in remuneration for executives between performance years compared with the wider workforce. The relevant disclosure requirement is for this comparison to be made against the employees of the Parent Company. On the basis that International Distributions Services plc (the Parent Company) does not employ any staff, we have voluntarily disclosed the comparisons against a UK managerial population (internally graded level 2-9) as the Committee considers this provides a representative comparison (with remuneration that is structured similarly, e.g. all managers are eligible for annual bonuses and are eligible for employee benefits). The table below sets out the year-on-year percentage change in salary, benefits and annual incentives for the Directors of the Board against an average full-time equivalent UK manager.

	Salary/fee % change			Benefits % change			STIP % change		
	22-23 vs 21-22	21-22 vs 20-21	20-21 vs 19-20	22-23 vs 21-22	21-22 vs 20-21	20-21 vs 19-20	22-23 vs 21-22	21-22 vs 20-21	20-21 vs 19-20
Executive Directors									
Mick Jeavons	3.6	346.8	n/a	–	351.0	n/a	-18.0	n/a	n/a
Martin Seidenberg	7.1	n/a	–	8.5	n/a	–	-3.6	n/a	–
Simon Thompson	3.6	348.7	n/a	6.5	359.1	n/a	-100	n/a	n/a
Company Chair and Non-Executive Directors									
Keith Williams	3.7	–	11.9	–	–	–	–	–	–
Maria da Cunha	–	16.9	27.5	–	–	–	–	–	–
Michael Findlay	–	–	33.9	–	–	–	–	–	–
Rita Griffin	–	7.8	-1.5	–	–	–	–	–	–
Sarah Hogg	–	6.9	87.1	–	–	–	–	–	–
Jourik Hooghe	n/a	–	–	–	–	–	–	–	–
Lynne Peacock	10.7	1.3	141.9	–	–	–	–	–	–
Shashi Verma	106.7	n/a	n/a	–	–	n/a	–	–	n/a
Royal Mail managers	5.9	4.6	-0.1	0.7	-6.2	4.2	8.8	-22.9	0.2

Executive Directors

Percentage change figures for 2021-22 to 2022-23 are calculated using the respective figures in the single total figure for the remuneration.

Non-Executive Directors

Fee levels were unchanged between 2021-22 and 2022-23. The percentage increases in the above table reflect changes in responsibilities, e.g. Committee memberships, or that the individual was not a Director for the whole year.

Royal Mail managers

Employee data is based on full-time equivalent Royal Mail managers as at the relevant March year end, with calculations on a mean basis. As the manager population will change yearly and the mean average (as opposed to median) considers the full range of data, it is expected that this will provide a more consistent year-on-year comparison.

The salary percentage change calculation considers the full-time equivalent mean employee annual salary at March year end plus allowances, such as for temporary promotions, paid during the respective years.

Employee benefits are calculated on a per capita basis covering the car allowance or a cash equivalent and value of the medical cover. Changes in the percentage will primarily be caused by two factors: changes in population and changes in employee benefit choices (including more electric company cars being selected which have a lower taxable benefit value). The increase in the average benefit value in 2022-23 also reflects changes in the operation of benefits including the removal of cash alternative allowance, a move which was introduced to promote take up of the medical cover.

For the 2022-23 STIP, no outcome has been included, however other performance linked incentives have been included for the purposes of the average manager pay comparison.

Annual Report on Directors' Remuneration (audited) continued

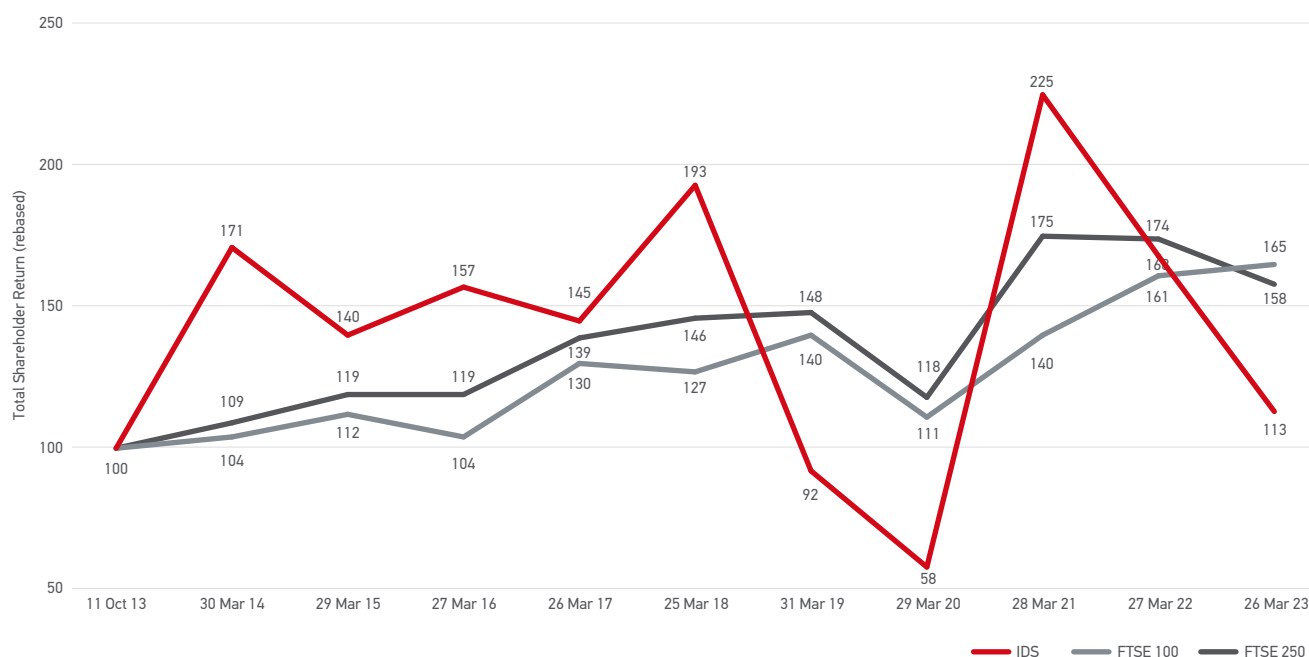
CEO pay over the last ten years (unaudited)

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

Chief Executive Officer	Financial year	Single figure of total remuneration (£'000)	STIP awarded as % of maximum	Royal Mail LTIP vesting as % of maximum
Simon Thompson	2022-23	634	0%	n/a
	2021-22	753	18%	n/a
Rico Back		94	n/a	n/a
Stuart Simpson	2020-21	462	0%	0%
Simon Thompson		136	n/a	n/a
Rico Back	2019-20	868	0%	n/a
Moya Greene	2018-19	647	n/a	0%
Rico Back		235	0%	0%
Moya Greene	2017-18	1,790	71%	43%
	2016-17	1,901	80%	46%
	2015-16	1,529	82%	59%
	2014-15	1,522	85%	69%
	2013-14	1,360	77%	100%

TSR comparison (unaudited)

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

TSR chart

Changes to Board 2023-24

It was announced on 12 May 2023 that Simon Thompson had stepped down as Chief Executive of Royal Mail. As outlined in the stock exchange announcement on the same date, Simon will remain an employee of the business until 31 October 2023 as part of the agreed transition. Chairman of IDS, Keith Williams, will be providing additional oversight and support alongside his Board colleagues through this period.

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

- Simon will continue to receive his normal salary and benefits until 31 October 2023.
- Following this, Simon will receive seven monthly instalments, totalling £289,415.32, which represents six months and twelve days pay in lieu of notice. These payments will be reduced by any alternative paid employment that Simon Thompson receives.
- Simon will be eligible for any 2023-24 bonus under the Short Term Incentive Plan for 2023-24, time prorated for active service. Any bonus would be at the discretion of the Remuneration Committee including their assessment of UK performance at the end of the financial year.
- Simon will be conferred eligible leaver status in relation to one unvested Deferred Share Bonus Plan (DSBP) award, awarded in July 2022 (16,254 shares), relating to performance year 2021-22 and due to vest in July 2025.
- Simon's unvested Royal Mail Long-Term Incentive Plan (LTIP) awards will lapse.
- Consistent with the Group Directors' Remuneration Policy, there will be a requirement to hold shares (worth up to two times salary) for two years following termination. The holding requirement will apply to shares that subsequently vest under his DSBP award.
- Simon will receive a capped contribution of up to £17,500 (plus VAT) towards legal fees incurred in connection with his departure and a capped contribution of up to £50,000 (plus VAT) towards outplacement support.
- There are no further payments in connection with his cessation as a director or payments for loss of office.

Policy implementation in 2023-24 (unaudited)

The following table sets out how the Committee proposes to operate the Policy for Executive Directors next year:

Element	Implementation of Policy in 2023-24
Base salary	No change in approach. We will continue to review the salary of each Executive Director annually and will do the same in 2023-24. Salaries effective from 1 April 2023 shall be as follows: CEO GLS (Martin Seidenberg) €653,510, an increase of 6.6% Group CFO (Mick Jeavons) £435,000, no increase Martin's salary increase for 2023-24, is set below the rate of the wider workforce of his local Netherlands market of 7.7%. Workforce increases across GLS' largest markets are up to 13.8%.
Benefits	No change in approach to benefit provision for 2023-24.
Pension allowance	No change in approach and pension allowance remains 13.6% of salary. This is lower than the current employer contribution rate for the majority of the UK workforce (which is 15.6% of salary). However, it is in line with the anticipated contribution rate under the new Proposed Collective Pension Plan.
Short-Term Incentive Plan	No change in maximum STIP opportunity of 150% of salary, with a minimum of one third of any award being deferred into shares. Target opportunity remains 75% of salary. A minimum of 75% of the targets shall be financial, based on the performance of the business for which the executive is responsible, with the remainder including robust operational KPIs and strategic objectives. The measures are set out below. Targets for these measures will be disclosed retrospectively in next year's Annual Report.
Long-Term Incentive Plan	No change in maximum award of 150% of salary. Awards are granted annually to Executive Directors in the form of a conditional share award. These will vest at the end of a three-year period subject to: <ul style="list-style-type: none"> – The Executive Director's continued employment at the date of vesting. – The satisfaction of the performance conditions. Threshold performance will equate to no more than 25% of the award vesting. The Committee has reviewed the performance measures for the LTIP award and is comfortable with returning to a balance of relative TSR and long-term financial performance. The measures (and approach to targets) are set out below. The Committee will evaluate the positioning of the share price when it comes to grant the 2023 LTIP awards. In the event that the share price is significantly below the 2022 LTIP grant price, the Committee will consider the appropriate course of action (such as scaling back the 2023 LTIP awards or an adjustment on vesting). As appropriate, details will be included in a stock exchange announcement at the time of grant. As in previous years, the Committee will retain the discretion to review vesting outcomes to ensure that these are reflective of the underlying performance during the period.
Shareholding guideline	200% of salary for Executive Directors. Post-cessation requirement: 200% of salary (or holding at the point of departure) to be held in granted shares for two years after leaving.

Annual Report on Directors' Remuneration (audited) continued

Incentive measures 2023-24

Since 2020-21, the Committee has set separate incentive scorecards for each of the Executive Directors, reflecting their areas of responsibility (i.e. Group, Royal Mail or GLS). Details of the measures and targets (where not considered commercially sensitive) set for 2023-24 awards are provided below.

2023-24 Short-Term Incentive Plan: measures and weightings

The 2023-24 scorecard reflects our strategic priorities. The targets are set annually by the Committee considering the relevant business' annual financial plan, strategy and its priorities for the next few years within the context of the economic environment. The Committee considers financial and operational targets to be commercially sensitive and that it would be detrimental to the Group's interests to disclose them before the end of the financial year. Financial measures make up 75% of each Executive Director's scorecard. Non-financial and strategic measures are assessed by the Committee using a combination of quantitative and qualitative assessment.

As in previous years, the Committee will, prior to reviewing scorecard performance assess whether an earnings gateway has been met and that the payment of STIP awards is affordable.

All STIP awards will be subject to a health and safety (H&S) underpin; whereby the Committee will assess whether or not there has been demonstrable progress on the overall H&S agenda.

Measure	Weighting	Measure type	Targets
CEO GLS – Martin Seidenberg			
Adjusted GLS EBITA	37.5%	Financial	Disclosed retrospectively.
GLS Cashflow	37.5%	Financial	Disclosed retrospectively.
Environmental	10.0%	ESG	Committee assessment of demonstrable year on year progress of the environmental agenda.
Strategic priorities	15.0%	Strategic priority	Committee assessment of: <ul style="list-style-type: none"> – Ensuring the delivery of the GLS Business Plan for 2023-24, as well as the focus on the delivery towards the strategic targets. – Increased performance of the US business, in terms of how it should be structured. – Continued enhancement of customer experience. – Maximise opportunities for working together with Royal Mail. – Progression on Health & Safety governance (including controls).
Group CFO – Mick Jeavons			
Group Cashflow	25.0%	Financial	Disclosed retrospectively.
Adjusted Royal Mail UK operating profit	25.0%	Financial	Disclosed retrospectively.
Adjusted GLS EBITA	25.0%	Financial	Per CEO GLS scorecard.
RM UK & GLS Environmental	10.0%	ESG	Average of GLS and Royal Mail outcomes
Strategic priorities	15.0%	Strategic priority	Committee assessment of: <ul style="list-style-type: none"> – Ensuring group capital structure and allocation of capital. – Maintaining group liquidity. – Ensuring performance in line with Group and subsidiary business plans. – Ensuring development towards a sustainable USO. – Development of a control environment across the group, with a particular focus on UK SOX.

2023 Long-Term Incentive Plan (unaudited)

The measures that will apply to the 2023 LTIP awards are set out below.

2023 LTIP measure		Weighting	Threshold		Maximum	
			Performance	Vesting (% of award)	Performance	Vesting (% of award)
TSR vs FTSE 51-150 (excluding mining and financials) comparator group ¹		40%	Median	10%	Upper quartile	40%
Adjusted Royal Mail UK operating profit	Mick Jeavons	20%		5%		20%
UK Cashflow	Mick Jeavons	10%		2.5%		10%
Adjusted GLS EBITA	Martin Seidenberg	40%		10%		40%
	Mick Jeavons	20%		5%		20%
GLS Cashflow	Martin Seidenberg	20%		5%		20%
	Mick Jeavons	10%		2.5%		10%
Total		100%		25%		100%

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

Single figure table – Non-Executive Directors (audited)

£'000	Fees		Other		Total	
	2023	2022	2023	2022	2023	2022
Keith Williams	311	300	0	0	311	300
Maria da Cunha	85	76	0	0	85	76
Michael Findlay	78	75	0	0	78	75
Sarah Hogg	79	76	0	0	79	76
Jourik Hooghe ¹	52	–	0	–	52	–
Lynne Peacock	84	76	0	0	84	76
Shashi Verma ²	62	30	0	0	62	30
Rita Griffin ³	22	69	0	0	22	69

1. Jourik Hooghe was appointed a Non-Executive Director from 1 June 2022 and his fees in the table above for 2023 reflect the period from that date.
2. Shashi Verma was appointed a Non-Executive Director from 29 September 2021 and his fees in the table above for 2022 reflect the period from that date.
3. Rita Griffin was appointed as a Non-Executive Director until 20 July 2022 and her fees are reflected in the above table until this date.

Annual Report on Directors' Remuneration (audited) continued

Non-Executive Director fee levels (unaudited)

Non-Executive Directors are paid an annual fee and additional fees for being Chair or a member of Board Committees and, if appropriate, other additional time commitments. During 2022-23, the Chair of the Board did not receive any additional fees for membership of Board Committees. The fees remained unchanged during 2022-23 and are set out below, and will remain at this level from 1 April 2023.

Non-Executive Director fees

Chair of the Board	£310,800
Base fee	£51,800
Senior Independent Director	£10,360
Designated Non-Executive Director for engagement with the workforce	£10,360

Committee fees

Audit and Risk Committee	Chair	£15,540
	Membership	£6,216
Remuneration Committee	Chair	£15,540
	Membership	£6,216
Nomination Committee	Chair	£0
	Membership	£4,144
Environmental, Social and Governance Committee	Chair	£15,540
	Membership	£6,216

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

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

One month's notice to terminate the appointment is required by either party, with the exception of the Non-Executive Chair for whom the notice period is four months. The dates of the Non-Executive Chair of the Board's and Non-Executive Directors' letters of appointment are set out in the following table:

	Date of contract	Unexpired term at 27 March 2022 (months)
Keith Williams	18 November 2022	28
Maria da Cunha	23 November 2022	28
Michael Findlay	23 November 2022	28
Sarah Hogg	9 August 2019	4
Jourik Hooghe	18 May 2022	28
Lynne Peacock	16 September 2019	4
Shashi Verma	13 October 2021	28

Remuneration Committee (unaudited)

Remuneration Committee members and meetings

The members of the Committee and their attendance at meetings during FY2022-23 is shown on page 103.

Role and focus of the Remuneration Committee

The Committee is responsible for recommending to the Board the Remuneration Policy for Executive Directors and senior management, and for setting the remuneration packages for Executive Directors and members of the respective GLS and Royal Mail Executive Boards.

Committee activities in the year	May	July	Aug	Oct	Jan	Mar
Directors' remuneration						
Review of the Directors' Remuneration Policy and implementation				✓	✓	
Review of fixed and variable remuneration	✓				✓	
Senior management remuneration						
Contractual terms, recruitment and termination		✓				
Review of fixed and variable remuneration	✓	✓	✓	✓		✓
All employee remuneration						
Group-wide discretionary incentives	✓			✓	✓	✓
Annual salary review approach	✓					
Incentive performance measures, targets and outcomes	✓	✓		✓		✓
Frontline reward (including recognition) in Royal Mail			✓			✓
Deep dives: European remuneration, Share Incentive Plan, Manager remuneration	✓	✓				
Reward policies and rules review				✓	✓	✓
Reward governance						
Review regulatory, investor and market developments		✓		✓		
Remuneration disclosures (such as DRR and gender pay gap)	✓	✓				✓
Review shareholder feedback			✓			
Terms of Reference, Committee evaluation, advisers	✓			✓	✓	

In addition, the Committee met in April and May 2023 to consider (and, where appropriate, approve):

- The draft Directors' Remuneration Report.
- Salary and fixed remuneration for Executive Directors and other executives.
- The extent to which any 2022-23 STIP performance measures had been satisfied, together with individual award levels.
- The measures and associated targets for the 2023-24 STIP and 2023 LTIP.
- Outcomes from the Committee evaluation process.

Advice to the Remuneration Committee

The Committee takes information and advice from inside and outside the Group. Internal support was provided by the Chief People Officer, the Director of Reward and Performance, and the Group General Counsel and Company Secretary, and other senior leadership as appropriate. No individual was present when matters relating to their own remuneration were discussed.

The Committee seeks advice from independent external advisers as appropriate. During 2022-23 the Committee undertook a competitive tender process for the role of its independent adviser. As a result of this exercise, the Committee re-appointed Deloitte LLP with a refreshed advisory team. Deloitte provided information to the Committee regarding external market trends and other Committee matters during 2022-23. The total fees paid to Deloitte in respect of this advice were £53,125 (2021-22: £26,145). Deloitte also provided tax, technology, internal audit, strategy and business consulting services to the Group during the financial year.

Annual Report on Directors' Remuneration (audited) continued

Deloitte is a signatory to the Remuneration Consultants Group Code of Conduct, was appointed by the Committee and reports directly to the Committee Chair. The Committee Chair can meet with advisers without management present. The Committee is satisfied that the advice it receives is objective and independent. There are no connections between Deloitte and individual Directors to be disclosed.

Management's advice to the Committee was also supported by the provision of market insights and data from Deloitte, FIT Remuneration Consultants and Willis Towers Watson, and legal advice from Addleshaw Goddard.

Remuneration Committee evaluation

The Committee's effectiveness and performance was evaluated as part of the process described on page 88. The evaluation noted that the Committee and its chair were functioning well. Members of the Committee had noted that internal support for the Remuneration Committee should be enhanced. The key actions for 2023-24 are to:

- Implementation of the profit share plan for applicable personnel, subject to the proposal being accepted by union members.
- Increased focus on the retention of talent at all levels.
- Ensuring that the variable pay awards create a motivating and achievable vehicle to drive growth and transformation.

Shareholder voting and consideration of shareholder views

We remain committed to ongoing dialogue with our shareholders and have engaged with shareholders during 2022-23 to gather their views on the proposed changes to the Policy and our intended implementation of remuneration in 2023-24. We also look forward to engaging with shareholders in the run up to our Policy's renewal in 2023. In the meantime, the Committee Chair and Chair of the Board will continue to maintain contact as required with the Company's key shareholders about relevant remuneration issues.

At the 2022 AGM on 20 July 2022, shareholders approved the Directors' Remuneration Report published in the 2021-22 Annual Report and Financial Statements, receiving a strong vote in favour. The most recent vote on the Remuneration Policy, which was effective from the date of the 2020 AGM for up to three years, also received shareholder support in excess of 99%.

Recent votes on the Directors' Remuneration Report

	For	Against
2019 AGM	97.63%	2.37%
2020 AGM	99.09%	0.91%
2021 AGM	99.78%	0.12%
2022 AGM (see below)	99.44%	0.56%

Directors' Remuneration Report (2022 AGM)

	Number of votes	% of votes
Votes for	674,645,605	99.44%
Votes against	3,827,683	0.56%
Votes withheld	19,970,089	

Recent votes on the Directors' Remuneration Policy

	For	Against
2019 AGM	99.94%	0.36%
2020 AGM	99.28%	0.72%

Directors' Remuneration Policy (2020 AGM)

	Number of votes	% of votes
Votes for	642,589,878	99.28%
Votes against	4,659,090	0.72%
Votes withheld	48,823,734	

Maria da Cunha
Chair of the Remuneration Committee
22 May 2023

Directors' Report



Mark Amsden
Group General Counsel
and Company Secretary

The Directors present their Report, together with audited Financial Statements for the year ended 26 March 2023.

This Directors' Report, together with the Strategic Report on pages 2 to 72 form the Management Report for the purpose of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R and DTR 4.1.8R.

Information incorporated by reference

The following information is incorporated in the Directors' Report by reference and can be found on the pages of this Annual Report as indicated in the table below:

	Page
Business model	12 and 13
Strategy for delivering objectives	14 to 19
Results	59 to 70
Financial assets and liabilities	216 to 225
Principal risks and uncertainties	50 to 55
Environmental, Social and Governance	26 to 37
Greenhouse gas emissions and energy reporting	27 to 29 38 to 45
Disabled employees	33
Our people	32 to 34
Diversity	33 and 34
Going concern and viability statements	56 to 58
Dividend	5
Corporate Governance Report	73 to 136
Future developments	14 to 19
Statement of Directors' Responsibilities	141
Employee share schemes	210 and 211
Research and development	11

The location of information required to be disclosed in this Annual Report under Listing Rule 9.8.4R is as follows:

Listing Rule 9.8.4R disclosures

	Page
Statement of the amount of interest capitalised	186, 203 to 206 and 209
Dividend waivers	137
Unaudited financial information	7 and 8

Dividend waivers

The Trustee of the Royal Mail Share Incentive Plan (Plan) will not receive any dividends on Free Shares which it has not been possible to award to, or which have been forfeited by, participants in the Plan.

Capital

Purchase of own shares by the Company

At the 2022 AGM, the Company was authorised by its shareholders to purchase up to a maximum of 10% of its ordinary shares. This authority was valid at the end of the Company's financial year and will remain in place until the 2023 AGM, when the Directors will seek a similar authority. During 2022-23 the Company has not utilised this authority to purchase any of its own shares.

Share capital

As at 26 March 2023, the Company's issued share capital comprised 956,193,475 ordinary shares of one penny each as set out in Note 26 to the accounts on page 227.

Ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings (whether in person or by proxy). A holder of ordinary shares is entitled to one vote per ordinary share held when a vote is taken on a poll. Shareholders also have the right to receive a dividend, if recommended and declared. Shareholders may transfer all or any of their certificated or uncertificated shares in the Company. All such rights are subject to certain exceptions and restrictions provided in the Company's Articles of Association (the Articles) and in any applicable legislation. These include where rights are suspended for non-disclosure of an interest in shares, where share transfers do not comply with specific requirements, and where any amounts on shares owing by a shareholder to the Company are overdue.

Directors' Report continued

The rights and obligations of members, and restrictions on transfer, are set out in full in the Articles, which can be found on the Company's website. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Employees allocated Free Shares under the Free Shares Offer, or who participate in the Partnership and Matching Plan, whose shares are held in trust by the Trustee of the Royal Mail Share Incentive Plan, are entitled to exercise any voting rights in respect of such shares by instructing the Trustee how to vote on their behalf.

Authority of the Directors to allot shares

At the 2022 AGM, the Company obtained shareholder consent to allot ordinary shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to a maximum nominal amount of £6,374,623 (representing approximately two thirds of the Company's issued share capital at that time), of which one half may be allotted or made the subject of rights in any circumstances and the other half may be allotted or made the subject of rights pursuant to a rights issue. As at the date of this Directors' Report, no new shares have been allotted pursuant to the 2022 allotment authority. The Directors will be seeking powers to allot shares at the 2023 AGM, although the Company has no current plans to exercise such authority if given.

At the 2022 AGM, the Directors were also empowered to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis in connection with pre-emptive offers and, otherwise than in connection with such offers, up to a maximum aggregate nominal amount of £478,097 (representing approximately 5% of the Company's issued share capital at that time). The Directors were also given an additional power to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis up to a maximum aggregate nominal amount of £478,097 (representing approximately 5% of the Company's issued share capital at that time) for use in connection with acquisitions and/or specified capital investments. The Directors will be seeking powers to allot shares for cash (and/or to sell any treasury shares) on a non-pre-emptive basis at the 2023 AGM.

Directors

Details of the current Directors are included on pages 76 and 77 and information about changes to the membership of the Board during the year is included on page 74.

Appointment and replacement of Directors

The Articles provide that the Company may by ordinary resolution at a general meeting elect any person to act as a Director, provided that, if he or she has not been recommended by the Board, written notice of the proposed appointment is given to the Company in accordance with the Articles and that the Company receives written confirmation of that person's willingness to act as a Director. The Articles also provide that the Board may at any time appoint as a Director any person who is willing to act as such. Unless the Company decides otherwise, the maximum number of Directors permitted is 15.

At every AGM, each person who is a Director on the date of the notice of that AGM shall retire from office and may offer himself or herself for re-appointment by the members.

In addition to any power of removal conferred by the Companies Act 2006, the Company may by special resolution remove any Director before the expiration of his or her period of office and may (subject to the Articles) by ordinary resolution appoint another person who is willing to act as a Director in his or her place. The Articles also set out the circumstances in which a Director shall vacate office.

Directors' powers

The business of the Company is managed by the Board, which may exercise all the powers of the Company, subject to the provisions of the Articles, the Companies Act 2006 and any resolution of the Company.

Directors' interests

Details of the Directors' share interests and, where applicable, their connected persons are set out in the Directors' Remuneration Report on page 128.

Directors' and officers' insurance

The Company maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against its Directors. This is reviewed annually. Qualifying pension scheme indemnity provisions were in force during the course of the financial year ended 26 March 2023 for the benefit of the Trustees of Royal Mail UK's pension schemes, and such indemnity provisions are in force at the date of approval of this report.

Substantial shareholding

As at 26 March 2023, the Company had been notified, in accordance with DTR 5, of the following interests in the Company's issued share capital. The information provided below was correct at the date of notification; however, the notification may not have been received during 2022-23. It should also be noted that some shareholdings are likely to have changed since the date of notification but the Company will not be notified of a change until the next notifiable threshold is crossed.

Shareholder	Number of voting rights	% voting rights disclosed at time of notification	% of voting rights as at 26 March 2023 ¹
Vesa Equity Investment	229,828,112	24.04	n/a
RWC Partners	66,201,803	6.6	6.9
UBS Asset Management	60,235,232	6.0	6.3
BlackRock Inc.	47,826,774	5.0 ²	n/a
Schroder Investment Management	50,587,637	5.1	5.3
Aberdeen Standard Investments	46,196,278	4.6	4.8
Vanguard Group	39,784,696	4.0	4.2
Columbia Threadneedle Investments	30,386,690	3.0	3.2

- As a result of the 2021-22 share buy-back programme and the resulting reduction in the Company's share capital, the percentage figures for some shareholders have been recalculated to provide a more accurate picture. This only applies to shareholders for whom we have not received any notification in accordance with DTR 5 since completion of the share buy-back programme.
- Disclosed on 3 March 2023. A further disclosure was received on 16 March 2023 notifying the Company that BlackRock's holding had decreased below the 5% notifiable threshold, which did not state the new position.

During the period between 26 March 2023 and 19 May 2023, being the latest practicable date prior to publication of this Annual Report, the Company received the following notification in accordance with DTR 5.

Shareholder	Number of shares	% voting rights
Vesa Equity Investment	239,279,363	25.02

Special rights

There are no persons holding securities that carry special rights with regard to the control of the Group.

Employee Benefit Trust (EBT)

As at 26 March 2023, a total of 263,566 shares (2021-22: 2,265,008 shares) were held by the EBT on behalf of the Company. The EBT will not receive any dividends payable on shares which it holds at the relevant time.

Change of control

The following material agreements contain provisions permitting exercise of termination or other rights in the event of a change of control of the Company:

- The Mails Distribution Agreement with Post Office Limited provides for the supply of certain services to the Group and allows for a request for renegotiation of terms in the event of a change of control of either party where such change of control is likely to have a material adverse effect on the party not undergoing the change of control.
- The Syndicated Loan Facility with various financial institutions provides the Group with a revolving credit facility for general corporate and working capital purposes. The agreement contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender.

- The €500 million bond issued by the Company in July 2014 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.
- The €550 million bond issued by the Company in October 2019 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Directors' Report continued

Stakeholders

Engagement with UK employees, suppliers and customers

Disclosure on how the Company communicates with its employees, encourages their involvement and achieves a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company is included on pages 22, 32 and 84.

Information on how the Company engages with its employees, customers and suppliers, how the Directors have regard to their interests, and the effect of that regard is set out on pages 22 to 25 and 79 and 80.

Payment practices

Royal Mail's Sustainable Procurement Code of Conduct sets out how Royal Mail works with its suppliers and is available at www.internationaldistributionservices.com/sustainability/governance/policies. GLS' Supplier Code of Conduct sets out the standards GLS expects of its suppliers and is available at www.gls-group.com/GROUP/en/about-us/compliance. We publish key statistics and other information on our payment practices in line with the Duty to Report on Payment Practices and Performance on the Government's website. Information is published on a six-monthly basis.

ESG

Greenhouse gas emissions and energy reporting

Information regarding the Group's greenhouse gas emissions, energy consumption and energy efficiency action required to be disclosed in this Directors' Report can be found on pages 27 to 29.

TCFD disclosures

The Group's TCFD statement and associated disclosures are set out on pages 38 to 45.

Other disclosures

Company's Articles

Any amendments to the Articles may be made in accordance with the Companies Act 2006 by way of a special resolution. Our current Articles are available at www.internationaldistributionservices.com/about-us/governance.

Branches

As a global group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates and subject to the laws and regulations of the relevant jurisdictions in which they operate. Further information is included in Note 31 on pages 230 to 233.

Political donations and expenditure

No form of political donation, or expenditure, was made during the year. The Company intends to continue this policy for the foreseeable future.

Financial instruments

The Group's financial risk management objectives and policies in relation to its financial instruments are summarised in Note 24 on pages 216 to 225.

Post balance sheet events

On 21 April 2023 the Company announced that it had reached agreement with the CWU and that the CWU's Postal Executive Committee had ratified the Business Recovery, Transformation and Growth Agreement and that it will put it to a ballot of its members with a recommendation to approve (see page 16).

By Order of the Board

Mark Amsden

Group General Counsel and Company Secretary
22 May 2023

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the Financial Statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these Financial Statements provides no assurance over the ESEF format.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report and Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer
22 May 2023

KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc

1 Our opinion is unmodified

In our opinion:

- the financial statements of International Distributions Services plc give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 March 2023, and of the Group's loss for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What our opinion covers

We have audited the Group and Parent Company financial statements of International Distributions Services plc ("the Company") for the 52 week period ended 26 March 2023 (FY2022-23) included in the Annual Report, which comprise:

Overview

Group (International Distributions Services plc and its subsidiaries)

The Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes 1 to 31 to the Group financial statements, including the accounting policies in note 1.

Parent Company (International Distributions Services plc)

Balance Sheet, Statement of Changes in Equity and notes 1 to 10 to the Parent Company financial statements, including the accounting policies in note 1.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion and matters included in this report are consistent with those discussed and included in our reporting to the Audit and Risk Committee.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities.

2. Overview of our audit

Factors driving our view of risks

Our audit plan for FY2022-23 has been predominantly driven by the impact of deteriorating performance seen in the UK business driven by ongoing industrial action and disputes with the Communication Workers Union (CWU). This has resulted in losses both at a group level and at a UK CGU level. As a consequence, two new key audit matters have been identified in the year:

- going concern; and
- the recoverability of the carrying amount of the Royal Mail excluding Parcelforce Worldwide CGU.

Key Audit Matters	Vs FY2021-22	Item
Recoverability of the carrying amount of the Royal Mail excluding Parcelforce worldwide CGU	NEW	4.1
Going Concern	NEW	4.2
Deferred revenue associated with advance customer payments arising from stamps sold	◀▶	4.3
Valuation of pension scheme obligations	◀▶	4.4
Valuation of certain unquoted pension scheme assets	◀▶	4.5
Recoverability of the Parent Company's investment in subsidiaries and debt due from group entities	▲	4.6

Audit committee interaction During the year, the Audit and Risk Committee met for five scheduled meetings and three adhoc meetings. KPMG are invited to attend all scheduled Audit and Risk Committee meetings and are provided with an opportunity to meet with the Audit and Risk Committee in private sessions without the Executive Directors being present. For each Key Audit Matter, we have set out communications with the Audit and Risk Committee in section 4, including matters that required particular judgement for each.

The matters included in the Audit and Risk Committee report on pages 94 and 95 are materially consistent with our observations of those meetings.

Our independence	<p>We have fulfilled our ethical responsibilities and remain independent of the Group in accordance with UK ethical requirements, including the FRC Ethical Standard as applied to listed public interest entities.</p> <p>Apart from the matter noted below, we have not performed any non-audit services during the year ended 26 March 2023 or subsequently which are prohibited by the FRC Ethical Standard.</p> <p>During 2023, we identified that a KPMG member firm had provided preparation of local GAAP financial statement services during the periods ended 29 March 2020 to 26 March 2023 to an entity in scope for the group audit. The services, which have been terminated, were administrative in nature and did not involve any management decision-making or bookkeeping. The work in each case was undertaken after the group audit opinion was signed by KPMG LLP for each of the impacted financial years and had no direct or indirect effect on International Distributions Services' consolidated financial statements.</p> <p>In our professional judgement, we confirm that based on our assessment of the breach, our integrity and objectivity as auditor has not been compromised and we believe that an objective, reasonable and informed third party would conclude that the provision of this service would not impair our integrity or objectivity for any of the impacted financial years. The audit committee have concurred with this view.</p>	Total audit fee	£3,711,000
		Audit related fees (including interim review)	£555,000
		Other services	£150,000
		Non-audit fee as a percentage of total audit and audit related fees	16%
		Date first appointed	52 week period ended 27 March 2016
		Uninterrupted audit tenure	8 years
		Next financial period which requires a tender	2026
		Tenure of Group engagement partner	1 year
		Average tenure of component signing partners	1 year

KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc continued

Our independence continued

We were first appointed as auditor by the shareholders for the 52 week period ended 27 March 2016. The period of total uninterrupted engagement is for the eight financial periods ended 26 March 2023.

The group engagement partner is required to rotate every five years. As these are the first set of the Group's financial statements signed by Andrew Bradshaw, he will be required to rotate off after the FY2026-27 audit.

The average tenure of partners responsible for component audits as set out in section 7 below is one year, with the shortest being one year and the longest being one.

Materiality (Item 6 below)

The scope of our work is influenced by our view of materiality and our assessed risk of material misstatement.

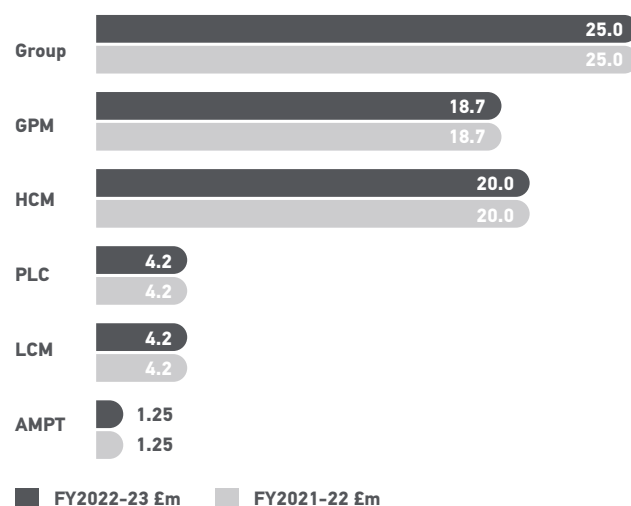
We have determined overall materiality for the Group Financial Statements as a whole at £25m (FY2021-22: £25m) and for the Parent Company financial statements as a whole at £4.2m (FY2021-22: £4.2m).

A key judgement in determining materiality was the most relevant metric to select as the benchmark, by considering which metrics have the greatest bearing on shareholder decisions.

We determined that Total Revenue is the benchmark for the Group as it remains consistent year on year and does not suffer from the volatility observed at a profit before tax level. As such, we based our group materiality on total revenue, of which it represents 0.21% (FY2021-22: 0.20%).

Materiality for the Parent Company financial statements was determined with reference to a benchmark of Parent Company net assets of which it represents 0.16% (FY2021-22: 0.15%).

Materiality levels used in our audit



Group Group Materiality
GPM Group Performance Materiality
HCM Highest Component Materiality
PLC Parent Company Materiality
LCM Lowest Component Materiality
AMPT Audit Misstatement Posting Threshold

**Group scope
(Item 7 below)**

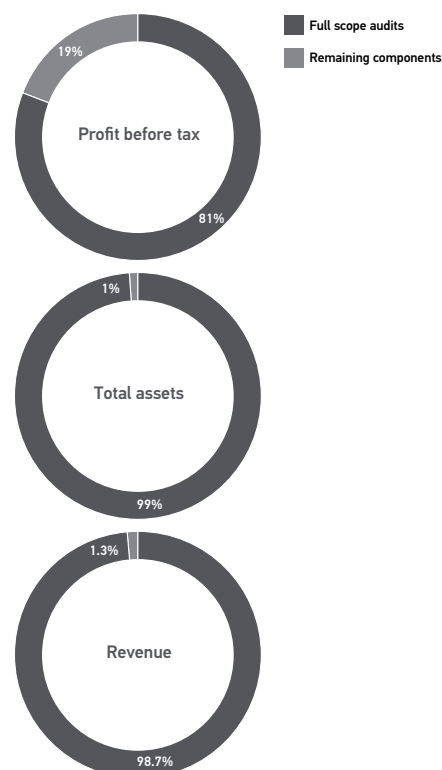
We have performed risk assessment and planning procedures to determine which of the Group's components are likely to include risks of material misstatement to the Group Financial Statements, the type of procedures to be performed at these components and the extent of involvement required from our component auditors around the world.

Of the Group's 21 (FY2021-22: 21) reporting components, we subjected 3 (FY2021-22: 3) to full scope audits for Group purposes and 0 (FY2021-22: 1) to specified risk-focused audit procedures.

The components within the scope of our work accounted for the percentages illustrated opposite.

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

We consider the scope of our audit, as communicated to the Audit and Risk Committee, to be an appropriate basis for our audit opinion.

Coverage of Group financial statements**The impact of
climate change
on our audit**

In planning our audit, we have considered the potential impact of climate change on the Group's business and its Financial Statements. The Group has set out to reduce its emissions to zero by 2045. The majority of the Group's carbon emissions are in the domestic and international transport network, and the Group continues to develop its assessment of climate change. Climate change initiatives impact the Group in a variety of ways including opportunities and risks relating to operational and supply chain decarbonisation and the emerging regulatory requirements such as carbon taxes.

During the year, the Group has prepared quantitative scenario analysis of these emerging carbon taxes on road transport and the impact this would have on future fuel spend. Further information is provided on pages 38 to 45.

The Group considered the impact of climate change and the Group's targets in the preparation of the Financial Statements, in particular on the forecast cash flow assumptions as part of the impairment test of the Royal Mail excluding Parcelforce Worldwide CGU. The Group has concluded that the impact of climate change, and the Group's internal climate related targets, did not have a material effect on the consolidated Financial Statements.

As part of our audit, we have performed a risk assessment to determine if the potential impacts of climate change may materially affect the financial statements and our audit. We did this by making enquiries of management in order to independently assess the climate-related risks and their potential impact. We held discussions with our own climate change professionals to challenge our risk assessment.

The most likely potential impact of climate risk on these financial statements would be on the useful economic lives of property, plant and equipment. Taking into account the expected remaining useful lives of property, plant and equipment, we assessed that there is not a significant impact on our audit for this financial year. There was no significant impact of climate on our key audit matters.

We have also read the Group's disclosure of climate related information in the front half of the annual report as set out on pages 38 to 45 and considered consistency with the Financial Statements and our audit knowledge.

KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc continued

3. Going concern, viability and principal risks and uncertainties

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group's and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern from the date of approval of the financial statements until 30 September 2024 ("the going concern period").

Going concern

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 4.2 of this report.

Our conclusions

Our conclusions based on those procedures described in section 4.12 of this report are:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Parent Company's use of that basis for the going concern period; and
- The related statement under the Listing Rules set out on page 58 is materially consistent with the financial statements and our audit knowledge.

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

Summary of our conclusions

We found the Directors' use of the going concern basis of accounting without any material uncertainty for the Group and Parent Company to be acceptable.

Disclosures of emerging and principal risks and longer-term viability

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the risk management statement that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Our Principal and Emerging Risks disclosures describing these risks and how emerging risks are identified and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Risk Management statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement set out on pages 56 to 58 under the Listing Rules.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Our reporting

We have nothing material to add or draw attention to in relation to these disclosures.

We have concluded that these disclosures are materially consistent with the financial statements and our audit knowledge.

4. Key audit matters

What we mean

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team.

We include below the Key Audit Matters in decreasing order of audit significance together with our key audit procedures to address those matters and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, for the purpose of our audit of the financial statements as a whole. We do not provide a separate opinion on these matters.

4.1 Recoverability of the carrying amount of the Royal Mail excluding Parcelforce Worldwide CGU (GROUP)

Financial Statement Elements			Our assessment of risk vs FY2022-23		Our results
	FY2022-23	FY2021-22	NEW		FY2022-23: Acceptable
Carrying amount of the Royal Mail excluding Parcelforce worldwide CGU (Group)	£900m	£1,412m		This has been identified as a new key audit matter in the year, due to the performance of the CGU and the ongoing industrial action.	
Impairment charge	£539m	£nil			

Description of the Key Audit Matter	Our response to the risk
<p>Forecast-based valuation</p> <p>The carrying amount of the CGU is significant with respect to the total assets of the Group and its sensitivity to key assumptions, particularly in light of recent performance and industrial action. The estimated recoverable amount is subjective due to the inherent uncertainty of forecasting fair value less costs of disposal from a market participant perspective.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of the CGU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and many times that amount.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> – Valuation expertise: We engaged internal valuation specialist to challenge the appropriateness of key assumptions underlying the CGU valuation, particularly discount rate, terminal growth rate and cost of disposal. We also benchmarked the recoverable amount of the CGU using implied earnings multiples to comparative companies and historic transactions within the industry as well as considering the latest market conditions. – Benchmarking assumptions: Assessing and challenging projected revenue and volume growth rates, including long-term growth rates, against externally derived publically available data. – Historical Comparisons: Performed a retrospective review, comparing historical budgets and volumes to actual performance to assess historical forecasting accuracy. – Sensitivity analysis: We considered the sensitivity of the carrying value to reasonably possible changes in assumptions and focused our attention to those assumptions which we considered the most critical to the valuation. – Assessing transparency: Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the fair value less costs of disposal of the CGU. Assessing whether the disclosure of key assumptions was complete and consistent with the assumptions used.

KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc continued

4.1 Recoverability of the carrying amount of the Royal Mail excluding Parcelforce Worldwide CGU (GROUP) (continued)

Communications with the International Distributions Services plc's Audit & Risk Committee

Our discussions with and reporting to the Audit & Risk Committee included:

- Our approach to the audit of the recoverable amount of the CGU, including the use of Valuation specialists.
- Our conclusions on the recoverable amount of the CGU and the adequacy of the disclosures.

Areas of particular auditor judgement

We identified the following as the areas of particular auditor judgement:

- The underlying assumptions within the modelled cash flows
- The discount rate used within the fair value model

Our results

We found the Group's conclusion over the recoverable amount of the CGU and subsequent impairment charge to be acceptable.

Further information in the Annual Report and Accounts: See the Audit and Risk Committee Report on page 97 for details on how the Audit Committee considered the Recoverability of the carrying amount of the Royal Mail excluding Parcelforce CGU as an area of significant attention, page 171 for the accounting policy on the Recoverability of the carrying amount of the Royal Mail excluding Parcelforce CGU and note 13 for the financial disclosures.

4.2 Going Concern (Group And Parent Company)

Financial Statement Elements	Our assessment of risk vs FY2022-23	Our results
Going concern disclosures with no material uncertainties – note 1 to the group financial statements	<p>▲ New</p> <p>This has been identified as a new key audit matter in the year due to our assessment is that the risk is more severe in the current year due to ongoing industrial disputes, and the related performance of the UK business creating an uncertain outlook for the UK operations.</p>	FY2022-23: Acceptable

Description of the Key Audit Matter	Our response to the risk
<p>Disclosure quality</p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations from the date of approval of the financial statements until 30 September 2024.</p> <p>The risks most likely to adversely affect the Group's and Company's available financial resources and/or metrics relevant to debt covenants over this period were:</p> <ul style="list-style-type: none"> – Industrial action with the CWU leading to strike action; – Reducing parcel and letter volume across the UK business; – Delays in achieving Royal Mail plans. 	<p>We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.</p> <p>Our procedures also included:</p> <p>Funding assessment:</p> <ul style="list-style-type: none"> – Inspecting the confirmation from the lender of the level of committed financing, and the associated covenants requirements. Considerations of the adjustment to required covenants over the period September 2024. <p>Historical comparisons:</p> <ul style="list-style-type: none"> – Comparing past budgets to actual results to assess the Directors' historical accuracy of budgeting. <p>Key dependency assessment:</p> <p>Critically assessing assumptions in the Directors' base case and severe but plausible downside scenarios relevant to liquidity and covenant metrics, considering the forecasted operating levels and how these relate to historic performance.</p>

Description of the Key Audit Matter	Our response to the risk
<p>There are also less predictable but realistic second order impacts, such as the inability to secure refinancing of the term loan repayable in 2024 and declining performance of the GLS group due to macro-economic downturns across Europe.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<p>Sensitivity analysis: Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of plausible (but not unrealistic) adverse effects that could arise from these risks individually and collectively;</p> <ul style="list-style-type: none"> – Performed stress testing over the going concern forecast, modelling further strike days in FY2023-24 and significantly declining market conditions across Europe. <p>Benchmarking assumptions: We evaluated forecast volume, revenue and cost assumptions with reference to historic performance and market data.</p> <p>Evaluating director's intent:</p> <ul style="list-style-type: none"> – evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, which included lowering capital expenditure, reducing discretionary bonus spend and management of pricing in the short term, including, consideration of the Directors' ability to influence timing of such matters. – Inquired with the Directors over the risk appetite and intent should the above mitigations be required. <p>Assessing transparency:</p> <ul style="list-style-type: none"> – Considering 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.
<p>Communications with the International Distributions Services plc's Audit & Risk Committee</p>	
<p>Our discussions with and reporting to the Audit & Risk Committee included:</p>	
<ul style="list-style-type: none"> – Our assessment of the funding available over the going concern period and ability to meet covenants. – Assessment of key assumptions in management's base and downside business plan. – The forecast compliance with covenant requirements. – The adequacy of the basis of preparation. 	
<p>Areas of particular auditor judgement</p>	
<p>We identified the following as the area of particular auditor judgement:</p>	
<ul style="list-style-type: none"> – The plausibility and achievability of the transformation plans modelled throughout the going concern period – The assessment of the appropriateness of the severe but plausible downside scenario used by management 	
<p>Our results</p>	
<p>We found the going concern disclosure in note 1 without any material uncertainty to be acceptable.</p>	
<p>Further information in the Annual Report and Accounts: See the Audit and Risk Committee Report on page 95 for details on how the Audit Committee considered Going concern as an area of significant attention, page 167 for the accounting policy on Going Concern, and note 1 for the financial disclosures.</p>	

KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc continued

4.3 Deferred revenue associated with advance customer payments arising from stamps sold (Group)

Financial Statement Elements	Our assessment of risk vs FY2022-23		Our results
	FY2022-23	FY2021-22	
Stamps in the hands of the public (SITHOP) – Deferred revenue	£140m	£160m	<p>Our assessment is that the level of risk is similar to FY2021-22. Whilst the introduction of barcoded stamps provides an opportunity to reduce the risk over time, insufficient data has been collected in FY22-23 to change the Group's estimation methodology.</p> <p>FY2022-23: Acceptable FY2021-22: Acceptable</p>

Description of the Key Audit Matter	Our response to the risk
<p>Subjective estimate</p> <p>Revenue is recognised on delivery of letters, not at the point stamps are sold to customers. There can be a considerable delay because stamps held by customers remain valid indefinitely. Therefore, the Group estimates the value of advance customer payments and defers revenue to reflect the value of services still to be performed.</p> <p>As the Group is unable to track individual stamps accurately, the calculation and methodology of the advanced customer payments balance is inherently subjective. The calculation is derived from a combination of data sources including current sales, volume trends and historic ratios between sales and deferred revenue arising from statistical survey results.</p> <p>The methodology allows for adjustments for unusual trends identified where deemed required.</p> <p>As part of our risk assessment, we determined that the stamps in the hands of the public balance has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount and could be subject to manipulation.</p>	<p>A fully substantive approach was taken due to the nature of the balance and that we would expect to obtain audit evidence primarily through detailed procedures described below and not through reliance on a management review control.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> – Methodology choice: We challenged the Group on the appropriateness of the methodology in place for performing the calculation, including benchmarking the approach against that taken by other global postal service providers. – Methodology implementation: We assessed whether the methodology had been correctly applied and we challenged the need for any adjustments through consideration of possible alternatives. – Independent re-performance: We tested the individual inputs used in the Group's calculation to check the accuracy of the balance. – Challenge of the outcome: We challenged the Group's estimate by considering a range of plausible outcomes using alternative data points, and alternative methods of calculating the estimate. An alternative method considered, was the change in methodology to be implemented in FY2023-24, based on barcoded stamp data. We assessed and evaluated this methodology and compared the outcomes, based on limited data collected to date, to assess the appropriateness of the estimate made. We have assessed the estimate for indicators of management bias. – Assessing transparency: We considered the adequacy of the Group's disclosures in respect of deferred revenue associated with advance customer payments arising from stamps sold, particularly in relation to the degree of estimation uncertainty.

Communications with the International Distributions Services plc's Audit & Risk Committee

Our discussions with and reporting to the Audit & Risk Committee included:

- Our approach to the audit of the stamps in the hands of the public estimate, including our planned substantive procedures and the extent of our control reliance.
- Our conclusions on the appropriateness of the methodology and key assumptions used.
- The adequacy of the disclosures, particularly as they relate to a significant estimate.

Areas of particular auditor judgement

We identified the following as the area of particular auditor judgement:

- the appropriateness of the methodology; and
- the key assumptions used to calculate the deferral..

Our results

We found the estimate of deferred revenue to be acceptable (FY2021-22: acceptable)

Further information in the Annual Report and Accounts: See the Audit and Risk Committee Report on page 96 for details on how the Audit Committee considered Deferred revenue associated with advance customer payments arising from stamps sold as an area of significant attention, page 170 for the accounting policy on Deferred revenue associated with advance customer payments arising from stamps sold and note 1 for the financial disclosures.

4.4 valuation of pension scheme obligations (group)

Financial Statement Elements	Our assessment of risk vs FY2022-23		Our results
	FY2022-23	FY2021-22	
Royal Mail Pension Plan Defined Benefit Obligation	£4,601m	£6,960m	<p>▲ Our assessment is that the level of risk is higher than in FY2021-22, given that there have been significant increases in interest rates leading to higher discount rate uncertainty.</p> <p>FY2022-23: Acceptable FY2021-22: Acceptable</p>
Defined Benefit Cash Balance Scheme Defined Benefit Obligation	£1,797m	£1,926m	

Description of the Key Audit Matter	Our response to the risk
<p>Subjective valuation:</p> <p>Significant estimates are made in valuing the Group's post retirement defined benefit plan obligations including in particular the discount rate, the inflation, pre-retirement pension increases and mortality assumptions.</p> <p>Small changes in the assumptions and estimates used to value the Group's pension obligations would have a significant effect on the financial position of the Group.</p> <p>As part of our risk assessment, we determined that the valuation of the Group's pension scheme obligations include a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount. The Financial Statements (Note 11) disclose the sensitivity of the liabilities to key assumptions estimated by the Group.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures to address the risk included:</p> <ul style="list-style-type: none"> – Benchmarking assumptions: We challenged the key assumptions applied in the calculation of the obligation, including the discount rate, inflation rate, pre-retirement pension increases and mortality with the support of our own actuarial specialists to compare key assumptions against market data. – Actuary's credentials: We assessed the competence, independence and integrity of the Group's actuarial expert. – Assessing transparency: We considered the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to key assumptions.
<p>Communications with the International Distributions Services plc's Audit & Risk Committee</p> <p>Our discussions with and reporting to the Audit & Risk Committee included:</p> <ul style="list-style-type: none"> – Our approach to the audit of the defined benefit obligations, including the use of specialist actuaries. – Our conclusions on the valuation of the defined benefit obligations and the adequacy of the disclosures. <p>Areas of particular auditor judgement</p> <p>We identified the following as the area of particular auditor judgement:</p> <ul style="list-style-type: none"> – The actuarial assumptions included with management's IAS 19 model, specifically the discount rate, inflationary adjustments, pre-retirement pension increases, and mortality rate used. <p>Our results</p> <p>We found the valuation of defined benefit obligations to be acceptable (FY2021-22: acceptable)</p>	

Further information in the Annual Report and Accounts: See the Audit and Risk Committee Report on page 96 for details on how the Audit Committee considered the Valuation of Pension Scheme Obligations as an area of significant attention, page 170 for the accounting policy on the Valuation of Pension Scheme Obligations and note 11 for the financial disclosures.

KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc continued

4.5 Valuation of certain unquoted pension scheme assets (group)

Financial Statement Elements	Our assessment of risk vs FY2022-23		Our results
	FY2022-23	FY2021-22	
Unquoted pension assets*	£1,799m	£3,014m	FY2022-23: Acceptable FY2021-22: Acceptable

Description of the Key Audit Matter	Our response to the risk
<p>Subjective valuation:</p> <p>Significant estimates are made in valuing certain unquoted pension schemes assets (which comprise properties, equity funds, mutual funds and private fixed income bonds), which are hard to value and make up a significant portion of unquoted pension scheme assets reported on page 198. Small changes in the estimates used to value these assets would have a significant effect on the financial position of the Group.</p> <p>As part of our risk assessment, we determined that the valuation of certain unquoted pension scheme assets include a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount.</p> <p>*As reported on page 198. Included within the unquoted pension assets balance (FY2022-23: £1,799m FY2021-22: £3,014m) are a portion that are considered as hard to value for purposes of testing.</p>	<p>We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <ul style="list-style-type: none"> – Tests of details: We obtained third party valuation confirmations directly from fund managers. We compared those confirmations with unaudited net asset value statements and tested the ability of fund managers to prepare accurate valuations by performing a retrospective review comparing a sample of the net asset value statements to historical audited Financial Statements. – Actuary's credentials: We obtained third party valuations and used our internal valuation specialists to assess the valuation methodology and challenge key assumptions. – Assessing transparency: We considered the adequacy of the Group's unquoted plan assets disclosures in respect of valuation techniques and accuracy of the asset split by category.
<p>Communications with the International Distributions Services plc's Audit & Risk Committee</p> <p>Our discussions with and reporting to the Audit & Risk Committee included:</p> <ul style="list-style-type: none"> – Our approach to the audit of the unquoted assets, including the use of valuation specialists. – Our conclusions on the valuation of the assets and the adequacy of the disclosures. <p>Areas of particular auditor judgement</p> <p>We identified the following as the area of particular auditor judgement:</p> <ul style="list-style-type: none"> – The appropriateness of methodology used for calculating fair value of plan assets; – use of RICS valuation standards for fair value of directly held properties; – use of latest available unaudited NAV statements for fair value of unquoted pooled investment funds. <p>Our results</p> <p>We found the valuation of the unquoted pensions scheme assets to be acceptable (FY2021-22: acceptable)</p>	

Further information in the Annual Report and Accounts: See the Audit and Risk Committee Report on page 96 for details on how the Audit Committee considered the Valuation of certain unquoted pension scheme assets as an area of significant attention, page 170 for the accounting policy on the Valuation of certain unquoted pension scheme assets and note 11 for the financial disclosures.

4.6 Recoverability of parent company's investment in subsidiaries and debt due from group entities (parent company)

Financial Statement Elements			Our assessment of risk vs FY2022-23	Our results
	FY2022-23	FY2021-22	▲	
Investments	£2,914m	£2,912m		FY2022-23: Acceptable
Debt due from Group entities	£613m	£611m		FY2021-22: Acceptable

The level of risk is higher compared to FY2021-22 due to poor performance across the UK business.

Description of the Key Audit Matter

Low risk, high value: The carrying amount of the Parent Company's investments in subsidiaries and intra-group debtor balances represent 100% (FY2021-22: 100%) of the Company's total assets.

Their recoverability is not at a high risk of significant misstatement. However due to their materiality in the context of the Parent Company Financial Statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.

Our response to the risk

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described

Our procedures to address the risk included:

- **Tests of detail:** Compared the carrying amount of the investments and intragroup debtor balances with the relevant subsidiary's balance sheet, along with consideration of the impairment of the Royal Mail excluding Parcelforce Worldwide CGU to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Comparing valuations:** We compared the carrying amount of the Parent Company's investments to the Group's market capitalisation.

Communications with the International Distributions Services plc's Audit & Risk Committee

Our discussions with and reporting to the Audit & Risk Committee included:

- Our approach to the audit of the investment in subsidiaries line and debt due from group entities.
- Our conclusions on valuation of investment in subsidiaries and debt due from group entities and the adequacy of the disclosures.

Our results

We found the recoverability of the Parent Company's investment in subsidiaries and debt due from group entities to be acceptable (FY2021-22: acceptable)

Further information in the Annual Report and Accounts: See the Audit and Risk Committee Report on page 97 for details on how the Audit Committee considered the Recoverability of Parent Company's investment in Subsidiaries and debt due from group entities as an area of significant attention, page 235 for the accounting policy on the recoverability of Parent Company's investment in Subsidiaries and debt due from group entities and note 6 in the Parent Company for the financial disclosures.

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To the members of International Distributions Services plc continued

5. Our ability to detect irregularities, and our response

Fraud – identifying and responding to risks of material misstatement due to fraud

Fraud risk assessment	<p>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:</p> <ul style="list-style-type: none"> – Enquiring of Directors, the Audit and Risk Committee, Internal Audit and Risk Management, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud. – Reading Board, Audit and Risk Committee, Nomination Committee and Remuneration Committee minutes. – Considering remuneration incentive schemes (Royal Mail LTIP and Deferred Share Bonus Plan) and performance targets for Management and Directors. – Using analytical procedures to identify any unusual or unexpected relationships.
Risk communications	<p>We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.</p>
Fraud risks	<p>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 Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. We determined that these risks would most likely manifest themselves in two key areas being:</p> <ul style="list-style-type: none"> - deferred revenue in relation to advance customer payments; and - Management fees in the recoverability of the carrying value of the Royal Mail excluding Parcelforce Worldwide CGU arising from possible external pressures to realise value.
Link to kams	<p>Further detail in respect of the above fraud risks is set out in the key audit matter disclosures in section 4 of this report.</p>
Procedures to address fraud risks	<p>We performed procedures including:</p> <ul style="list-style-type: none"> – Identifying journal entries and other adjustments to test for all full scope components, 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.
Actual or suspected fraud discussed with audit and risk committee	<p>We discussed with the Audit and Risk Committee and those charged with governance matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.</p>

Laws and regulations – identifying and responding to risks of material misstatement relating to compliance with laws and regulations

Laws and regulations risk assessment	– 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. We held discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. As the Group 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 UK business' regulator, Ofcom.
Risk communications	We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group audit team to full-scope component audit teams of relevant laws and regulations identified at the group level, and a request for full scope component auditors to report to the group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the group level.
Direct laws context and link to audit	The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the Financial Statements including financial reporting legislation (including related companies' legislation), distributable profits legislation, taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
Most significant indirect law/ regulation areas	Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's 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 Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.
Known actual or suspected matters	For the Whistleblow on claim discussed in note 28 we assessed disclosures against our understanding from legal correspondence.

Context

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.
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KPMG LLP's Independent Auditor's Report

To the members of International Distributions Services plc continued

6. Our determination of materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

£25m (FY2021-22: £25m) Materiality for the group financial statements as a whole	<p>What we mean A quantitative reference for the purpose of planning and performing our audit.</p> <p>Basis for determining materiality and judgements applied Materiality for the Group financial statements as a whole was set at £25m (FY2021-22: £25m). This was determined with reference to a benchmark of Group total revenues.</p> <p>We consider group total revenue to be the main benchmark for the Group as it provides a more stable measure year on year than group profit before tax because of both the loss seen in period and historic fluctuations in profit before tax. The benchmark in the previous period was normalised profit before tax averaged over the past three years. This was changed to be group total revenues in the current period because of the significant decrease in profit before tax caused by the poor trading performance of the UK business.</p> <p>Our group materiality of £25m was determined by applying a percentage to the group total revenue. When using a benchmark of total revenue to determine overall materiality, KPMG's approach for listed entities considers a guideline range 0.5% – 3% of the measure. In setting overall group materiality, we applied a percentage of 0.21% (FY2021-22: 0.20%) to the benchmark.</p> <p>This percentage is below the bottom end of the guideline percentage range. This reflects the importance of group total assets and Group loss before tax and continuing operations, of which the determined materiality represents 0.28% and 3.70% respectively, to the users of the financial statements.</p> <p>Materiality for the Parent Company financial statements as a whole was set at £4.2m (FY2021-22: £4.2m), determined with reference to a benchmark of parent company net assets, of which it represents 0.16% (FY2021-22: 0.15%).</p>
£18.7M (FY2021-22: £18.7m) Performance materiality	<p>What we mean Our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.</p> <p>Basis for determining materiality and judgements applied We have considered performance materiality at a level of 75% (FY2021-22: 75%) of materiality for International Distributions Services Plc Group financial statements as a whole to be appropriate.</p> <p>The Parent Company performance materiality was set at £3.2m (FY2021-22: £3.2m), which equates to 75% (FY2021-22: 75%) of materiality for the Parent Company financial statements as a whole.</p> <p>We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.</p>
£1.25M (FY2021-22: £1.25m) Audit misstatement posting threshold	<p>What we mean This is the amount below which identified misstatements are considered to be clearly trivial from a quantitative point of view. We may become aware of misstatements below this threshold which could alter the nature, timing and scope of our audit procedures, for example if we identify smaller misstatements which are indicators of fraud.</p> <p>This is also the amount above which all misstatements identified are communicated to International Distributions Services plc's Audit Committee.</p> <p>Basis for determining materiality and judgements applied We set our audit misstatement posting threshold at 5% (FY2021-22: 5%) of our materiality for the Group financial statements. We also report to the Audit Committee any other identified misstatements that warrant reporting on qualitative grounds.</p>

The overall materiality for the Group financial statements of £25m (FY2021-22: £25m) compares as follows to the main financial statement caption amounts:

	Total Group Revenue		Group profit/loss before tax		Total Group Assets	
	FY2022-23	FY2021-22	FY2022-23	FY2021-22	FY2022-23	FY2021-22
Financial statement Caption	£12,044m	£12,712m	£-676m	£662m	£8,816m	£10,741m
Group Materiality as a percentage of caption	0.21%	0.20%	3.70%	3.78%	0.28%	0.23%

7. The scope of our audit

Group scope

What we mean

How the Group audit team determined the procedures to be performed across the Group.

The Group has 21 (FY2021-22: 21) reporting components. In order to determine the work performed at the reporting component level, we identified those components which we considered to be of individual financial significance, those which were significant due to risk and those remaining components on which we required procedures to be performed to provide us with the evidence we required in order to conclude on the group financial statements as a whole.

We determined individually financially significant components as those contributing at least 10% (FY2021-22: 10%) of total revenue or total assets. We selected total revenue and total assets because these are the most representative of the relative size of the components. We identified 3 (FY2022-23: 3) components as individually financially significant components and performed full scope audits on these components.

The components within the scope of our work accounted for the following percentages of the Group's results, with the prior year comparatives indicated in brackets:

Scope	Number of components	Range of materiality applied	Group Revenue	Total profits and losses that made up group PBT	Group total assets
Full scope audit	3 (3)	£4.2m – £20m	98.7% (99.7%)	80.7% (83.0%)	98.7% (99.0%)
Audit of one or more account balances	0 (1)	N/A	0.0% (0.0%)	0% (10.1%)	0.0% (0.3%)

In addition, we have performed Group level analysis on the remaining components to determine whether further risks of material misstatement exist in those components.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The work on 1 of the 3 components (FY2021-22: 1 of the 4 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the group team. The group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

Group audit team oversight

What we mean

The extent of the group audit team's involvement in component audits.

The Group team visited 2 (FY2021-22: 0) component locations in Canada and the Netherlands to assess the audit risk and strategy. Video and telephone conference meetings were also held with the component auditors and certain others that were not physically visited. At these visits and meetings, the findings reported to the group audit team were discussed in more detail, and any further work required by the group audit team was then performed by the component auditor.

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8. Other information in the annual report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

All other information

Our responsibility

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Our reporting

Based solely on that work we have not identified material misstatements or inconsistencies in the other information.

Strategic report and Directors' report

Our responsibility and reporting

Based solely on our work on the other information described above we report to you as follows:

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

Directors' Remuneration Report

Our responsibility

We are required to form an opinion as to whether the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Our reporting

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance disclosures

Our responsibility

We are required to perform procedures to identify whether there is a material inconsistency between the financial statements and our audit knowledge, and:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

Our reporting

Based on those procedures, we have concluded that each of these disclosures is materially consistent with the financial statements and our audit knowledge.

We are also required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in this respect.

Other matters on which we are required to report by exception

Our responsibility

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

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

Our reporting

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 141, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. 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
London
E14 5GL
22 May 2023

Consolidated Income Statement

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Notes	Reported 52 weeks 2023 £m	Reported 52 weeks 2022 £m
Continuing operations			
Revenue	2/3	12,044	12,712
Operating costs ¹	4/5	(12,248)	(12,128)
People costs		(6,573)	(6,665)
Distribution and conveyance costs		(3,721)	(3,556)
Infrastructure costs		(1,178)	(1,059)
Other operating costs		(776)	(848)
Operating (loss)/profit before specific items²		(204)	584
Operating specific items	6/25	(544)	(7)
Operating (loss)/profit		(748)	577
Profit on disposal of property, plant and equipment (non-operating specific item) ²	6	6	72
(Loss)/profit before interest and tax		(742)	649
Finance costs	7	(60)	(57)
Finance income	7	21	6
Net pension interest (non-operating specific item) ²	6/11	105	64
(Loss)/profit before tax		(676)	662
Tax charge	8	(197)	(50)
(Loss)/profit for the year		(873)	612
Earnings per share			
Basic	9	(91.3)	61.7p
Diluted	9	(91.3)	61.4p

¹ Operating costs are stated before operating specific items.

² For further details on APMs used, see pages 238 to 242.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Notes	Reported 52 weeks 2023 £m	Reported 52 weeks 2022 £m
(Loss)/profit for the year		(873)	612
Other comprehensive (expense)/income for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		(488)	414
Withholding tax receivable/(payable) on distribution of RMPP and RMSEPP surplus	11	413	(181)
Remeasurement (losses)/gains of the defined benefit surplus in RMPP and RMSEPP	11(c)	(1,285)	457
Remeasurement gains of the defined benefit deficit in DBCBS	11(d)	378	172
Deferred tax associated with DBCBS	8	6	(34)
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		25	–
Exchange differences on translation of foreign operations (GLS)		50	(12)
Net (loss)/gain on hedge of a net investment (€500 million bond)		(24)	11
Net (loss)/gain on hedge of a net investment (Euro-denominated lease payables)		(1)	1
Designated cash flow hedges		(70)	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	8	18	(21)
Total other comprehensive (expense)/income for the year		(533)	497
Total comprehensive (expense)/income for the year		(1,406)	1,109

Consolidated Balance Sheet

At 26 March 2023 and 27 March 2022

	Notes	Reported at 26 March 2023 £m	Re-presented ¹ Reported at 27 March 2022 £m
Non-current assets			
Property, plant and equipment	13	3,298	3,571
Goodwill	15	445	428
Intangible assets	16	304	488
Investments in associates	17	1	1
Financial assets			
Pension escrow investments	24	208	213
Derivatives	24	3	30
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	11	1,957	2,723
Other receivables	20	13	94
Deferred tax assets	8	10	116
		6,239	7,664
Assets held for sale	19	4	–
Current assets			
Inventories		42	34
Trade and other receivables	20	1,590	1,659
Income tax receivable		20	41
Financial assets			
Investments	24	–	70
Derivatives	24	23	74
Cash and cash equivalents ¹	21/24	898	1,199
		2,573	3,077
Total assets		8,816	10,741
Current liabilities			
Trade and other payables	22	(2,144)	(2,332)
Financial liabilities			
Interest-bearing loans and borrowings	23/24	(3)	–
Lease liabilities	14/24	(220)	(213)
Derivatives	24	(13)	(8)
Income tax payable		(5)	(10)
Provisions	25	(129)	(176)
Bank overdrafts ¹	21/24	(89)	(62)
		(2,603)	(2,801)

Consolidated Balance Sheet continued

At 26 March 2023 and 27 March 2022

	Notes	Reported at 26 March 2023 £m	Re-presented ¹ Reported at 27 March 2022 £m
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	23/24	(944)	(872)
Lease liabilities	14/24	(1,142)	(1,128)
Derivatives	24	(22)	(36)
DBCBS retirement benefit deficit	11	(145)	(390)
Provisions	25	(79)	(94)
Other payables		(24)	(32)
Deferred tax liabilities	8	(55)	(54)
		(2,411)	(2,606)
Total liabilities		(5,014)	(5,407)
Net assets		3,802	5,334
Equity			
Share capital	26	10	10
Retained earnings		3,761	5,248
Other reserves		31	76
Total equity		3,802	5,334

¹ Cash and cash equivalents have been re-presented - see Note 1 for further details.

The Financial Statements were approved and authorised for issue by the Board of Directors on 22 May 2023 and were signed on its behalf by:

Keith Williams
Non-Executive Chair

Mick Jeavons
Group Chief Financial Officer

Consolidated Statement of Changes in Equity

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 28 March 2021	10	4,802	7	(14)	4,805
Profit for the year	–	612	–	–	612
Other comprehensive income for the year	–	414	–	83	497
Total comprehensive income for the year	–	1,026	–	83	1,109
Transactions with owners of the Company, recognised directly in equity					
Purchase of own shares	–	(17)	–	–	(17)
Share buyback	–	(201)	–	–	(201)
Dividend paid to equity holders of the Parent Company	–	(366)	–	–	(366)
Share-based payments (see Note 18)					
Employee Free Shares issue	–	1	–	–	1
Long Term Incentive Plan (LTIP)	–	2	–	–	2
Deferred Share Bonus Plan (DSBP)	–	1	–	–	1
Reported at 27 March 2022	10	5,248	7	69	5,334
Loss for the year	–	(873)	–	–	(873)
Other comprehensive (expense)/income for the year	–	(488)	25	(70)	(533)
Total comprehensive (expense)/income for the year		(1,361)	25	(70)	(1,406)
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the Parent Company	–	(127)	–	–	(127)
Share-based payments (see Note 18)					
Employee Free Shares issue	–	1	–	–	1
LTIP	–	1	–	–	1
Tax charge on share-based payments	–	(1)	–	–	(1)
Reported at 26 March 2023	10	3,761	32	(1)	3,802

A description of the reserves in the above table is included in Note 26.

Consolidated Statement of Cash Flows

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Notes	Reported 52 weeks 2023 £m	Reported 52 weeks 2022 £m
Cash flow from operating activities			
(Loss)/profit before tax		(676)	662
Adjustment for:			
Net pension interest (non-operating specific item)	11	(105)	(64)
Net finance costs	7	39	51
Profit on disposal of property, plant and equipment (non-operating specific item)	6	(6)	(72)
Specific items (operating)	6	544	7
Operating (loss)/profit before specific items¹		(204)	584
Adjustment for:			
Depreciation and amortisation		602	540
EBITDA before specific items¹		398	1,124
Working capital movements		(54)	(29)
Increase in inventories		(8)	(14)
(Decrease)/increase in receivables		180	(16)
Decrease in payables		(237)	(54)
Net decrease in derivative assets		7	3
Increase in provisions (non-specific items)		4	52
Pension charge to cash difference adjustment	6/11	133	174
Share-based awards (LTIP and DSBP) charge		2	3
Cash cost of operating specific items	6	(53)	(4)
Cash inflow from operations		426	1,268
Income tax paid		(53)	(108)
Net cash inflow from operating activities		373	1,160
Cash flow from investing activities			
Dividend received from associate undertaking	17	—	5
Finance income received		20	4
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		11	10
London Development Portfolio net (costs)/proceeds (non-operating specific item)		(6)	99
Purchase of property, plant and equipment ²		(328)	(519)
Acquisition of business interests, net of cash acquired		(7)	(204)
Purchase of intangible assets (software) ²		(93)	(84)
Net release of pension escrow investments		8	—
Sale/(purchase) of financial asset investments		70	(70)
Net cash outflow from investing activities		(325)	(759)
Net cash inflow before financing activities		48	401

	Notes	Reported 52 weeks 2023 £m	Reported 52 weeks 2022 £m
Cash flow from financing activities			
Finance costs paid		(61)	(56)
Share buyback		–	(201)
Purchase of own shares		–	(17)
Payment of capital element of obligations under lease contracts		(202)	(192)
Payment of capital element of asset finance		(2)	–
Dividends paid to equity holders of the Parent Company	10	(127)	(366)
Net cash outflow from financing activities		(392)	(832)
Net decrease in cash and cash equivalents		(344)	(431)
Effect of foreign currency exchange rates on cash and cash equivalents		16	(5)
Cash and cash equivalents at the beginning of the year		1,137	1,573
Cash and cash equivalents at the end of the year	21	809	1,137

1 For further details on APMs used, see pages 238 to 242.

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

Notes to the Consolidated Financial Statements

1. Basis of preparation and accounting policies

General information

International Distributions Services plc (the Company) is incorporated in the United Kingdom (UK). The Consolidated Financial Statements have been produced in accordance with UK-adopted international accounting standards (UK-adopted IFRS).

The Consolidated Financial Statements of the Company for the 52 weeks ended 26 March 2023 (2021-22: 52 weeks ended 27 March 2022) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings.

The Consolidated Financial Statements for the 52 weeks ended 26 March 2023 were authorised for issue by the Board on 22 May 2023.

Basis of preparation and accounting

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

The Group's financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are prepared for the 52 weeks ended 26 March 2023 (2021-22: 52 weeks ended 27 March 2022). GLS' reporting year-end date is 31 March each year. There were no significant transactions between the respective reporting dates that required adjustment in the Financial Statements.

Presentation of results and accounting policies

As stated above, the Consolidated Financial Statements have been produced in accordance with UK-adopted IFRS, i.e. on a 'reported' basis. In some instances, APMs are used by the Group to provide 'adjusted' results. This is because management is of the view that these APMs provide a useful basis on which to analyse underlying business performance and is consistent with the way that financial performance is measured by management and reported to the Board. Details of the APMs used by the Group are explained on pages 238 to 242.

Going concern

In assessing the going concern status of the Group, the Directors are required to look forward a minimum of 12 months from the date of approval of these financial statements to consider whether it is appropriate to prepare the financial statements on a going concern basis. The Directors have reviewed business activities, together with factors likely to affect its future development and performance, as well as the Group's principal risks and uncertainties.

The Board has concluded that it is appropriate to adopt the going concern basis having undertaken a rigorous assessment of the financial forecasts, with specific consideration of the trading position of the Group in the context of the current global economic environment, and the industrial relations landscape in relation to the UK business, for the reasons as set out below.

At 26 March 2023 the Group had net current liabilities of £30 million and net assets of £1.6 billion (excluding defined benefit scheme surpluses and pension escrow investments). Liquidity available as at the reporting date was £1.7 billion (excluding GLS client cash), made up of cash and cash equivalents of £773 million and a committed and undrawn bank syndicate loan facility of £925 million - available until September 2026. The bank syndicate loan facility contains financial covenants, which were amended on 24 March 2023. The amendment, which is relevant for the measurement periods from March 23 to March 24, will be calculated by reference to the EBITDA of General Logistics Systems (GLS) B.V. and its subsidiaries rather than the consolidated EBITDA of the Group.

In their assessment of going concern, the Directors have deemed it appropriate to extend the minimum assessment period to cover the period from 22 May 2023 to 30 September 2024 (the 'going concern period'). The Directors have considered the Group's key liquidity events and covenant measurement periods and extended the assessment period in order to cover the maturity of the Group's €500 million bond in July 2024 and the covenant measurement period where the covenant reverts back to being measured by reference to the consolidated EBITDA of the Group. The Group has modelled two scenarios referred to below as the Base Case and the Downside Case. The GLS Base Case aligns with the adjusted Accelerate strategy, reflecting some delay in achieving the EBIT target. The Royal Mail Base Case takes into account the Board's and management's views on the anticipated impact and recovery from industrial action in relation to Royal Mail, 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 in both Royal Mail and GLS but does not assume any further industrial action taking place in Royal Mail. It also assumes the costs and associated benefits from the activity required to transform Royal Mail into a more efficient operation that meets customers' changing needs. The Base Case also assumes no dividend payment over the going concern period, although there is sufficient headroom to introduce a final dividend financed by earnings in GLS for 2023-24. The €500 million bond, with a maturity date of July 2024, is assumed to be refinanced, but at a higher cost reflecting current market conditions. There are material real estate asset disposal proceeds included in the Royal Mail business plan, but the sale of the 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.

On 9 May 2023, the Group secured a backstop facility of €500 million from a syndicate of banks to provide additional flexibility on the timing for refinancing the €500 million bond maturing in July 2024. The backstop is available until July 2024 and, if drawn to repay the bond, would be repayable by December 2024 with an option to extend to July 2025. The facility remains undrawn and is subject to the same amended covenants as the bank syndicate loan facility.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies

In the Base Case it is projected that the Group will have sufficient cash and liquidity. The £925 million bank syndicate loan facility and €500 million backstop facility would remain available as covenants would not be breached.

The Downside Case applies further stress to the Base Case to model further deteriorating economic and market conditions impacting both Royal Mail and GLS and further industrial action in the event that the pay deal agreed with the CWU in April 2023 does not receive ratification by employees.

Further details of the scenario modelled are as follows;

Scenario:	Deteriorating economic and market conditions.
Assumptions:	Delayed revenue growth in the business plan and decline in operating margins.
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.
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.
Scenario:	Delays in relation to the Royal Mail transformation plan.
Assumptions:	Delays in budgeted cost efficiencies being realised.
Scenario:	Cyber-attack triggering material service and/or operational interruption.
Assumptions:	Cyber breach impacting revenue collection.
Scenario:	Increase in attrition of key roles.
Assumptions:	Recruitment costs, interim resource and higher salaries.

Although we consider the risk of further industrial action has significantly decreased following agreement with the CWU, this is still plausible since the agreement has still to be ratified in a vote of members. The Directors believe that the downside is a severe but plausible scenario, recognising that the Base Case already anticipates significant negative impacts from the weak economy and flow through impact from industrial action that has already taken place. The gross liquidity impact of the Downside Case to 30 September 2024, including further industrial action, is approximately £0.9 billion. The majority of the Downside Case impact relates to Royal Mail, which if it can be further mitigated, could reduce the risk and potential impact to the Group.

The Board remains concerned about the financial situation in Royal Mail. 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 fundamental to the delivery of the business plan. The operational changes and improvements required in Royal Mail are fundamental to its turnaround and to restore profitability in that business.

The Board has for some time maintained that it will not cross-subsidise in order to support Royal Mail. In this regard the Board has asked that Royal Mail takes all reasonable steps to finance the necessary transformation and turnaround from its own resources. This will include, for example, the disposal of some real estate assets.

It is essential that Royal Mail now makes the required progress in modernising its business and in delivering the changes proposed in its business plan. Subject to appropriate progress with the business plan, the Board will provide access to Group resources in order to meet short-term working capital needs or to cover unavoidable delays in realising asset disposal proceeds.

If the severe but plausible scenario were to materialise, the Directors would be required to take mitigating actions to preserve cash and maintain liquidity by building covenant headroom. The Directors have identified a number of mitigations, all within management's control, to reduce costs and optimise the Group's cash flow, liquidity and covenant headroom.

Whilst the Group is already undertaking actions to conserve cash, including reduction in capital expenditure, reduction in discretionary expenditure and working capital initiatives, a number of the mitigations would only be triggered in the event of the severe but plausible downside scenario materialising. The total impact of the mitigating actions is approximately £0.6 billion, which include:

- reducing capital and investment expenditure through postponing or pausing projects and change activity;
- deferring or cancelling discretionary spend
- delaying implementation of the new pension scheme which has a higher cost to the Group;
- and should the current pay offer not be ratified in June 2023, the pay offer would be revoked.

In the event the business plan is not fulfilled and / or the financial outlook for Royal Mail deteriorates along the trajectory of the Downside Case, the Board will periodically consider whether providing further access to the Group's resources is appropriate, taking into account relevant circumstances at the time, which may include the progress of Royal Mail's mitigating actions, the availability of other sources of liquidity and management's plan. Should the Board consider it appropriate not to provide further access to the Group's resources this could lead to significant liquidity issues for Royal Mail, though such a decision would only be taken in order to leave the Group liquidity and financial position in a better long term situation.

1. Basis of preparation and accounting policies (continued)

Notwithstanding the above, the Directors have assessed the Group's financial commitments and consider that in the Downside Case, after taking into account mitigations and cash generated from operations and existing facilities, the Group is forecast to have sufficient cash and liquidity. The Group is not projected to breach the financial covenants under its committed credit facilities under Downside Case, with the lowest EBITDA headroom during the financial year 2023-24 being above £0.1 billion, increasing to approximately £0.2 billion by 30 September 2024. Whilst covenant headroom given the scale of the Group would not be very significant over the going concern period, the covenant would not breach, ensuring access to the Group's committed credit facilities. Excluding the backstop facility, the lowest total available liquidity modelled under the Downside Case was £1.1 billion at 30 September 2024. As such, the Group has sufficient liquidity to continue to operate and to discharge its liabilities as they fall due over the going concern assessment period.

Having reviewed the Base Case, and Downside Case, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern assessment period and hence continue to adopt the going concern basis in preparing the Financial Statements.

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

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiary undertakings. The Financial Statements of the major subsidiaries are for the periods as explained in the 'Basis of preparation and accounting' section above, using consistent accounting policies.

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

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

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these Consolidated Financial Statements are consistent with those in the Annual Report and 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 Group.

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 Group.

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 Group 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 Group 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

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

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

Cash and cash equivalents - balance sheet re-presentation at 27 March 2022

Cash and cash equivalents have been re-presented in the balance sheet in recognition of there being no intention, or no legal right of offset available on overdraft balances totalling £62 million. These overdraft balances, previously presented net in cash and cash equivalents within current assets, are now presented gross in current liabilities.

The overdraft balances, which are part of a cash pool for the UK companies within the Group, are an integral part of the Group's cash management and are presented net within cash and cash equivalents at the beginning and end of the year in the statement of cash flows.

Sources of estimation uncertainty

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

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 Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP and DBCBS pension plans are included within Note 11.

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

- Equities listed on recognised stock exchanges are valued at the closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves.
- Pooled investment vehicles are valued using published prices or the latest information from investment managers, which includes any necessary fair value adjustments.
- Properties are valued on the basis of open market value as at the year-end date, in accordance with 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 Group 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 11.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not used at the balance sheet date (see Note 22).

The majority of this balance is made up of stamps sold to the general public. Management utilises 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. A Stamp Swap Out scheme was launched on 31 March 2022 where non-barcoded stamps can be swapped for stamps with barcodes. Management has considered the impact on the SITHOP balance of both the swap out and customers using up their existing stamp stocks.

1. Basis of preparation and accounting policies (continued)

Since the official introduction of barcoded stamps in February 2022, Royal Mail has been developing a new methodology to calculate the deferred revenue balance in relation to stamps sold to the general public. One of the primary data inputs for this new methodology is barcoding stamp scan data, which is used to create a profile of when stamps are used after sale. The new methodology is reliant on having sufficient scan data history and therefore the new methodology will be used to calculate the deferred revenue balance in 2023-24 once sufficient data is available. This new methodology, once implemented in 2023-24, could result in a deferred revenue balance that is materially different to the current balance.

At 26 March 2023, the Group 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:

- 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 Group'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. These estimates require assumptions over future revenue performance, future costs and long-term growth rates, as well as the application of an appropriate discount rate. Were there to be significant changes in these estimations, the amount charged as impairment during the year could be materially impacted. Details of the impairment assessment of the CGU are provided in Note 13.

Other estimates

Provisions – industrial diseases

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

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 6 and 25).

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

Deferred tax assets derecognition

The Group 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 13) apply to the assessment of probability of future taxable profits.

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 £106 million in respect of the brought forward net deferred tax asset at 27 March 2022.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)**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 25). 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.

Other 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 on pages 38 to 45. 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

The Directors are aware of the ever-changing risks attached to climate change and will regularly assess these risks against judgements and estimates made in preparation of the Group's financial statements.

Revenue

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

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

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

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

Further details of the major revenue streams in each operating segment are provided below:

Royal Mail

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

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

GLS

Revenue is derived from specific parcel contracts and is recognised when the delivery of an item is complete.

Costs

The following costs are recognised in the financial statements on an accruals basis of accounting.

People costs

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

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

1. Basis of preparation and accounting policies (continued)

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers, Parcelforce Worldwide delivery operators and GLS subcontractor costs. These costs are disclosed separately on the face of the income statement.

Infrastructure costs

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

Other operating costs

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

Pension charge to cash difference adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge rate of 22.9% (2021-22: 24.6%) for the DBCBS pension plan and the cash contribution rate agreed with the Trustee of 15.6%. Management is of the view that this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the cash cost of the pension plans in the adjusted operating profit of the Group (see Note 6 and Note 11).

Operating specific items

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

Legacy/other items

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

Amortisation of intangible assets in acquisitions

These charges, which arise as a direct consequence of the application of IFRS 3 'Business Combinations', are separately identified as management does not consider these costs to be representative of the trading performance of the Group.

Non-operating specific items

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

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

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

Net pension interest

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

Share-based payments

The Group operates a number of equity-settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the HMRC-approved (Employee Free Shares) Share Incentive Plan. 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.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)**Income tax and deferred tax**

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

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

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

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

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

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

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

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

Earnings per share

Basic EPS from continuing operations is calculated by dividing the profit/loss from continuing operations by the weighted average number of ordinary shares in issue.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares arising from share-based payment schemes. These potential shares are treated as dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations.

Cash Generating Units (CGUs) of the Group

The Group consists of a number of CGUs, each possessing largely independent cash inflows. The UK network, through which millions of letters and parcels pass each day, is considered by management to comprise two separate CGUs due to their distinct, individually identifiable cash flows. These CGUs for impairment testing purposes are Royal Mail excluding Parcelforce Worldwide and Parcelforce Worldwide. Certain other non-core entities are considered to be separate CGUs, albeit these are not material at a Group level.

In GLS, management considers each country's operations to represent a separate CGU. In relation to the testing of goodwill for impairment, however, the operating and financial synergies arising on new business combinations within GLS are felt by management to primarily benefit contiguous parts of the GLS network. For this reason, goodwill arising on new business acquisitions has typically been allocated to one of the major networks designated as CGUs, i.e. mainland Europe; US Freight (previously known as Mountain Valley Express); US excluding US Freight; and, in Canada, Dicom. At the balance sheet date, the Rosenau business, acquired in 2021-22 was not considered to be sufficiently integrated with the existing GLS Canada (Dicom) business. The two businesses are still operating independently, with general coordination performed by the management of GLS Canada. Also, Rosenau's operations and performance is still being reviewed separately by GLS Group management and contracts with existing and new clients in Canada are still managed at a separate business level.

Impairment test for goodwill and CGUs

In assessing whether there has been an impairment of goodwill, a CGU or, in some instances a specific asset, management determines whether the carrying value is higher than the recoverable amount. The recoverable amount is the higher of a CGU or asset's fair value less costs to sell (realisable value) and value in use. The value in use of the CGU/asset is calculated based on its discounted cash flows. Details of the impairment review of the GLS CGUs are included in Note 15.

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 6 and Note 13.

1. Basis of preparation and accounting policies (continued)

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 income statement within the Royal Mail segment. For this reporting year, management considers that it is not appropriate to reverse the impairment charge, as the business has still to establish a sustainable financial performance.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing an operating unit that offers different products and serves largely different markets.

The Board monitors the operating results of its main operating units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the 'operating profit before specific items' measure.

The reportable operating segments are made up of business units based in the UK – within the Royal Mail segment, along with other parts of Continental Europe, the US and Canada, which are the constituent parts of the GLS segment. There is no aggregation of operating segments.

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

There are no differences in the measurement of the respective segments' reported profit/loss and the Consolidated Financial Statements prepared under IFRS.

Property, plant and equipment

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

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

Land and buildings:

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

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

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

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

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of such impairment reviews, goodwill is allocated to the relevant CGUs, or groups of CGUs, which are expected to benefit from synergies of the combination.

A goodwill impairment loss is recognised in the income statement for the amount by which the carrying value of the related CGU, or group of CGUs, exceeds the recoverable amount, which is the higher of a CGU's net realisable value and its value in use. Goodwill arising on the acquisition of equity-accounted entities is included in the cost of those entities and therefore not reported on the balance sheet as goodwill.

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)**Intangible assets**

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have a finite useful life, with key strategic assets generally having the longest lives. Those assets with a finite life are amortised over their useful life but are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. Development costs capitalised and included as an asset within the Financial Statements have not been treated as a realised loss for the purpose of determining distributable reserves.

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

Customer listings	3 to 10 years
Software	3 to 10 years
Brands	1 to 10 years

Investments in associates

The Group's investments in its associate companies are accounted for under the equity method of accounting. Under the equity method, an investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value. The income statement reflects the Group's share of annual post-tax profits from the associates (currently netted off other operating costs as the values are not material enough for separate disclosure).

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared with the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Borrowing costs

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

Non-current assets held for sale

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

Leases

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

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

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate incremental borrowing rate (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. Lease interest is shown within finance costs in the statement of cash flows. The lease liability is remeasured as a result of market rent reviews and for changes in the assessment of future extensions or terminations which result in a significant change of circumstances in respect of the lease and is within the Group's control.

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

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

1. Basis of preparation and accounting policies (continued)

The Group has lease break options in place for a majority of its property lease agreements. These options provide the Group with greater flexibility in managing the UK estate. These break options have in the main, historically, not been exercised due to ongoing operational requirements. Management 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: £7 million).

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

IFRS 16 – incremental borrowing rates

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

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

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

From the evidence obtained, management has concluded that for the Royal Mail business, lenders do not make adjustments to the borrowing rates offered on lending, based upon the underlying asset to be obtained. The key factors in the borrowing rates available to Royal Mail are judged to be the current credit rating of the Group (BBB) and the length of the borrowing term required.

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

The GLS business has followed a similar methodology and grouping by lease length, to that used in Royal Mail. However, instead of basing the yields on corporate bond yield curves, which are not readily obtainable for all GLS currencies, a sovereign bond yield curve for the relevant country has been used as the starting point and an appropriate margin applied to this based upon consideration of consolidated GLS quantitative and qualitative information.

Trade receivables

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

	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

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

Inventories

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

Trade payables

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

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

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)

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

The balance owed on the facility at 26 March 2023 was £37 million (27 March 2022: £66 million).

Capital management

The Group has established five key objectives for capital management. Details of these objectives are included in the Financial Review.

Financial instruments

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

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

Financial assets measured at amortised cost

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

Financial liabilities measured at amortised cost

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

Cash and cash equivalents

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

Bank overdrafts (in a cash pool)

Bank overdrafts represent the gross overdrawn balances within the Group that generally form part of a net £nil cash pool. These form an integral part of the Group's cash management. They are included within cash and cash equivalents in the statement of cash flows along with the offsetting equivalent balances of cash at bank in the cash pool that are in credit and which are included within cash and cash equivalents.

Financial assets – pension escrow investments

Pension escrow investments comprise a Royal Mail Senior Executives Pension Plan money market fund investment and a Royal Mail Pension Plan money market fund investment. See Note 11 to the Financial Statements for further details.

Financial assets – other investments

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

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost. The €500 million and €550 million bonds are measured at amortised cost in Euro and converted to Sterling at the closing spot Sterling/Euro exchange rate.

Derivative financial instruments and hedging programmes

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

1. Basis of preparation and accounting policies (continued)

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 FVTPL and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. Derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement' (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 in the reporting year.

Fair value measurement of financial instruments

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

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

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

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

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

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

The Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting year. For the purposes of disclosing the Level 2 fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date. For the €500 million bond and the €550 million bond, the disclosed fair values are calculated as the closing market bond prices converted to Sterling using the closing spot Sterling/Euro exchange rate.

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

Provisions

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

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

Dividends

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

Notes to the Consolidated Financial Statements continued

1. Basis of preparation and accounting policies (continued)**Pensions and other post-retirement benefits**

Defined benefit pension plan assets are measured at fair value. Listed securities are valued at bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted. Unquoted securities and other pooled investment vehicles are valued using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued 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 Group considers this tax to be a tax other than income tax, i.e. 'withholding tax', and the pension surplus is presented net of this tax on the balance sheet.

Full actuarial/cash funding valuations are carried out at intervals not normally exceeding three years as determined by the 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 Group 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 11 to the Financial Statements.

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

Foreign currencies

The functional and presentational currency of International Distributions Services plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€), in the US it is the Dollar (US\$) and in Canada it is the Canadian Dollar (CAD).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting year, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRS, are taken directly to the foreign currency translation reserve in equity.

Foreign currency exchange differences arising from translation of the €500 million bond and the Euro-denominated leases (designated as hedges of the net investment in GLS) to closing Sterling/Euro exchange rates are deferred to the foreign currency translation reserve in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss, only if GLS was sold.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling during the month of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Other than the €500 million bond and the Euro-denominated leases mentioned above, currently, hedge accounting is not claimed for any other monetary assets and liabilities except the €500 million bond, which is hedged by a cross-currency swap. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

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

2. Segment information

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

A key measure of segment performance is operating profit before specific items. This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see pages 238 to 242). This is consistent with how financial performance is measured internally and reported to the CODM.

Transfer prices between segments are set at an arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments.

52 weeks 2023	Adjusted			Specific items - and pension adjustment in people costs			Reported
	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Eliminations ¹ £m	Adjusted Group £m	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Continuing operations							
Revenue	7,411	4,650	(17)	12,044	–	–	12,044
People costs	(5,409)	(1,031)	–	(6,440)	(133)	–	(6,573)
Non-people costs	(2,421)	(3,271)	17	(5,675)	–	–	(5,675)
Operating (loss)/profit before specific items	(419)	348	–	(71)	(133)	–	(204)
Operating specific items	–	–	–	–	(492)	(52)	(544)
Operating (loss)/profit	(419)	348	–	(71)	(625)	(52)	(748)
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	5	1	6
(Loss)/profit before interest and tax	(419)	348	–	(71)	(620)	(51)	(742)
Finance costs	(49)	(28)	17	(60)	–	–	(60)
Finance income	32	6	(17)	21	–	–	21
Net pension interest (non-operating specific item)	–	–	–	–	105	–	105
(Loss)/profit before tax	(436)	326	–	(110)	(515)	(51)	(676)
Tax (charge)/credit	(4)	(82)	–	(86)	(115)	4	(197)
(Loss)/profit after tax	(440)	244	–	(196)	(630)	(47)	(873)

52 weeks 2022	Adjusted			Specific items - and pension adjustment in people costs			Reported
	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Eliminations ¹ £m	Adjusted Group £m	Royal Mail (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Continuing operations							
Revenue	8,514	4,219	(21)	12,712	–	–	12,712
People costs	(5,583)	(908)	–	(6,491)	(174)	–	(6,665)
Non-people costs	(2,515)	(2,969)	21	(5,463)	–	–	(5,463)
Operating profit before specific items	416	342	–	758	(174)	–	584
Operating specific items	–	–	–	–	8	(15)	(7)
Operating profit	416	342	–	758	(166)	(15)	577
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	71	1	72
Profit before interest and tax	416	342	–	758	(95)	(14)	649
Finance costs	(49)	(15)	7	(57)	–	–	(57)
Finance income	10	3	(7)	6	–	–	6
Net pension interest (non-operating specific item)	–	–	–	–	64	–	64
Profit before tax	377	330	–	707	(31)	(14)	662
Tax (charge)/credit	(34)	(78)	–	(112)	58	4	(50)
Profit after tax	343	252	–	595	27	(10)	612

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

Notes to the Consolidated Financial Statements continued

2. Segment information (continued)

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

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

	Royal Mail (UK operations) £m	GLS (Non-UK Operations) £m	Eliminations ² £m	Total £m
52 weeks 2023				
Depreciation	(326)	(159)	–	(485)
Amortisation of intangible assets (mainly software)	(107)	(10)	–	(117)
Non-current assets	2,169	1,892	–	4,061
Total assets	6,054	2,953	(191)	8,816
Total liabilities	(3,651)	(1,554)	191	(5,014)

	Royal Mail (UK operations) £m	GLS (Non-UK Operations) £m	Eliminations ² £m	Total £m
52 weeks 2022				
Depreciation	(309)	(132)	–	(441)
Amortisation of intangible assets (mainly software)	(88)	(11)	–	(99)
Non-current assets	2,879	1,703	–	4,582 ¹
Total assets	8,366	2,658	(283)	10,741
Total liabilities	(4,214)	(1,476)	283	(5,407)

The Company is domiciled in the UK. The split of revenue from external customers and non-current assets (excluding financial assets, retirement benefit surplus and deferred tax) between the UK and GLS' presence in Continental Europe and North America is shown below.

	UK £m	Continental Europe £m	North America £m	Eliminations ² £m	Total £m
52 weeks 2023					
Revenue	7,411	4,043	607	(17)	12,044
Non-current assets	2,169	1,379	513	–	4,061
52 weeks 2022					
Revenue	8,514	3,776	443	(21)	12,712
Non-current assets	2,879	1,165	538	–	4,582

² Eliminations in respect of revenue and assets relate to intragroup balances between Royal Mail and GLS.

3. Revenue

52 weeks 2023	Royal Mail £m	GLS £m	Intragroup revenue ¹ £m	Group £m
Parcels	3,910	4,650	(17)	8,543
Letters	3,501	–	–	3,501
Total	7,411	4,650	(17)	12,044

52 weeks 2022	Royal Mail £m	GLS £m	Intragroup revenue ¹ £m	Group £m
Parcels	4,800	4,219	(21)	8,998
Letters	3,714	–	–	3,714
Total	8,514	4,219	(21)	12,712

¹ Eliminations relate to intragroup revenue from trading between Royal Mail and GLS. This is due to Parcelforce Worldwide being GLS' partner in the UK.

During the year, around £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 22).

4. Operating costs

Operating (loss)/profit before specific items is stated after charging the following operating costs:

	52 weeks 2023 £m	52 weeks 2022 £m
People costs (see Note 5)	(6,573)	(6,665)
Distribution and conveyance costs		
Charges from overseas postal administrations	(266)	(271)
Fuel costs	(159)	(198)
Infrastructure costs		
Depreciation, amortisation and impairment	(602)	(540)
Charge for property, plant and equipment (see Note 13)	(485)	(441)
Charge for intangible assets (see Note 16) ¹	(117)	(99)
Other operating costs		
Post Office Limited charges	(317)	(361)
Inventory expensed	(46)	(36)

¹ Excludes £19 million (2021-22: £16 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

Regulatory body costs

The following disclosure is relevant in understanding the extent of ongoing compliance costs in relation to the regulation of the Group:

	52 weeks 2023 £m	52 weeks 2022 £m
Ofcom administrative charge	(6)	(6)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	(1)	(1)
Total	(7)	(7)

Notes to the Consolidated Financial Statements continued

4. Operating costs (continued)

Auditor's fees	52 weeks 2023 £'000	52 weeks 2022 £'000
Audit of Group statutory Financial Statements	(1,828)	(1,420)
Other fees to auditor:		
Audit of the accounts of subsidiaries	(1,883)	(1,613)
Review of the interim financial information	(394)	(265)
Regulatory audit	(158)	(144)
Other assurance	(3)	(7)
Other non-audit services	(150)	(4)
Total	(4,416)	(3,453)

The 2022-23 fees relate to the services of the Group's appointed auditor KPMG LLP. In addition to the above amounts, KPMG LLP was paid by the respective Trustees £138,925 for the audit of the Royal Mail Pension Plan (2021-22: £127,000), £37,725 for the audit of the Royal Mail Defined Contribution Plan (2021-22: £34,500) and £5,250 for the audit of the Royal Mail Pension Trustees Limited accounts (2021-22: £5,000).

5. People information

	52 weeks 2023 £m	52 weeks 2022 £m
Wages and salaries	(5,359)	(5,398)
Royal Mail ¹	(4,437)	(4,587)
GLS	(922)	(811)
Pensions (see Note 11)	(692)	(747)
Defined benefit UK	(385)	(441)
Defined contribution UK	(124)	(116)
Defined benefit and defined contribution Pension Salary Exchange UK	(174)	(181)
GLS	(9)	(9)
Social security	(522)	(520)
Royal Mail	(422)	(432)
GLS	(100)	(88)
Total people costs	(6,573)	(6,665)

¹ People costs include £47 million (2021-22: £81 million) charged in respect of voluntary redundancies.

Defined benefit pension plan rates:

Income statement – DBCBS	22.9%	24.6%
Cash flow – DBCBS	15.6%	15.6%

Defined contribution pension plan average rate:

Income statement and cash flow ²	8.9%	8.9%
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² Employer contribution rates are 4% for employees in the entry level category and 10% for the majority of those employees in the standard level category.

People numbers

The number of people employed, expressed as both full-time equivalents and headcount, during the reporting year was as follows:

	Full-time equivalents ³				Headcount ⁴			
	Year end		Average		Year end		Average	
	52 weeks 2023	52 weeks 2022	52 weeks 2023	52 weeks 2022	52 weeks 2023	52 weeks 2022	52 weeks 2023	52 weeks 2022
Royal Mail	143,553	155,011	147,593	155,598	130,393	140,035	136,390	138,645
GLS	21,776	21,808	21,571	18,887	22,399	22,325	22,440	22,706
Total	165,329	176,819	169,164	174,485	152,792	162,360	158,830	161,351

³ For Royal Mail, these people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same year. Prior year average numbers have been re-presented to include 12 month averages, not 11 month averages as previously stated.

⁴ These people numbers represent permanent employees. Prior year average numbers have been re-presented to include 12 month averages, not 11 month averages as previously reported.

5. People information (continued)

Directors' remuneration

	52 weeks 2023 £'000	52 weeks 2022 £'000
Directors' remuneration ⁵	(3,463)	(3,530)
Amounts earned under Long Term Incentive Plans	(364)	(934)
Number of Directors accruing benefits under defined contribution plans	1	1

⁵ These amounts include any cash supplements received in lieu of pension. Details of the pension contributions are included in the single figure table of the Directors' Remuneration Report on page 123. The highest paid Director details are included in the single figure table of the Directors' Remuneration Report on page 123.

6. Specific items and pension charge to cash difference adjustment

	52 weeks 2023 £m	52 weeks 2022 £m
Pension charge to cash difference adjustment (within People costs)	(133)	(174)
Operating specific items:		
Impairment of Royal Mail excluding Parcelforce Worldwide	(539)	–
GLS VAT Adjustments	(33)	–
Amortisation of intangible assets in GLS acquisitions	(19)	(16)
Royal Mail damages award	35	–
Royal Mail legacy/other items	12	9
Total operating specific items	(544)	(7)
Non-operating specific items:		
Profit on disposal of property, plant and equipment	6	72
Net pension interest	105	64
Total non-operating specific items	111	136
Total specific items	(433)	129
Tax (charge)/credit on certain specific items and the pension charge to cash difference	(111)	62

The difference between the pension charge and cash cost (pension charge to cash difference adjustment) largely comprises the difference between the IAS 19 income statement pension charge rate of 22.9% (2021-22: 24.6%) of pensionable pay for the DBCBS from 28 March 2022 and the cash contribution rate agreed with the Trustee of 15.6%.

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 £539 million. See note 13 for further details.

The £33 million (2021-22: £nil) in GLS relates to the settlement of VAT adjustments in Italy, covering the years 2016 to 2021.

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 25).

The cash cost of operating specific items of £53 million comprises a payment of £52 million to Ofcom (2021-22: £nil) (see Note 25), a £33 million payment to the Italian tax authorities (2021-22: £nil) (see above) and £3 million payments in relation to industrial diseases claims (2021-22: £3 million), offset by a £35 million receipt from DAF (2021-22: £nil) (see above). The additional £1 million in the prior year related to payments in respect of Employee Free Shares.

The tax charge of £111 million (2021-22: £62 million credit) includes a charge of £115 million (2021-22: £nil) in relation to the derecognition of the UK net deferred tax asset, a net credit of £4 million (2021-22: £30 million) in relation to the tax effect of certain specific items and the pension charge to cash difference and a net credit of £nil (2021-22: £32 million) in relation to the remeasurement of certain UK deferred tax assets and liabilities at the future UK corporation tax rate of 25%.

Notes to the Consolidated Financial Statements continued

7. Net finance costs

	52 weeks 2023 £m	52 weeks 2022 £m
Unwinding of discount relating to industrial diseases claims provision	(1)	(1)
Other interest payable	(59)	(56)
Bank syndicate loan facility		
Unused facility fees	(1)	(1)
Arrangement fees	(1)	(1)
€500 million and €550 million bonds	(17)	(17)
Interest rate swap costs on €550 million bond	(7)	(7)
Leases	(32)	(29)
Capitalisation of borrowing costs on specific qualifying assets	3	3
Other finance costs	(4)	(4)
Total finance costs	(60)	(57)
Total finance income – interest receivable on financial assets	21	6
Total net finance costs	(39)	(51)

8. Taxation

	52 weeks 2023 £m	52 weeks 2022 £m
Tax charged in the income statement		
Current income tax:		
Current UK income tax charge	–	(11)
Foreign tax	(81)	(81)
Current income tax charge	(81)	(92)
Amounts over-provided in previous years	8	19
Total current income tax charge	(73)	(73)
Deferred income tax:		
Effect of change in tax rates	–	32
Derecognition of deferred tax asset	(115)	–
Relating to origination and reversal of temporary differences	5	(17)
Amounts (under)/over-provided in previous years	(14)	8
Total deferred income tax (charge)/credit	(124)	23
Tax charge in the consolidated income statement	(197)	(50)
Tax credited/(charged) to other comprehensive income		
Deferred tax:		
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)
Total deferred income tax credit/(charge)	24	(55)
Total tax credit/(charge) in the consolidated statement of other comprehensive income	24	(55)

8. Taxation (continued)

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

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

Reconciliation of the total tax charge

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

	52 weeks 2023 £m	52 weeks 2022 £m
(Loss)/profit before tax	(676)	662
At UK statutory rate of corporation tax of 19% (2021-22: 19%)	128	(126)
Effect of different tax rates on non-UK profits and losses	(7)	(10)
Tax (under)/over-provided in previous years ¹	(6)	27
Non-deductible expenses	(2)	(9)
GLS VAT adjustments	(9)	–
Tax reliefs and incentives	5	5
Uncertain tax positions	–	(1)
Tax effect of property disposals	1	10
Tax effect of closure of RMPP to future accrual	(2)	(3)
Net pension interest credit	22	14
Derecognition of brought forward deferred tax assets	(115)	–
Net increase in tax charge resulting from non-recognition of certain deferred tax assets and liabilities	(219)	(3)
Super-deduction enhanced capital allowances	7	14
Effect of change in tax rates	–	32
Tax charge in the consolidated income statement	(197)	(50)

¹ Tax (under)/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.

Notes to the Consolidated Financial Statements continued

8. Taxation (continued)**Deferred tax**

Deferred tax by balance sheet category 52 weeks 2023	At 27 March 2022 £m	Credited/ (charged) to income statement £m	Credited to other comprehensive income £m	Charged directly in equity £m	Acquisition of subsidiaries £m	(Charged)/ credited to foreign exchange reserve £m	Jurisdictional right of offset £m	At 26 March 2023 £m
Liabilities								
Accelerated capital allowances	(34)	5	–	–	–	–	–	(29)
Intangible assets	(51)	3	–	–	(5)	(2)	–	(55)
Hedging derivative temporary differences	(18)	–	18	–	–	–	–	–
	(103)	8	18	–	(5)	(2)	–	(84)
Jurisdictional right of offset	49	–	–	–	–	–	(20)	29
Deferred tax liabilities	(54)	8	18	–	(5)	(2)	(20)	(55)
Assets								
Deferred capital allowances	1	–	–	–	–	–	–	1
Pensions temporary differences	100	(106)	6	–	–	–	–	–
Provisions and other	27	(10)	–	–	–	1	–	18
Employee share schemes	2	(1)	–	(1)	–	–	–	–
Losses available for offset against future taxable income	34	(14)	–	–	–	–	–	20
R&D expenditure credit	1	(1)	–	–	–	–	–	–
	165	(132)	6	(1)	–	1	–	39
Jurisdictional right of offset	(49)	–	–	–	–	–	20	(29)
Deferred tax assets	116	(132)	6	(1)	–	1	20	10
Net deferred tax asset/ (liability)	62	(124)	24	(1)	(5)	(1)	–	(45)

8. Taxation (continued)

Deferred tax by balance sheet category 52 weeks 2022	At 29 March 2021 £m	(Charged)/ credited to income statement £m	Charged to other comprehensive income £m	(Charged)/ credited directly in equity £m	Acquisition of subsidiaries £m	Jurisdictional right of offset £m	At 27 March 2022 £m
Liabilities							
Accelerated capital allowances	(7)	(17)	–	–	(10)	–	(34)
Intangible assets	(50)	–	–	–	(1)	–	(51)
Hedging derivative temporary differences	–	–	(18)	–	–	–	(18)
	(57)	(17)	(18)	–	(11)	–	(103)
Jurisdictional right of offset	9	–	–	–	–	40	49
Deferred tax liabilities	(48)	(17)	(18)	–	(11)	40	(54)
Assets							
Deferred capital allowances	33	(32)	–	–	–	–	1
Pensions temporary differences	75	59	(34)	–	–	–	100
Provisions and other	32	(5)	–	–	–	–	27
Employee share schemes	3	–	–	(1)	–	–	2
Losses available for offset against future taxable income	15	18	–	1	–	–	34
R&D expenditure credit	1	–	–	–	–	–	1
Hedging derivative temporary differences	3	–	(3)	–	–	–	–
	162	40	(37)	–	–	–	165
Jurisdictional right of offset	(9)	–	–	–	–	(40)	(49)
Deferred tax assets	153	40	(37)	–	–	(40)	116
Net deferred tax asset	105	23	(55)	–	(11)	–	62

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

Deferred tax – balance sheet presentation	At 26 March 2023 £m	At 27 March 2022 £m
Liabilities		
GLS group	(55)	(54)
Deferred tax liabilities	(55)	(54)
Assets		
GLS group	10	10
Net UK position	–	106
Deferred tax assets	10	116
Net deferred tax (liability)/asset	(45)	62

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 Group assesses the recoverability of deferred tax assets at each reporting date. Given the loss incurred by Royal Mail during the period, there is increased uncertainty that future taxable profits will be generated.

Notes to the Consolidated Financial Statements continued

8. Taxation (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, management has not recognised any deferred tax asset in respect of the Royal Mail losses incurred in the year and has derecognised £106 million in respect of the brought forward net deferred tax asset as at 27 March 2022.

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

Unrecognised temporary differences

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

	At 26 March 2023 £m		At 27 March 2022 £m	
	Unused losses and deductible temporary differences	Tax value	Unused losses and deductible temporary differences	Tax value
Royal Mail				
Losses available for offset against future taxable income	691	173	7	2
Deferred capital allowances	308	77	–	–
Pensions temporary differences	159	40	–	–
Provisions and other	29	7	–	–
GLS				
Losses available for offset against future taxable income	224	54	244	72
Provisions and other	58	16	5	1
	1,469	367	256	75

The Group 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 Royal Mail and GLS losses available for offset against future taxable income have no expiry date.

The Group also has temporary differences of £174 million (2021-22: £177 million) in respect of capital losses, the tax effect of which is £44 million (2021-22: £44 million) in respect of assets previously qualifying for industrial buildings allowances, that would arise if the assets were sold at net book value. Further temporary differences exist in relation to £419 million (2021-22: £444 million) of gains for which rollover relief has been claimed, the tax effect of which is £105 million (2021-22: £111 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.

Tax developments

UK legislation in respect of the OECD Pillar 2 (Global Minimum Tax) rules was released on 23 March 2023 and is currently proceeding through parliament. The Group is reviewing the extent to which it will be impacted by these rules.

9. Earnings per share

	52 weeks 2023			52 weeks 2022		
	Reported	Specific items and pension adjustment ¹	Adjusted	Reported	Specific items and pension adjustment ¹	Adjusted
(Loss)/profit for the year (£ million)	(873)	(677)	(196)	612	17	595
Weighted average number of shares issued (million)	956	n/a	956	992	n/a	992
Basic earnings per share (pence)	(91.3)	n/a	(20.5)	61.7	n/a	60.0
Diluted earnings per share (pence)	(91.3)	n/a	(20.5)	61.4	n/a	59.7

¹ Further details of the specific items and pension adjustment total can be found in the Financial Review on page 64.

The diluted earnings per share for the year ended 26 March 2023 is calculated in line with basic earnings per share on account of the ordinarily dilutive instruments being anti-dilutive in the period. The diluted EPS for the year ended 27 March 2022 was based on a weighted average number of shares of 996,495,404 to take account of the potential issue of 2,087,313 ordinary shares resulting from the Deferred Share Bonus Plans and 2,304,879 ordinary shares resulting from the Long-Term Incentive Plans. These plans are for certain senior management and are disclosed in more detail in Note 18.

The 263,566 (2021-22: 2,265,008) shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes (see Note 26). The Company, however, does not hold any shares in treasury.

10. Dividends

Dividends on ordinary shares	52 weeks 2023 Pence per share	52 weeks 2022 Pence per share	52 weeks 2023 £m	52 weeks 2022 £m
Final dividend paid	13.3	10.0	127	100
Interim dividend paid	—	6.7	—	67
Special dividend paid	—	20.0	—	199
Total dividends paid	13.3	36.7	127	366

Given the performance of Royal Mail in 2022-23, and increased investment in GLS, the Board has decided not to pay a final dividend in respect of 2022-23 (2021-22: 13.3 pence final dividend).

Some shares are held by the Trustee of the Royal Mail Share Incentive Plan on behalf of the Company to satisfy future share awards. The Trustee does not receive any dividends on the shares it holds, hence the value of dividends paid being lower than the number of shares in issue multiplied by the pence per share. Some shares are held by the Trustee of the Royal Mail Share Incentive Plan on behalf of the Company to satisfy future share awards. The Trustee does not receive any dividends on the shares it holds, hence the value of dividends paid being lower than the number of shares in issue multiplied by the pence per share.

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans**Summary pension information**

	52 weeks 2023 £m	52 weeks 2022 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs) ¹	(385)	(441)
UK defined contribution plan	(124)	(116)
UK defined benefit and defined contribution plans' Pension Salary Exchange employer contributions ²	(174)	(181)
Total UK ongoing pension service costs	(683)	(738)
GLS pension costs accounted for on a defined contribution basis	(9)	(9)
Total Group ongoing pension service costs	(692)	(747)
Cash pension service costs³		
UK defined benefit plan's employer contributions ⁴	(252)	(267)
Defined contribution plans' employer contributions	(133)	(125)
UK defined benefit and defined contribution plans' PSE employer contributions	(174)	(181)
Total Group cash flows relating to ongoing pension service costs	(559)	(573)
Pension charge to cash difference adjustment	(133)	(174)

	At 26 March 2023 '000	At 27 March 2022 '000
UK pension plans – active members		
UK defined benefit plan	65	71
UK defined contribution plan	57	61
Total	122	132

¹ 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.

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

³ These values exclude the impact of any timing differences in pension payments and represent the equivalent cash costs of the amounts charged to the income statement in the period.

⁴ The employer contribution cash flow rate of 15.6% is paid in respect of the DBCBS (2021-22: 15.6%). These contribution rates are fixed, with actuarial funding valuations carried out every three years to determine whether additional deficit contributions are required. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail. The most recent triennial valuation at 31 March 2021 was completed in May 2022 and no additional contributions were required.

11. Retirement benefit plans (continued)

In the period, the Group operated the following plans:

UK defined contribution plan

Royal Mail Group Limited, the 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 Group 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%.

UK defined benefit plans

Royal Mail Pension Plan (RMPP)⁵ and Defined Benefit Cash Balance Section (DBCBS)

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.

⁵ Any references to the RMPP relate to the scheme's defined pension liabilities built up to 31 March 2018. From 1 April 2018 members began building up DBCBS benefits.

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 (RMCP) 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 Group 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 Group 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 Group is required to make payments totalling 15.6% of pensionable payroll in respect of DBCBS.

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)**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:

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

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement. These contributions are not considered to be Plan assets as the Trustee does not have control over the assets. This balance is included within non-current financial assets. See Note 24 to the Financial Statements for further details.

Royal Mail Senior Executives Pension Plan (RMSEPP)

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

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 Group's obligations under the plan have now been fully extinguished and the Group 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 Group 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 Group 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 Group 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.

11. Retirement benefit plans (continued)

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.

	RMPP	DBCBS
Date of valuation	31 March 2021 (agreed on 17 May 2022)	The first full valuation was 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) 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 (11(b) below)	1,652	1,536	7,604	11,142	8	320
Present value of plans' liabilities	(1,797)	(1,926)	(4,601)	(6,960)	—	(312)
(Deficit)/surplus in plans (pre-withholding tax payable)	(145)	(390)	3,003	4,182	8	8
Withholding tax payable ⁶	n/a	n/a	(1,051)	(1,464)	(3)	(3)
(Deficit)/surplus in plans	(145)	(390)	1,952	2,718	5	5

⁶ 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 Group 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.

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)**Guaranteed Minimum Pensions**

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 Group'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.

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, 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 are as follows:

	At 26 March 2023	At 27 March 2022
Retail Price Index (RPI) – RMPP/RMSEPP ^{7,11}	3.2%	3.5%
Retail Price Index (RPI) – DBCBS ¹¹	3.2%	3.8%
Consumer Price Index (CPI) – RMPP/RMSEPP ^{7,11}	2.9%	3.2%
Consumer Price Index (CPI) – DBCBS ¹¹	2.8%	3.4%
Discount rate – RMPP/RMSEPP ^{7,8}		
– nominal	4.7%	2.8%
– real (nominal less RPI)	1.5%	(0.7%)
Discount rate – DBCBS ⁹		
– nominal	4.7%	2.8%
– real (nominal less RPI)	1.5%	(1.0%)
Rate of increase in pensionable salaries ¹⁰	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 ¹⁰	RPI – 0.1%	RPI – 0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP ⁷	–	CPI
Rate of pension increases – RMSEPP all other members ^{7,10}	–	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

⁷ 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.

⁸ 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.

⁹ 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.

¹⁰ 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.

¹¹ 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.

11. Retirement benefit plans (continued)

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-19, as it is still considered too soon to make a judgement on the impact of the pandemic on future mortality improvements.

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	–

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. The discount rate and RPI sensitivities are calculated using the mean term of the relevant section to derive the impact of a 0.1% 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.

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
Equities						
UK	1	–	1	1	19	20
Overseas	17	10	27	23	32	55
Bonds						
Fixed interest – UK	130	51	181	416	96	512
– Overseas	485	163	648	496	304	800
Pooled investments						
Absolute return	–	382	382	–	477	477
Equity	261	–	261	347	–	347
Private equity	–	51	51	–	62	62
Fixed interest	172	106	278	21	575	596
Private debt	–	504	504	–	451	451
Property	–	51	51	–	63	63
Liability-driven investments ¹²	5,977	(42)	5,935	8,277	42	8,319
Property (UK)	–	533	533	–	626	626
Cash and cash equivalents	422	–	422	403	–	403
Other	–	(5)	(5)	–	(52)	(52)
Derivatives	–	(5)	(5)	–	7	7
RMSEPP buy-in annuity policies	–	–	–	–	312	312
Total plans' assets	7,465	1,799	9,264	9,984	3,014	12,998

¹² 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 £5,452 million (27 March 2022: £8,401 million) of index-linked gilts, £708 million (27 March 2022: £691 million) of bonds, £555 million (27 March 2022: £145 million) in short-term money market funds and £68 million (27 March 2022: £44 million asset) in cash and similar instruments, offset by negative fair value investments of £758 million (27 March 2022: £900 million) in repurchase agreements and £90 million of swaps (27 March 2022: £26 million).

Included within the Group'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 Group or shares of International Distributions Services plc at 26 March 2023 (27 March 2022: £nil).

11. Retirement benefit plans (continued)

Risk exposure and investment strategy

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

Investment market movements	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	<p>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.</p> <p>The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than the RMPP.</p> <p>In the 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.</p>
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	<p>The RMPP's liabilities could be impacted by longer than expected life expectancy, resulting in higher than expected payout levels.</p> <p>Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.</p>
Changes in corporate and Government bond yields	<p>A fall in yields on AA rated corporate bonds, used to set the IAS 19 discount rates, has led to an increase in the IAS 19 liabilities.</p> <p>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.</p>

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.

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)**c) Movement in RMPP assets, liabilities and net position**

Changes in the value of the defined benefit pension liabilities, the 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
Retirement benefit surplus (before withholding tax payable) at 28 March 2022 and 29 March 2021	11,142	11,441	(6,960)	(7,775)	4,182	3,666
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(11)	(9)	–	–	(11)	(9)
Pension interest income/(cost) ¹³	311	228	(194)	(155)	117	73
Total included in profit before tax	300	219	(194)	(155)	106	64
Amounts included in other comprehensive income – remeasurement (losses)/gains						
Actuarial (loss)/gain arising from:						
Financial assumptions	–	–	2,668	871	2,668	871
Demographic assumptions	–	–	–	85	–	85
Experience assumptions	–	–	(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
Other						
Employer contributions	–	–	–	–	–	–
Past service cost	–	–	–	(6)	–	(6)
Benefits paid	(81)	(70)	81	70	–	–
Total other movements	(81)	(70)	81	64	–	(6)
Retirement benefit surplus (before withholding tax payable) at 26 March 2023 and 27 March 2022	7,604	11,142	(4,601)	(6,960)	3,003	4,182
Withholding tax payable	n/a	n/a	n/a	n/a	(1,051)	(1,464)
Retirement benefit surplus (net of withholding tax payable) at 26 March 2023 and 27 March 2022	n/a	n/a	n/a	n/a	1,952	2,718

¹³ 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.

11. Retirement benefit plans (continued)

c) Movement in RMSEPP assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, the 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
Retirement benefit surplus (before withholding tax payable) at 28 March 2022 and 29 March 2021	320	373	(312)	(364)	8	9
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	–	–	–	–	–	–
Pension interest income/(cost) ¹³	2	7	(2)	(7)	–	–
Total included in profit before tax	2	7	(2)	(7)	–	–
Amounts included in other comprehensive income – remeasurement (losses)/gains						
Actuarial (loss)/gain arising from:						
Financial assumptions	–	–	64	34	64	34
Demographic assumptions	–	–	–	9	–	9
Experience assumptions	–	–	–	–	–	–
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)
Other						
Employer contributions	–	–	–	–	–	–
Transfer to insurer	(242)	–	242	–	–	–
Benefits paid	(8)	(16)	8	16	–	–
Total other movements	(250)	(16)	250	16	–	–
Retirement benefit surplus (before withholding tax payable) at 26 March 2023 and 27 March 2022	8	320	–	(312)	8	8
Withholding tax payable	n/a	n/a	n/a	n/a	(3)	(3)
Retirement benefit surplus (net of withholding tax payable) at 26 March 2023 and 27 March 2022	n/a	n/a	n/a	n/a	5	5

¹³ 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.

Notes to the Consolidated Financial Statements continued

11. Retirement benefit plans (continued)**d) Movement in DBCBS assets, liabilities and net position**

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

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Retirement benefit deficit at 28 March 2022 and 29 March 2021	1,536	1,192	(1,926)	(1,586)	(390)	(394)
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan service cost including administration costs (included in people costs)	(5)	(5)	(451)	(515)	(456)	(520)
Pension interest income/(cost) ¹⁴	45	26	(57)	(35)	(12)	(9)
Total included in profit before tax	40	21	(508)	(550)	(468)	(529)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	–	–	662	107	662	107
Experience assumptions	–	–	(89)	51	(89)	51
Return on plan assets	(195)	14	–	–	(195)	14
Total remeasurement gains/(losses) of the defined benefit deficit	(195)	14	573	158	378	172
Other						
Employer contributions ¹⁵	335	361	–	–	335	361
Employee contributions	10	3	(10)	(3)	–	–
Benefits paid	(74)	(55)	74	55	–	–
Total other movements	271	309	64	52	335	361
Retirement benefit deficit at 26 March 2023 and 27 March 2022	1,652	1,536	(1,797)	(1,926)	(145)	(390)

¹⁴ Pension interest income 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.

¹⁵ Includes PSE contributions of £88 million (2021–22: £99 million).

12. Acquisition of businesses

2022-23 acquisitions

During the year, two small acquisitions, Tousfacteurs and Pesaro were completed by GLS in France and Italy respectively, with a combined net assets value of £10 million, including £9 million of goodwill which is tax deductible and which represents the fact that these acquisitions will complement the existing networks in their respective countries, adding value through improved service offering and quality, thereby supporting the retention of existing and winning of new customers.

2021-22 acquisitions

Rosenau Transport ('Rosenau')

Following the acquisition of Rosenau in December 2021, GLS management have reviewed the original fair values assigned to the assets and liabilities of the business during the measurement period and have considered the adjustments to fair values (including £1 million increase in goodwill to £47 million in total) to be not material, and have therefore not restated the 2021-22 closing balance sheet for these adjustments.

In undertaking the review of the fair values of the acquired assets and liabilities of the business, in relation to the £47 million goodwill recognised (subsequently reduced to £27 million as a result of a reallocation of £20 million to the GLS Dicom Canada CGU), management has reaffirmed its view that this reflects that Rosenau has immediately created an effective continental network stretching across Canada and along the US West Coast. The business model allows GLS to introduce parcel services in western Canada using the Rosenau network with limited investment. This unlocks significant revenue opportunities by allowing GLS to target national accounts as well as cross border customers. In addition, current GLS freight activity to the West (currently served through partnerships) can be insourced to realise synergies. GLS and Rosenau share a close strategic and cultural fit, with a strong focus on quality, reliability and customer service.

13. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 28 March 2022	4,630	1,467	1,112	495	7,704
Exchange rate movements	50	25	6	8	89
Reclassification	2	(2)	–	(3)	(3)
Modifications	42	–	2	–	44
Additions	233	170	65	49	517
Disposals	(52)	(51)	(36)	(62)	(201)
Reclassification to non-current assets held for sale	(11)	–	–	–	(11)
At 26 March 2023	4,894	1,609	1,149	487	8,139
Depreciation and impairment					
At 28 March 2022	2,282	968	537	346	4,133
Exchange rate movements	17	12	3	5	37
Reclassification	1	(2)	–	–	(1)
Depreciation charge	257	78	110	40	485
Impairment charge (see Note 1 and Note 6)	–	141	199	50	390
Disposals	(54)	(51)	(33)	(62)	(200)
Reclassification to non-current assets held for sale	(3)	–	–	–	(3)
At 26 March 2023	2,500	1,146	816	379	4,841
Net book value:					
At 26 March 2023	2,394	463	333	108	3,298
At 27 March 2022	2,348	499	575	149	3,571

Royal Mail excluding Parcelforce Worldwide Cash Generating Unit (CGU)

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

Notes to the Consolidated Financial Statements continued

13. Property, plant and equipment (continued)

restructuring or improving or enhancing the assets to 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 participant's 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&Cs 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 Universal Service Obligation.
- 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 cash flows 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.

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 million¹ and a partial impairment position at the year-end, and therefore an impairment loss of £539 million is recognised in the financial statements at the balance sheet date.

13. Property, plant and equipment (continued)

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 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 £539 million has been allocated to the various Group asset categories as set out below.

	Plant and machinery (see above) £m	Motor vehicles (see above) £m	Fixtures and equipment (see above) £m	Goodwill (Note 15) £m	Software assets (Note 16) £m	Total £m
Carrying value at 26 March 2023 ¹ before impairment	604	532	158	449	349	2,092
Impairment charge ²	(141)	(199)	(50)	(4)	(145)	(539)
Carrying value at 26 March 2023 ³ after impairment	463	333	108	445	204	1,553

1 This valuation is within Level 3 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement'.

2 Includes charge against right of use (ROU) assets for plant and machinery £11 million and motor vehicles £73 million (see Note 14).

3 The carrying values represent the position of the Group, not just the Royal Mail excluding Parcelforce Worldwide CGU.

Notes to the Consolidated Financial Statements continued

13. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 29 March 2021	4,242	1,278	991	423	6,934
Exchange rate movements	(15)	(10)	2	(3)	(26)
Reclassification	–	(1)	1	2	2
Modifications	41	–	–	–	41
Additions	427	203	125	99	854
Disposals	(160)	(7)	(34)	(27)	(228)
Acquisition of subsidiary	122	4	27	1	154
Reclassification to non-current assets held for sale	(27)	–	–	–	(27)
At 27 March 2022	4,630	1,467	1,112	495	7,704
Depreciation and impairment					
At 29 March 2021	2,222	907	465	333	3,927
Exchange rate movements	(6)	(5)	1	(2)	(12)
Reclassification	–	–	1	2	3
Modifications	(1)	–	–	–	(1)
Depreciation charge	228	73	101	39	441
Disposals	(160)	(7)	(31)	(26)	(224)
Reclassification to non-current assets held for sale	(1)	–	–	–	(1)
At 27 March 2022	2,282	968	537	346	4,133
Net book value:					
At 27 March 2022	2,348	499	575	149	3,571
At 28 March 2021	2,020	371	526	90	3,007

Depreciation rates are disclosed within Note 1. No depreciation is provided on land, which represents £290 million (2021-22: £279 million) of the total cost of property assets.

The net book value of the Group's property, plant and equipment includes £250 million (2021-22: £292 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £286 million (2021-22: £290 million) in respect of building fit-out.

The £517 million (2021-22: £854 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.

14. Leases

The Group primarily leases office buildings and letter and parcel processing facilities. At 26 March 2023, the Group held approximately 2,297 land and building leases (2021-22: 1,150). The Group also has leases for some of its vehicle fleet and plant and equipment used in operations. Leases are negotiated on an individual basis and may include extension or termination options.

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

	At 26 March 2023	At 27 March 2022
	Present value of lease payments £m	Present value of lease payments £m
Lease liabilities		
Current liabilities		
Lease liabilities due within one year	(220)	(213)
Non-current liabilities		
Lease liabilities due between one and five years	(669)	(631)
Lease liabilities due beyond five years	(473)	(497)

14. Leases (continued)

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

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
At 26 March 2023					
Cost	1,627	178	547	8	2,360
<i>of which additions</i>	<i>100</i>	<i>20</i>	<i>45</i>	<i>1</i>	<i>166</i>
Accumulated depreciation and impairment	(518)	(141)	(420)	(5)	(1,084)
<i>Depreciation charge</i>	<i>(169)</i>	<i>(10)</i>	<i>(51)</i>	<i>(1)</i>	<i>(231)</i>
<i>Impairment charge (see Note 1 and Note 6)</i>	<i>–</i>	<i>(11)</i>	<i>(73)</i>	<i>–</i>	<i>(84)</i>
Total	1,109	37	127	3	1,276

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
At 27 March 2022					
Cost	1,489	159	519	7	2,174
<i>of which additions</i>	<i>268</i>	<i>10</i>	<i>31</i>	<i>2</i>	<i>311</i>
Accumulated depreciation and impairment	(368)	(122)	(315)	(4)	(809)
<i>Depreciation charge</i>	<i>(146)</i>	<i>(15)</i>	<i>(52)</i>	<i>(1)</i>	<i>(214)</i>
Total	1,121	37	204	3	1,365

Leases in the income statement

Leases are recognised in the income statement as detailed below:

	52 weeks 2023 £m	52 weeks 2022 £m
Other operating income		
Sublease income	4	4
Material expenses		
Expenses from short-term/low-value leases	(57)	(50)
Depreciation		
Depreciation of right of use assets	(231)	(214)
Net finance costs		
Interest expense on lease liabilities	(32)	(29)

The Group enters into sale and leaseback transactions for plant and machinery and vehicles. Cash received from these transactions in the year was £nil (2021-22: £nil).

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15. Goodwill

	2023 £m	2022 £m
Cost		
At 28 March 2022 and 29 March 2021	850	809
Exchange rate movements	36	(8)
Disposal of business	–	–
Acquisition of business	9	49
At 26 March 2023 and 27 March 2022	895	850
Impairment		
At 28 March 2022 and 29 March 2021	422	431
Impairment charge (see Note 1 and Note 6)	4	–
Exchange rate movements	24	(9)
Disposal of business	–	–
At 26 March 2023 and 27 March 2022	450	422
Net book value:		
At 26 March 2023 and 27 March 2022	445	428
At 27 March 2022 and 28 March 2021	428	378

GLS Europe

The carrying value of goodwill of £445 million (2021-22: £428 million) at the balance sheet date includes £278 million (2021-22: £254 million) in relation to GLS' European network (GLS Europe CGU). The carrying value of the GLS European network is £908 million (2021-22: £791 million). The CGU has been assessed for impairment by comparing the carrying value of the CGU with its recoverable amount, being the CGU's value in use. The value in use has been calculated by discounting cash flows for a five-year period, with the period beyond five years assumed to have a perpetuity growth rate of 1.5% (2021-22: 0.4%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate of 9.1% (2021-22: 9.0%) which reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The pre-tax discount rate is 12.2% (2021-22: 12.1%). The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU.

GLS US excluding US Freight

The GLS US businesses represent two separate CGUs, comprising the US West Coast operations (General Logistics Systems US Inc. (GLS US) – previously known as GSO and Postal Express Inc. (PEX)), and US Freight. In 2018-19, all the goodwill in the GLS US/PEX CGU was fully impaired, along with other tangible and intangible fixed assets.

US Freight

The carrying value of goodwill in relation to US Freight (previously known as Mountain Valley Express) is £1 million (2021-22: £1 million). An impairment review has been performed comparing the carrying amount of the US Freight CGU of £18 million (2021-22: £22 million), with its recoverable amount. The recoverable amount has been calculated by discounting cash flows for a five-year period with the period beyond five years assumed to have a perpetuity growth rate of 1.4% (2021-22: 0.7%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate of 11.1% (2021-22: 13.0%) which reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The pre-tax discount rate is 15.2% (2021-22: 18.0%). This impairment assessment identified that the CGU's recoverable amount exceeds its carrying value by £16 million (2021-22: £12 million). Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

GLS Dicom Canada

The value of the goodwill in respect of GLS Dicom Canada at 26 March 2023 is £130 million (2021-22: £132 million). The carrying value of this CGU is £197 million (2021-22: £219 million). To assess the CGU for impairment, the carrying amount has been compared with its value in use, which has been calculated by discounting cash flows covering a period of five years, with the period beyond five years assumed to have a perpetuity growth rate of 1.7% (2021-22: 1.7%). All cash flows have been discounted to present value using a post-tax discount rate of 9.9% (2021-22: 9.1%). The pre-tax discount rate is 13.5% (2021-22: 12.4%). Based on these assumptions, the value in use was deemed to be significantly in excess of the carrying value. Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

15. Goodwill (continued)

GLS Rosenau Transport Canada ('Rosenau')

The value of goodwill in relation to Rosenau is £27 million (2021-22: £28 million). An impairment review has been performed comparing the carrying amount of the Rosenau Transport CGU, of £191 million (2021-22: £205 million), with its recoverable amount. The recoverable amount has been calculated by discounting cash flows for a five-year period with the period beyond five years assumed to have a perpetuity growth rate of 1.7% (2021-22: 1.7%). All cash flows of the CGU have been discounted to present value at the CGU's post-tax discount rate of 9.9% (2021-22: 9.1%), which reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The pre-tax discount rate is 13.5% (2021-22: 12.4%). Based on these assumptions, the value in use was deemed to be significantly in excess of the carrying value. Sensitivity analysis has been performed on each of the key assumptions, which did not identify any plausible outcomes that would require the CGU to be impaired.

Other Group goodwill

The remaining goodwill of £9 million (2021-22: £13 million) arising from small business acquisitions, each being a separate CGU, is supportable but not material in the context of the Group's total goodwill.

16. Intangible assets

	2023					2022				
	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m
Cost										
At 28 March 2022 and 29 March 2021	22	171	1,183	37	1,413	23	127	1,117	27	1,294
Exchange rate movements	1	–	8	1	10	(1)	5	(2)	1	3
Additions	–	–	93	–	93	–	–	83	–	83
Disposals	–	–	(25)	–	(25)	–	–	(10)	–	(10)
Reclassification	–	–	2	–	2	–	–	(5)	–	(5)
Acquisition of business	–	1	–	–	1	–	39	–	9	48
At 26 March 2023 and 27 March 2022	23	172	1,261	38	1,494	22	171	1,183	37	1,413
Amortisation and impairment										
At 28 March 2022 and 29 March 2021	22	66	814	23	925	23	52	730	21	826
Exchange rate movements	1	1	6	1	9	(1)	1	(1)	1	–
Amortisation charge ¹	–	17	117	2	136	–	13	101	1	115
Impairment charge (see Note 1 and Note 6)	–	–	145	–	145	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–	(6)	–	(6)
Disposals	–	–	(25)	–	(25)	–	–	(10)	–	(10)
At 26 March 2023 and 27 March 2022	23	84	1,057	26	1,190	22	66	814	23	925
Net book value:										
At 26 March 2023 and 27 March 2022	–	88	204	12	304	–	105	369	14	488
At 27 March 2022 and 28 March 2021	–	105	369	14	488	–	75	387	6	468

¹ Includes £17 million (2021-22: £nil) impairment recognised in amortisation in the income statement in relation to the resource scheduling asset.

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The net book value of the Group's software assets includes £60 million (2021-22: £62 million) in respect of assets in the course of construction. The £93 million (2021-22: £83 million) additions include £nil (2021-22: £1 million) of borrowing costs capitalised at a rate of 2.67% (2021-22: 2.65%) in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £88 million (2021-22: £111 million). These assets relate to various IT initiatives taking place across the business and are tested annually for impairment. They have an average remaining useful life of four years (2021-22: five years).

Notes to the Consolidated Financial Statements continued

17. Investments in associates

Details of the associates of the Group are listed below. To ensure that the reported share of the results of these companies aligns with the Group's reporting year ended 26 March 2023 (2021-22: 27 March 2022), information provided by each of the respective companies is analysed and an estimate of profit/loss accrued as appropriate.

	Principal activities	Country of incorporation	Reporting date	% ownership 2023	% ownership 2022
Associate company					
JICMAIL Limited	Market research	UK	31 March	20.0	20.0
Quadrant Catering Limited	Catering services	UK	30 September	–	51.0
Market Engine Global Pty Limited	Software development	Australia	30 June	–	34.5
Charac Limited	Digital pharmacy prescription services	UK	31 March	32.9	33.3

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 investment in Charac Limited was diluted during the year, due to the Group not participating in the latest funding round.

Movements in interests in associates

	2023 £m	2022 £m
Cost		
At 28 March 2022 and 29 March 2021	1	5
Acquisition	–	1
Dividend received	–	(5)
At 26 March 2023 and 27 March 2022	1	1

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

18. 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 year 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.

18. Share-based payments (continued)

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

	Number of shares 2022-23	Number of shares 2021-22
Total shares remaining in SIP at 28 March 2022 and 29 March 2021	40,417,904	53,789,835
Shares sold/transferred out of SIP during the reporting year (fully vested)	(1,907,577)	(7,906,372)
Shares transferred out of SIP during the reporting year ('good leavers') ¹	(909,503)	(5,465,559)
Total shares remaining in SIP at 26 March 2023 and 27 March 2022	37,600,824	40,417,904

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

Of the total shares remaining in the scheme, 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 year 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 Share 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 year ended 26 March 2023 in relation to all DSBP schemes (2021-22: £2 million, including £1 million for National Insurance).

19. 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	—
Total	4	—

Property assets with a carrying value of £8 million (2021-22: £26 million) were reclassified as held for sale in the year, of which £4 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 the next 12 months.

Notes to the Consolidated Financial Statements continued

20. Trade and other receivables

	At 26 March 2023 £m	At 27 March 2022 £m
Current trade and other receivables		
Trade receivables	1,391	1,507
Accrued income	32	46
Prepayments	167	106
Total	1,590	1,659

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

	2023 £m	2022 £m
At 28 March 2022 and 29 March 2021	(51)	(79)
Receivables provided for during the year	(19)	(12)
Release of allowance	18	34
Utilisation of allowance	9	9
Reclassification	–	(2)
Exchange differences	–	(1)
At 26 March 2023 and 27 March 2022	(43)	(51)

The Group's approach to loss allowance for bad and doubtful debts is explained in the accounting policies in Note 1.

The age profile of the trade receivables balance is shown below.

	At 26 March 2023 £m	At 27 March 2022 £m
Not yet overdue	1,289	1,350
Past due not more than one month	83	112
Past due more than one month and not more than two months	4	18
Past due more than two months	15	27
Total	1,391	1,507

	At 26 March 2023 £m	At 27 March 2022 £m
Non-current other receivables		
Other receivables	13	94
Total	13	94

21. Cash and cash equivalents

	At 26 March 2023 £m	Re-presented ¹ At 27 March 2022 £m
Cash at bank and in hand	431	338
Client cash	36	36
Cash equivalent investments: Short-term bank and money market fund investments ¹	431	825
Total cash and cash equivalents in the balance sheet	898	1,199
Bank overdrafts (part of a cash pool) ¹	(89)	(62)
Total cash and cash equivalents in the statement of cash flows	809	1,137

¹ Cash and cash equivalents includes bank overdrafts that are part of a cash pool for the UK companies which generally has a net Enil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in the comparative year 2021-22.

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and deposits for three months or less, dependent on the immediate cash requirements of the Group. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates.

Client cash is cash collected from consignees by GLS on behalf of its posting customers. It is maintained in separate bank accounts to the cash of the business and allocated to a separate payables account in the balance sheet so it can be tracked and reconciled.

Bank overdrafts are included within the statement of cash flows net, alongside equivalent offsetting balances of cash at bank in the cash pool. The overdraft balances, which are part of a cash pool for the UK companies within the Group, are an integral part of the Group's cash management and are presented net within cash and cash equivalents at the beginning and end of the year in the statement of cash flows.

22. Current trade and other payables

	At 26 March 2023 £m	At 27 March 2022 £m
Trade payables and accruals	(1,695)	(1,870)
Advance customer payments (including stamps held, not yet used by customers)	(250)	(254)
Social security	(110)	(121)
Client creditors	(52)	(36)
Capital expenditure payables	(27)	(41)
Other	(10)	(10)
Total	(2,144)	(2,332)

The fair value of trade and other payables is not materially different from the carrying value. The average credit period taken for trade purchases is 42 days (2021-22: 38 days).

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

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

The balance owed on the facility at 26 March 2023 was £37 million (27 March 2022: £66 million).

Notes to the Consolidated Financial Statements continued

23. Loans and borrowings

At 26 March 2023							
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Bank syndicate loan facility	–	925	925	n/a	SONIA+CAS +0.475% ²	n/a	2026
€500 million bond – 2.375% Senior Fixed Rate Notes	440	–	440	2.5	Fixed at 2.5%	2024	2024
€550 million bond – 1.25% Senior Fixed Rate Notes	482	–	482	2.7	Fixed at 2.7%	2026	2026
Asset finance	25	–	25	2.1	Fixed at 2.6%	2031	2031
Total	947	925	1,872	2.6		2025	2026

At 27 March 2022							
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Bank syndicate loan facility	–	925	925	n/a	SONIA+CAS +0.475% ²	n/a	2026
€500 million bond – 2.375% Senior Fixed Rate Notes	416	–	416	2.5	Fixed at 2.5%	2024	2024
€550 million bond – 1.25% Senior Fixed Rate Notes	456	–	456	2.7	Fixed at 2.7%	2026	2026
Total	872	925	1,797	2.6		2025	2026

1 Asset finance of £25 million (2021-22: £nil) consists of £3 million current and £22 million non-current (2021-22: £nil). Other loans and borrowings of £922 million (2021-22: £872 million) are non-current.

2 The total margin over Sterling OverNight Indexed Average (SONIA) consists of a 0.40% margin, a credit adjustment spread (CAS) and a utilisation fee of 0.075% (for drawings less than one third of the total facility). Interest is compounded daily and a CAS of between 0.0% and 0.3% is added using the International Swaps and Derivatives Association (ISDA) published five-year historical mean on fixing date (5 March 2021).

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.136 (2021-22: £1/€1.201). The effective interest rate on the bond of 2.5% (2021-22: 2.5%) consists of the interest coupon of 2.375% (2021-22: 2.375%) plus the unwinding of the discount and fees on issuing the bond of 0.08% (2021-22: 0.08%). The bond is designated as a hedge of the net investment in GLS, which has a very significant balance of Euro-denominated assets. During the year, a loss of £24 million (2021-22: £11 million gain) on the retranslation of this borrowing was taken to other comprehensive income, which offsets the losses on translation of an equivalent amount of the Euro-denominated assets in GLS. There was no hedge ineffectiveness in the current or comparative reporting years.

On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25% and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross-currency swap perfectly mirroring the terms of the Bond. The combined interest rate of the coupon and the cross-currency swap is 2.7% (2021-22: 2.7%). The €550 million bond is shown net of issue discount and fees and at a closing spot rate of £1/€1.136 (2021-22: £1/€1.201). The effective interest rate on the bond plus the cross-currency swap (2.7%) consists of the interest coupon of 1.25% (2021-22: 1.25%) plus the effects of the cross-currency swap of 1.00% (2021-22: 1.00%) and the unwinding of the discount and fees on issuing the bond of 0.4% (2021-22: 0.4%). The revaluation of the bond is hedged by the cross-currency swap. During the year, effective hedge reserve was transferred from other comprehensive income to Profit and loss for £26 million (2021-22: £12 million gain) to match the equivalent loss on retranslation of this borrowing. There was no hedge ineffectiveness in the current or comparative reporting years.

The bank syndicate loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements.

Such events of default include non-payment, insolvency and breach of covenants. On 24 March 2023, a covenant amendment was agreed that amended the financial covenants to use GLS EBITDA instead of Group EBITDA in the covenant calculations until September 2024 at which point, the facility reverts to the previous covenants. It is not anticipated that the Group is at risk of breaching any of these amended covenants.

23. Loans and borrowings (continued)

The financial covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3.5:1 and EBITDA to interest above 3.5:1. For the measurement periods of March 2023, September 2023 and March 2024, GLS EBITDA will be used in these calculations, after which date it reverts to Group EBITDA. The covenant ratios are calculated on an IAS 17 basis for leases. Adjusted net debt consists of net debt less leases capitalised under IFRS 16, plus Letters of Credit (contingent liabilities in respect of the Royal Mail insurance programme, where the possibility of an outflow of economic benefits is considered remote), plus bank guarantees provided to HMRC (in order to facilitate the movement of parcels from Europe efficiently through to our network, where the possibility of an outflow of economic benefits is considered remote) and is adjusted for exchange rate movements during the year. EBITDA is adjusted to deduct operating lease expense on leases capitalised under IFRS 16 (£82 million for GLS for 2022-23, 2021-22 not applicable) and to remove transformation costs and certain specific items (the pension charge to cash difference is not removed). Interest is adjusted to remove interest on leases capitalised under IFRS 16. The Group's leverage ratio at 26 March 2023 under the amended covenants is (using GLS EBITDA) 0.7:1 (2021-22: not applicable). The Group's ratio of EBITDA to interest at 26 March 2023 under the amended covenants is (using GLS EBITDA) 48.3:1 (2021-22: not applicable). Accordingly, the Group comfortably meets the covenants tests within its bank syndicate loan facility agreement. The Group's leverage ratio at 26th March 2023 under the unamended calculations (using Group EBITDA) at 26 March 2023 is 1.0:1 (2021-22: -0.2:1). The Group's ratio of EBITDA to interest at 26 March 2023 is 32.3:1 (2021-22: 46.3:1). As a result, the margin charged on any drawings under the bank syndicate loan facility will increase from 0.40% to 0.50% during 2023-24.

The interest rate chargeable on the bank syndicate loan facility would increase if more than one third of the facility was drawn and also if the Group's leverage ratio increased further. Under the loan agreement, the maximum interest rate chargeable would be compounding SONIA plus 2.35%. The €500 million bond and the €550 million bond become repayable immediately on the occurrence of an event of default under the bond agreements. These events of default include non-payment and insolvency. It is not anticipated that the Group is at risk of breaching any of these obligations.

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, were £925 million maturing in September 2026 (2021-22: £925 million maturing in September 2026).

There is no security in place under the bank syndicate loan facility or the bonds.

The bank syndicate loan facility contains provision on a change of control of the Company for negotiation of the continuation of the agreement or cancellation by a lender. The €500 million bond and the €550 million bond both contain provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

On 9 May 2023, IDS plc secured a backstop facility of €500 million from a syndicate of banks to provide additional flexibility on the timing for refinancing the €500 million bond maturing in July 2024. The backstop is available until July 2024 and, if drawn to repay the bond, would be repayable by December 2024 with an option to extend to July 2025. At the balance sheet date, this facility was undrawn. The facility is subject to the same covenants as the bank syndicate loan facility.

During the year, GLS used asset finance to fund the purchase of tangible fixed assets.

Notes to the Consolidated Financial Statements continued

24. Financial assets and liabilities and risk management

The following disclosures are included in this Note:

- a) Classification, carrying amount and fair value of financial assets and liabilities – Carrying amounts and fair value of each category of financial assets and liabilities.
- b) Movement in liabilities arising from financing activities – A reconciliation of the opening and closing balances of liabilities arising from financing activities.
- c) Foreign currency risk management – How management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- d) Commodity price risk management – How management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.
- e) Interest rate risk management – How management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- f) Liquidity risk management – How management addresses the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
- g) Credit risk management – How management addresses the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- h) Sensitivity analysis – How the income statement and balance sheet would have been affected by changes in commodity prices and exchange rates in the reporting year.
- i) Additional derivative and hedge analysis – A detailed breakdown of derivative balances and hedge movements

a) Classification, carrying amount and fair value of financial assets and liabilities

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

			At 26 March 2023 Carrying amount £m	At 26 March 2023 Fair value £m	Re-presented ¹ at 27 March 2022 Carrying amount £m	Re-presented ¹ at 27 March 2022 Fair value £m
Level	Classification					
Financial assets						
Cash	1		467	467	374	374
Cash held within cash pool			89	89	62	62
All other cash			378	378	312	312
Cash equivalent investments	1		431	431	825	825
Money market funds		FVTPL	349	349	725	725
Short-term deposits – bank		Amortised cost	82	82	100	100
Cash and cash equivalents	1		898	898	1,199	1,199
Current asset investments – short-term deposits – bank	1	Amortised cost	–	–	70	70
Pension escrow investments	1	FVTPL	208	208	213	213
Trade and other receivables ²	2	Amortised cost	1,423	1,423	1,553	1,553
Derivative assets (current)	2	FVTPL	23	23	74	74
Derivative assets (non-current)	2	FVTPL	3	3	30	30
Total financial assets			2,555	2,555	3,139	3,139

¹ Cash and cash equivalents includes bank overdrafts that are part of a cash pool for the UK companies which generally has a net Enil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in the comparative year 2021-22.

² Trade and other receivables excludes prepayments of £167 million (2021-22: £106 million)

24. Financial assets and liabilities and risk management (continued)

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

	Level	Classification	At 26 March 2023 Carrying Amount £m	At 26 March 2023 Fair Value £m	Re-presented ¹ at 27 March 2022 Carrying amount £m	Re-presented ¹ at 27 March 2022 Fair value £m
Financial liabilities						
Bank overdrafts (in a cash pool)	1		(89)	(89)	(62)	(62)
Obligations under leases (current)	2	Amortised cost	(220)	(220)	(213)	(213)
Asset finance (current)	2	Amortised cost	(3)	(3)	–	–
€500 million bond	2	Amortised cost	(440)	(432)	(416)	(429)
€550 million bond	2	Amortised cost	(482)	(441)	(456)	(453)
Asset finance (non-current)	2	Amortised cost	(22)	(21)	–	–
Obligations under leases (non-current)	2	Amortised cost	(1,142)	(1,022)	(1,128)	(1,110)
Trade and other payables ³	2	Amortised cost	(1,894)	(1,894)	(2,078)	(2,078)
Derivative liabilities (current)	2	FVTPL	(13)	(13)	(8)	(8)
Derivative liabilities (non-current)	2	FVTPL	(22)	(22)	(36)	(36)
Total financial liabilities			(4,327)	(4,157)	(4,397)	(4,389)
Net total financial liabilities			(1,772)	(1,602)	(1,258)	(1,250)

¹ Cash and cash equivalents includes bank overdrafts that are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in the comparative year 2021-22.

³ Trade and other payables excludes advance customer payments of £250 million (2021-22: £254 million)

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of Note 1.

The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

Notes to the Consolidated Financial Statements continued

24. Financial assets and liabilities and risk management (continued)**b) Movement in liabilities arising from financing activities**

The following table reconciles the opening and closing balances of liabilities arising from financing activities:

	Bank overdrafts (in a cash pool) £m	Interest-bearing loans and borrowings (current) £m	Interest-bearing loans and borrowings (non-current) £m	Obligations under leases (current) £m	Obligations under leases (non-current) £m	Total £m
At 28 March 2022	(62)	–	(872)	(213)	(1,128)	(2,275)
Movements through income statement:						
Interest payable on financial liabilities	–	–	(19)	–	(32)	(51)
Movements through cash flow:						
Finance costs paid ⁴	–	–	19	–	32	51
Payment of capital element of lease contracts	–	–	2	202	–	204
Other movements:						
Reclassification between categories	–	–	–	(209)	209	–
Increase in gross cash pool overdraft	(27)	–	–	–	–	(27)
Increase in lease obligations	–	–	–	–	(204)	(204)
New asset finance	–	(3)	(24)	–	–	(27)
Effect of foreign currency exchange rates	–	–	(50)	–	(19)	(69)
At 26 March 2023	(89)	(3)	(944)	(220)	(1,142)	(2,398)

⁴ Finance costs paid of £61 million in the statement of cash flows also includes £7 million interest on cross-currency swaps and £3 million other finance costs.

	Bank overdrafts ¹ (in a cash pool) £m	Interest-bearing loans and borrowings (non-current) £m	Obligations under leases (current) £m	Obligations under leases (non-current) £m	Re-presented ⁵ Total £m
At 29 March 2021	(36)	(895)	(197)	(959)	(2,087)
Movements through income statement:					
Interest payable on financial liabilities	–	(19)	–	(29)	(48)
Movements through cash flow:					
Finance costs paid ⁶	–	19	–	29	48
Payment of capital element of lease contracts	–	–	192	–	192
Other movements:					
Reclassification between categories	–	–	(208)	208	–
Increase in gross cash pool overdraft	(26)	–	–	–	(26)
Increase in lease obligations	–	–	–	(380)	(380)
Effect of foreign currency exchange rates	–	23	–	3	26
At 28 March 2022	(62)	(872)	(213)	(1,128)	(2,275)

¹ Cash and cash equivalents includes bank overdrafts that are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in the comparative year 2021-22.

⁵ Bank overdrafts are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in cash and cash equivalents in the comparative year 2021-22.

⁶ Finance costs paid of £56 million in the statement of cash flows also includes £7 million interest on cross-currency swaps and £1 million other finance costs.

c) Foreign currency risk management**Foreign currency transaction risk**

Royal Mail is exposed to foreign currency risk due to interest payments on the €500 million and €550 million bonds, certain obligations under Euro-denominated leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' main currency exposure is the Euro. It also has some exposure to non-Euro currencies, principally in emerging European markets, to the US Dollar and the Canadian Dollar.

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

24. Financial assets and liabilities and risk management (continued)

The following table shows, for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

Hedge programme	Risk	Percentage of next 12 months' exposure that has been hedged	
		At 26 March 2023	At 27 March 2022
Capital programmes	€/£ exchange rate movements	100%	100%
Overseas postal administrations	SDR/£ exchange rate movements	59%	38%

Royal Mail's obligation to settle with overseas postal administrations is denominated in Special Drawing Rights (SDR) – a basket of currencies which comprise US Dollar, Japanese Yen, Chinese Renminbi, Sterling and Euro. The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

Foreign currency translational risk

The Group's presentational currency is Sterling (£). GLS profits in Euro, US Dollar, Canadian Dollars and other currencies are converted to Sterling at the average exchange rate for the year which can result in reported growth or decline that does not relate to underlying performance. GLS' balance sheet is converted at year-end exchange rates and movements related to foreign currency translation are taken to equity.

The €500 million bond issued in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. At 26 March 2023, Royal Mail had €9 million of Euro-denominated lease payables outstanding (2021-22: €24 million). This similarly acts as a hedge of the net assets of GLS. The remaining net assets of GLS in excess of the €500 million bond and lease payables are not hedged. Foreign currency exchange differences arising from the translation of the net assets of GLS, the €500 million bond and the Royal Mail Euro-denominated lease payables, at closing Sterling/Euro exchange rates, are recognised in the statement of comprehensive income. These exchange differences would be released to the income statement as part of the gain or loss if GLS was sold.

The €550 million bond issued in October 2019 is perfectly hedged for foreign currency risk by a cross-currency swap.

The net total financial assets and liabilities are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets and liabilities (other than the €500 million and €550 million bonds and £441 million of leases and asset finance) are held within cash or derivatives.

	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Net total financial liabilities at 26 March 2023	(485)	(27)	(1,189)	(71)	(1,772)
Net total financial liabilities at 27 March 2022	(94)	(24)	(1,126)	(14)	(1,258)

d) Commodity price risk management

Royal Mail is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe – which consumes around 140 million litres of fuel per year – and a jet fuel price risk arising from purchasing air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses forward commodity price swaps 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.

Notes to the Consolidated Financial Statements continued

24. Financial assets and liabilities and risk management (continued)

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

As the GLS business relies generally on the use of subcontractors, who are responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS relates to electricity and gas, which is fragmented across its European bases. In view of the other highly hedged positions, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

e) Interest rate risk management

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

The analysis below sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

	At 26 March 2023					Total £m
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	
Fixed rate						
€500 million bond	2.5	–	(440)	–	–	(440)
€550 million bond	2.7	–	–	(482)	–	(482)
Asset finance	2.1	(3)	(4)	(11)	(7)	(25)
Lease obligations	2.6	(220)	(203)	(466)	(473)	(1,362)
Total		(223)	(647)	(959)	(480)	(2,309)
Floating rate						
Cash at bank	1.7	218	–	–	–	218
Cash equivalent investments – money market funds	3.9	349	–	–	–	349
Cash equivalent investments – bank deposits	2.7	82	–	–	–	82
Financial assets – pension escrow investments (non-current)	1.4	–	–	–	208	208
Total		649	–	–	208	857
Non-interest bearing						
Cash at bank or in hand		249	–	–	–	249
Bank overdrafts (in a cash pool)		(89)	–	–	–	(89)
Trade and other receivables		1,423	–	–	–	1,423
Trade and other payables		(1,894)	–	–	–	(1,894)
Derivative assets		23	3	–	–	26
Derivative liabilities		(13)	(12)	(10)	–	(35)
Total		(301)	(9)	(10)	–	(320)
Total financial assets		2,344	3	–	208	2,555
Total financial liabilities		(2,219)	(659)	(969)	(480)	(4,327)
Net total financial assets/(liabilities)		125	(656)	(969)	(272)	(1,772)

24. Financial assets and liabilities and risk management (continued)

		Re-presented ¹ at 27 March 2022				
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Fixed rate						
Cash equivalent investments – bank deposits	0.6	30	–	–	–	30
Current asset investment – short-term deposits – bank	0.4	70	–	–	–	70
Financial liabilities						
€500 million bond	2.5	–	–	(416)	–	(416)
€550 million bond	2.7	–	–	(456)	–	(456)
Lease obligations	2.3	(213)	(191)	(440)	(497)	(1,341)
Total		(113)	(191)	(1,312)	(497)	(2,113)
Floating rate						
Cash at bank	0.0	151	–	–	–	151
Cash equivalent investments – money market funds	0.3	725	–	–	–	725
Cash equivalent investments – bank deposits	0.8	70	–	–	–	70
Financial assets – pension escrow investments (non-current)	0.9	–	21	–	192	213
Total		946	21	–	192	1,159
Non-interest bearing						
Cash at bank or in hand		223	–	–	–	223
Bank overdrafts (in a cash pool)		(62)	–	–	–	(62)
Trade and other receivables		1,553	–	–	–	1,553
Trade and other payables		(2,078)	–	–	–	(2,078)
Derivative assets		74	27	3	–	104
Derivative liabilities		(8)	(5)	(31)	–	(44)
Total		(298)	22	(28)	–	(304)
Total financial assets		2,834	48	3	192	3,077
Total financial liabilities		(2,299)	(196)	(1,343)	(497)	(4,335)
Net total financial assets/(liabilities)		535	(148)	(1,340)	(305)	(1,258)

¹ Cash and cash equivalents includes bank overdrafts that are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in the comparative year 2021-22.

Drawings under the bank syndicate loan facility are at fixed rate to maturity (which must be six months or less). At 26 March 2023, there were no drawings (2021-22: £nil). The total interest-bearing financial assets of the Group (excluding the RMPP and RMCPP/RMSEPP pension escrow investments) of £649 million (2021-22: £1,046 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of one day (2021-22: an average maturity of eight days). These short-dated financial instruments are primarily used for liquidity but within that they are maturity-managed to obtain the best value out of the interest yield curve.

Obligations under leases are either unsecured or secured on the leased assets. The average interest rate is 2.6% (2021-22: 2.3%). The average maturity date is more than five years (2021-22: more than five years).

Net debt excludes £208 million (2021-22: £192 million) of pension escrow investments on the balance sheet in respect of the RMPP and RMCPP pension schemes, which are not considered to fall within the definition of net debt.

The RMPP pension escrow investment of £195 million (2021-22: £192 million) represents a money market fund investment, established with the agreement of the Pension Trustee for the benefit of members. The RMPP escrow agreement specifies that the funds must be used for the benefit of members, on a basis to be agreed between the Plan Trustee and the Company. The funds are therefore not available to management for corporate purposes (outside of pension arrangements) and so the RMPP escrow is excluded from net debt.

Notes to the Consolidated Financial Statements continued

24. Financial assets and liabilities and risk management (continued)

The opening RMSEPP pension escrow investment of £21 million was released to the Royal Mail during the year. The RMCPP pension escrow investment of £13 million (2021-22 £nil) was established during the year to provide security to the RMCPP. Whilst the funds may be returned to Royal Mail at some point in the future, the timing of this is uncertain and unlikely to be within the next five years, so the RMCPP escrow is excluded from net debt.

f) Liquidity risk management

The Group's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Borrowing facilities are regularly reviewed to ensure continuity of funding. In October 2021, the bank syndicate loan facility was extended by one year to September 2026. There are no further extension options in the agreement. The unused committed facilities of the Group of £925 million expire in 2026 (2021-22: £925 million expiring in 2026).

Below is a summary of the gross (undiscounted) contractual cash flows of the Group's financial liabilities. The cash flows for the €500 million and €550 million bonds and non-Sterling-denominated leases, represent the undiscounted total amounts payable (interest and nominal repayment) which have been converted to Sterling at 26 March 2023 market forward exchange rates. For derivatives that are settled gross (including the cross-currency swap), these cash flows represent the undiscounted gross payment due and do not reflect the accompanying cash inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast cash outflow.

	At 26 March 2023							
	Bank overdrafts (in a cash pool) £m	Gross loans and borrowings commitments £m	Gross lease instalments £m	Gross trade and other payables £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:								
One year or less or on demand (current)	(89)	(20)	(219)	(1,894)	(2,222)	(96)	(9)	(2,327)
More than one year (non-current)	–	(1,000)	(1,400)	–	(2,400)	(530)	(9)	(2,939)
More than one year but not more than two years	–	(468)	(205)	–	(673)	(13)	(8)	(694)
More than two years but not more than five years	–	(525)	(493)	–	(1,018)	(517)	(1)	(1,536)
More than five years	–	(7)	(702)	–	(709)	–	–	(709)
Total	(89)	(1,020)	(1,619)	(1,894)	(4,622)	(626)	(18)	(5,266)
Less interest	–	46	257	–	303	n/a	n/a	n/a
Less exchange rate adjustment	–	27	–	–	27	n/a	n/a	n/a
Net total	(89)	(947)	(1,362)	(1,894)	(4,292)	n/a	n/a	n/a

24. Financial assets and liabilities and risk management (continued)

Re-presented⁵
At 27 March 2022

	Bank overdrafts (in a cash pool) £m	Gross loans and borrowings commitments £m	Gross lease instalments £m	Gross trade and other payables £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:								
One year or less or on demand (current)	(62)	(16)	(222)	(2,078)	(2,378)	(133)	–	(2,511)
More than one year (non-current)	–	(964)	(1,407)	–	(2,371)	(558)	–	(2,929)
More than one year but not more than two years	–	(16)	(200)	–	(216)	(28)	–	(244)
More than two years but not more than five years	–	(948)	(477)	–	(1,425)	(530)	–	(1,955)
More than five years	–	–	(730)	–	(730)	–	–	(730)
Total	(62)	(980)	(1,629)	(2,078)	(4,749)	(691)	–	(5,440)
Less interest	–	61	288	–	349	n/a	n/a	n/a
Less exchange rate adjustment	–	47	–	–	47	n/a	n/a	n/a
Net total	(62)	(872)	(1,341)	(2,078)	(4,353)	n/a	n/a	n/a

⁵ Bank overdrafts are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management. These were previously presented net in cash and cash equivalents in the comparative year 2021-22.

g) Credit risk management

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that Royal Mail is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, commensurate with the Group's appetite for risk. An analysis of aged debt is included within Note 20.

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

GLS operates a decentralised credit management model, with each country responsible for managing the credit risk associated with its customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the respective GLS companies.

Other than trade and other receivables, which are disclosed within Note 20, none of the financial assets is either past due or considered to be impaired.

h) Sensitivity analysis

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to 2022-23 profit from interest rate risk or commodity price risk (2021-22: £nil risk). Further details of the Group's exposure to commodity price risk can be found in the Financial Review.

The Group has an exposure to the exchange rate risk on translating GLS profits; on trading with overseas postal administrations; on various purchase contracts; and on the interest on the €500 million bond and Royal Mail Euro-denominated leases. The impact of a 10% strengthening of Sterling across all currencies on forecast profits/trade during 2022-23 would be to reduce the Group operating profit by £20 million (2021-22: £24 million). However, changes in exchange rates could also cause other impacts on operating profit, including a change in import/export volumes.

The Group has an exposure to the exchange rate risk on translating GLS net assets into Sterling on consolidation. This is partially offset by an exposure on translating the €500 million bond and Euro-denominated leases into Sterling at each balance sheet date. The impact of a 10% strengthening of Sterling against all currencies at 26 March 2023 would have been to reduce the Group net assets by £75 million (2021-22: £55 million).

Notes to the Consolidated Financial Statements continued

24. Financial assets and liabilities and risk management (continued)**i) Additional derivative and hedge analysis**

The following tables provide further detail on the derivative balances and hedge movements

Cash flow hedges – derivatives

At 26 March 2023						
	Nominal amount	Nominal value £m	Derivative non-current assets £m	Derivative current assets £m	Derivative current liabilities £m	Derivative non-current liabilities £m
Diesel	201m litres	90	2	16	(4)	(4)
Jet	27m litres	11	–	2	–	–
Gas	19m therms	29	1	5	(5)	(5)
Conveyance costs	19m US\$	15	–	–	–	–
Capex	38m Euro	35	–	–	(1)	–
€550m Bond cross currency swap	550m Euro	491	–	–	(3)	(13)
Total			3	23	(13)	(22)

At 27 March 2022						
	Nominal amount	Nominal value £m	Derivative non-current assets £m	Derivative current assets £m	Derivative current liabilities £m	Derivative non-current liabilities £m
Diesel	285m litres	103	19	45	–	–
Jet	39m litres	14	2	6	–	–
Gas	24m therms	10	9	23	–	–
Conveyance costs	15m US\$	11	–	–	–	–
Capex	84m Euro	76	–	–	(5)	(1)
€550m Bond cross currency swap	550m Euro	456	–	–	(3)	(35)
Total			30	74	(8)	(36)

Cash flow hedges – changes in fair value

52 weeks 2023							
	Change in fair value during year – gain/(loss)				Gains/(losses) reclassified during year		
	Cash flow hedges deferred to reserves £m	Cost of hedging deferred to reserves £m	Ineffectiveness taken to other operating costs £m	Distribution and conveyance costs £m	Infrastructure costs £m	Finance costs £m	Initial carrying value of fixed asset £m
Diesel	8	–	3	62	–	–	–
Jet	2	–	–	8	–	–	–
Gas	(15)	–	(4)	–	14	–	–
Conveyance costs	1	–	–	1	–	–	–
Capex	2	–	–	–	–	–	(2)
€550m Bond cross currency swap	(12)	2	–	–	–	(7)	–
Total	(14)	2	(1)	71	14	(7)	(2)

52 weeks 2022							
	Change in fair value during year – gain/(loss)				Gains/(losses) reclassified during year		
	Cash flow hedges deferred to reserves £m	Cost of hedging deferred to reserves £m	Ineffectiveness taken to other operating costs £m	Distribution and conveyance costs £m	Infrastructure costs £m	Finance costs £m	Initial carrying value of fixed asset £m
Diesel	71	–	–	9	–	–	–
Jet	9	–	–	1	–	–	–
Gas	39	–	4	–	14	–	–
Conveyance costs	–	–	–	–	–	–	–
Capex	(2)	–	–	–	–	–	(2)
€550m Bond cross currency swap	2	–	–	–	–	(7)	–
Total	119	–	4	10	14	(7)	(2)

24. Financial assets and liabilities and risk management (continued)

Net Investment hedges

At 26 March 2023

	Nominal amount	Carrying value £m	Line item in the statement of financial position where the hedging instrument is included	Change in fair value of hedge instrument during year – gains/ (losses) in OCI £m	Change in fair value of hedged item during year – gains/(losses) in OCI £m	Ineffectiveness – gains/(losses) recognised in other operating income £m
Interest-bearing loans and borrowings – non-current						
€500m Bond	500m Euro	440		(24)	24	–
Euro-denominated lease payables	9m Euro	8	Lease liabilities	(1)	1	–
Total				(25)	25	–

At 27 March 2022

	Nominal amount	Carrying value £m	Line item in the statement of financial position where the hedging instrument is included	Change in fair value of hedge instrument during year – gains/ (losses) in OCI £m	Change in fair value of hedged item during year – gains/ (losses) in OCI £m	Ineffectiveness – gains/(losses) recognised in other operating income £m
Interest-bearing loans and borrowings – non-current						
€500m Bond	500m Euro	416		11	(11)	–
Euro-denominated lease payables	24m Euro	20	Lease liabilities	1	(1)	–
Total				12	(12)	–

Reserves reconciliation

	Cash flow hedge reserve 2023 £m	Cost of hedging reserve 2023 £m	Total hedging reserve 2023 £m	Cash flow hedge reserve 2022 £m	Cost of hedging reserve 2022 £m	Total hedging reserve 2022 £m
Opening Balance	68	1	69	(16)	2	(14)
Changes in fair value – cash flow hedges						
Diesel	8	–	8	71	–	71
Jet	2	–	2	9	–	9
Gas	(15)	–	(15)	39	–	39
Conveyance costs	1	–	1	–	–	–
Capex	2	–	2	(2)	–	(2)
€550m Bond cross currency swap	22	2	24	2	–	2
Amounts reclassified to Income statement						
Diesel	(62)	–	(62)	(9)	–	(9)
Jet	(8)	–	(8)	(1)	–	(1)
Gas	(14)	–	(14)	(14)	–	(14)
Conveyance costs	(1)	–	(1)	–	–	–
€550m Bond cross currency swap	(26)	(1)	(27)	8	(1)	7
Amounts reclassified to non-financial assets						
Capex	2	–	2	2	–	2
Tax on movements on reserves in the year	18	–	18	(21)	–	(21)
Closing Balance	(3)	2	(1)	68	1	69

There are no balances in cash flow hedge reserves or foreign currency translation reserve relating to hedging relationships for which hedge accounting is no longer applied (2021-22: none)

Notes to the Consolidated Financial Statements continued

25. Provisions

	Charged as specific items			Charged in operating costs				Total £m
	Industrial diseases £m	Regulatory fine £m	Other £m	Voluntary redundancy £m	Property decommissioning £m	Litigation claims £m	Other £m	
At 28 March 2022	(56)	(52)	(6)	(70)	(20)	(53)	(13)	(270)
Released/(charged)	10	–	3	(33)	(7)	(27)	(64)	(118)
Utilised	3	52	–	76	2	30	4	167
Reclassifications	–	–	–	15	–	–	–	15
Forex Adjustment	–	–	–	–	–	–	(1)	(1)
Unwinding of discount	(1)	–	–	–	–	–	–	(1)
At 26 March 2023	(44)	–	(3)	(12)	(25)	(50)	(74)	(208)
Disclosed as:								
Current	(10)	–	–	(12)	(3)	(38)	(66)	(129)
Non-current	(34)	–	(3)	–	(22)	(12)	(8)	(79)
At 26 March 2023	(44)	–	(3)	(12)	(25)	(50)	(74)	(208)
Disclosed as:								
Current	(8)	(52)	–	(70)	(5)	(39)	(2)	(176)
Non-current	(48)	–	(6)	–	(15)	(14)	(11)	(94)
At 27 March 2022	(56)	(52)	(6)	(70)	(20)	(53)	(13)	(270)

Specific items provisions**Industrial diseases**

The Group has a potential liability for industrial diseases claims relating to individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision 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 Group 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 6).

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.

Operating costs 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.

Other provisions mainly comprises £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.

25. Provisions (continued)

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

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

Below is a summary of the ageing profile of the provisions.

	At 26 March 2023					At 27 March 2022				
	Expected period of settlement					Expected period of settlement				
	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m
Specific items										
Industrial disease claims	(10)	(2)	(6)	(26)	(44)	(8)	(3)	(9)	(36)	(56)
Employee Free Shares – NI	–	–	–	–	–	–	–	–	–	–
Legacy property costs	–	–	–	(3)	(3)	–	–	–	(6)	(6)
Regulatory fine	–	–	–	–	–	(52)	–	–	–	(52)
Total	(10)	(2)	(6)	(29)	(47)	(60)	(3)	(9)	(42)	(114)
Operating costs										
Voluntary redundancy	(12)	–	–	–	(12)	(70)	–	–	–	(70)
Property decommissioning	(3)	(2)	(12)	(8)	(25)	(5)	(4)	(5)	(6)	(20)
Litigation claims	(38)	(11)	–	(1)	(50)	(39)	(11)	(3)	–	(53)
LTIP – NI	–	–	–	–	–	–	(1)	–	–	(1)
Employee benefits	(2)	(1)	(1)	(4)	(8)	(1)	(1)	(1)	(6)	(9)
Other	(64)	(1)	–	(1)	(66)	(1)	–	(1)	(1)	(3)
Total	(119)	(15)	(13)	(14)	(161)	(116)	(17)	(10)	(13)	(156)

26. Share capital and reserves

	At 26 March 2023 £m	At 27 March 2022 £m
Authorised and issued		
956,193,475 (2021-22: 956,193,475) ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 263,566 (2021-22: 2,265,008) shares are held by an Employee Benefit Trust (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury. The EBT is funded by the Company and has been consolidated within these Financial Statements.

Reserves included in the consolidated statement of changes in equity

Foreign currency translation reserve

The foreign currency translation reserve is used to record the gains and losses arising on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging reserve

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

Notes to the Consolidated Financial Statements continued

27. Commitments**Capital commitments**

The Group has commitments of £54 million (2021-22: £123 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 Group has £142 million of lease commitments (2021-22: £7 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.

28. 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 Group.

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.

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 6). 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.

29. Related party information**Related party transactions**

During the reporting year, the Group entered into transactions with related parties as follows:

	52 weeks 2023 £m	52 weeks 2022 £m
Recharges to:		
RMPP – Defined benefit pension plan (administration and investment service recharge)	7	6

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

29. Related party information (continued)

Key management compensation

	52 weeks 2023 £'000	52 weeks 2022 £'000
Short-term employee benefits	(3,907)	(4,094)
Post-employment benefits	(5)	(5)
Other long-term benefits	(170)	(346)
Share-based payments	(1,504)	(1,008)
Total	(5,586)	(5,453)

Key management are considered to be the Executive and Non-Executive Directors of International Distributions Services plc, plus a specific population of Persons Discharging Managerial Responsibilities. Remuneration relates to the period for which they are key management.

The ultimate parent and principal subsidiaries

International Distributions Services plc is the ultimate Parent Company of the Group. The Consolidated Financial Statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below. The reporting year end for these entities is 26 March 2023 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2023	% equity interest 2022
General Logistics Systems B.V. ¹	Parcel services holding company	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	UK	100	100
RMGLS Holdco Limited	Holding company	UK	100	100
RM Property and Facilities Solutions Limited	Facilities management	UK	100	100

¹ GLS' reporting year-end date is 31 March each year. There were no significant transactions in GLS between this date and the Group's financial reporting year end date of 26 March 2023.

The Company has complied with section 409 of the Companies Act 2006 by including, in these Financial Statements, a schedule of interests in all undertakings (see Note 31).

30. Events after the balance sheet date

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.

GLS acquisition in Germany

On 29 April 2023, GLS acquired 100% of the share capital of Versandmanufaktur GmbH, a German e-fulfilment business.

The initial purchase price was c.€9 million with further consideration payable depending on future performance. Acquisition costs were c.€0.3 million.

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.

Notes to the Consolidated Financial Statements continued

31. Related undertakings of International Distributions Services plc

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

Subsidiary undertakings included in the consolidation

Company name	Share class	% held by Group
Austria		
Traunhoferstrasse 105a, 4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	€1,090,092.51 Ordinary shares	100.000
Belgium		
Humaniteitslaan 233, 1620 Drogenbos, Belgium		
General Logistics Systems Belgium N.V.	€100.00 Ordinary shares	100.000
GLS Belgium Distribution S.A/N.V.	Ordinary shares, no par value	100.000
Canada		
10500 Ryan Avenue, Dorval, Quebec, H9P 2T7		
Dicom Dedicated Fleet, Inc. ¹	Common shares, no par value	100.000
1055, Hastings Street West, Suite 1700, Vancouver (British Columbia), V6E 2E9		
GLS Logistics Systems Canada Ltd.	Common shares, no par value	100.000
3400 7th Avenue SW, #350, Edmonton, Alberta, T2P 3N9		
A-Crop-Olis Warehousing Inc	Class A Common shares	100.000
Medicine Hat Express Inc	Class A Common shares	100.000
Mid-Nite Sun Transportation Ltd	Class A Common shares	100.000
Rosenau Transport Ltd	Class A Common shares	100.000
Wheels Transport Ltd	Class A Common shares	100.000
China		
Suite 2447, within Suite 2401, 24F, No.77, Jian Guo Rd, Chao Yang District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	–	100.000
Croatia		
Stupničke Šipkovine 22, 10255 Donji Stupnik, Croatia		
General Logistics Systems Croatia d.o.o	€100,869.33 Ordinary shares	100.000
Czech Republic		
Průmyslová 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic s.r.o	CZK2,970,000.00 Ordinary shares	100.000
	CZK30,000.00 Ordinary shares	100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
General Logistics Systems Express A/S	DKK1,000.00 Ordinary shares	100.000
Finland		
Rydöntie 6, 20360 Turku, Finland		
General Logistics Systems Finland Oy	€50.00 Ordinary shares	100.000
France		
14 Rue Michel Labrousse, CS 93730, 31037 Toulouse Cedex 01, France		
General Logistics Systems France S.A.S	€50.00 Ordinary shares	100.000
GLS Invest France S.A.S	€12.71 Ordinary shares	100.000

¹ Company dissolved on 30 March 2023

² Branch of GLS Belgium. No shares are issued or held.

31. Related undertakings of International Distributions Services plc (continued)

Company name	Share class	% held by Group
6 Rue des Bateliers, 92110 Clichy, France		
Tousfacteurs S.A.S	€1.00 Ordinary shares	100.000
Germany		
Dörrwiese 2, 36286 Neuenstein, Germany		
Der Kurier Beteiligungsgesellschaft GmbH	€25,000.00 Ordinary shares	100.000
Der Kurier GmbH & Co. KG	€2,561,572.32 Cash contribution	100.000
GLS Germany-Str. 1-7, 36286 Neuenstein, Germany		
General Logistics Systems Germany GmbH & Co. OHG	€47,968,004.75 Cash contribution	100.000
GLS IT Services GmbH	€127,822.97 Ordinary shares	100.000
GLS Beteiligungs GmbH	€7,720,507.41 Ordinary shares	100.000
GLS Verwaltungs-und Service GmbH	€153,387.56 Ordinary shares	100.000
GLS eCom Lab GmbH	€100,000.00 Ordinary shares	100.000
GLS Mobility Solutions GmbH	€100,000.00 Ordinary shares	100.000
Wendenstraße 349, 20537 Hamburg, Germany		
OverNight Express & Logistics GmbH (previously Overnight Services GmbH Vermittlung überregionaler Kurierdienste)	€25,565.00 Ordinary shares	100.000
Guernsey		
PO BOX 160, Dixcart House, St Peter Port, GY1 4EY, Guernsey		
Postcap (Guernsey) Limited	£1.00 Ordinary shares	100.000
Hungary		
GLS Európa utca 2, 2351 Alsónémedi, Hungary		
GLS General Logistics Systems Hungary Csomag-Logisztikai Kft.	HUF30,000,000.00 Ordinary shares	100.000
Ireland		
Unit 200 Northwest Business Park, Ballycoolin, Dublin D11 DK24, Ireland		
RM Financing Operations Limited	€1.00 Ordinary shares €1.00 Redeemable preference shares	100.000 100.000
General Logistics Systems Ireland Limited	€1.269738 Ordinary shares	100.000
Italy		
Via Basento No. 19, 20098 San Giuliano Milanese, Italy		
Agone S.r.L	€10,400.00 Ordinary shares	100.000
General Logistics Systems Enterprise S.r.L	€1,018,000.00 Ordinary shares	100.000
General Logistics Systems Italy S.p.A.	€0.52 Ordinary shares	100.000
Gruppo Executive Societa Consortile a.r.l	€0.51 Ordinary shares	84.22
Luxembourg		
Zae Op Zaemer 24, 4950 Bascharage, Luxembourg		
General Logistics Systems Belgium S.A. Succursale de Luxembourg ²	–	–
Morocco		
Place Roudani, Rue La Sena Résidence Beethoven II – 3ème étage, No. 82, 90000 Tanger, Morocco		
Tousfacteurs MA S.A.R.L.A.U.	MAD1,000.00 Ordinary shares	100.000
The Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, The Netherlands		

Notes to the Consolidated Financial Statements continued

31. Related undertakings of International Distributions Services plc (continued)

Company name	Share class	% held by Group
General Logistics Systems B.V.	€100.00 Common shares	100.000
Proostwetering 40, 3543 AG Utrecht, The Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Holding B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100.000
Poland		
Ul. Tęczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka zo.o	PLN1,721.00	100.000
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	€102,000.00 quota €97,900.00 quota €100.00 quota	100.000
Romania		
3, Str. Stefan cel Mare, Parcul Industrial Selimbar, 557260 Selimbar, Romania		
GLS General Logistics Systems Srl	RON100.00 Ordinary shares	100.000
Serbia		
27 Marta 11, Beograd – Palilula, Beograd		
General Logistics Systems Beograd d.o.o.	RSD11,738,000.00 Ordinary shares	100.000
Slovakia		
Budča 1039, 962 33 Budča, Slovakia		
GLS General Logistics Systems Slovakia s.r.o	SK98,604.00 Ordinary shares SK996.00 Ordinary shares	100.000 100.000
Slovenia		
Cesta v Prod 84, 1000 Ljubljana, Slovenia		
General Logistics Systems, logisticne storitve, d.o.o.	€751,127.00 Ordinary shares	100.000
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		
Distribuidora de Electrodomésticos Aceval, S.A.	€0.42 Ordinary shares	100.000
General Logistics Systems Spain S.A	€60.10 Ordinary shares	100.000
UK		
185 Farringdon Road, London, EC1A 1AA		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
RM 2022 Limited	£1.00 Ordinary shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited ³	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RMCPPT Trustees Limited	£1.00 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
RMSEPP Pensions Trustees (2050) Limited ⁴	£1.00 Ordinary shares	100.000

³ Limited by guarantee.⁴ Member managed company.

31. Related undertakings of International Distributions Services plc (continued)

Company name	Share class	% held by Group
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Group Limited	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000
RMGLS Holdco Limited	£1.00 Ordinary shares	100.000
RM Finance CAD Ltd	£1.00 Ordinary shares CAD1.00 Ordinary shares	100.000 100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited (formerly Romec Limited)	£1.00 Ordinary shares £1.00 B shares £1.00 C shares	98.040 0.980 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
US		
Registered Agent Solutions Inc.		
838 Walker Road, Suite 21-2 Dover, Delaware 19904, US		
General Logistics Systems North America Inc.	USD 0.001 Common stock	100.000
6750 South Longe Street, Suite 100 Stockton, CA 95206, USA		
General Logistics Systems US Interim, Inc	USD 1.00 Common stock	100.000
General Logistics Systems US, Inc	Common stock, no par value	100.000
GLS US Freight, Inc. (previously Mountain Valley Express Co, Inc.)	Common stock, no par value	100.000
GLS Solutions, Inc. (previously MVE Supply Chain Solutions, Inc.) ⁵	Common stock, no par value	100.000
Postal Express, Inc.	Common stock, no par value	100.000
9 East Loockerman Street, Suite 311, Dover, Delaware 19901, USA		
Dicom JD, LLC. ³	100 Shares, no par value	100.000

Associate undertakings

Company name	Share class	% held by Group
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Associates

United Kingdom

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 ³	—	20.000

Investments

Company name	Share class	% held by Group
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Investments

United Kingdom

Aviva, Wellington Row, York, North Yorkshire, YO90,1WR		
Voyager Park South Management Company Limited ³	Ordinary shares	5.500

⁵ Trades under the name Mountain Valley Freight Solutions.

International Distributions Services plc

Parent Company Financial Statements

Balance sheet

At 26 March 2023 and 27 March 2022

Registered number: 08680755

	Notes	At 26 March 2023 £m	At 27 March 2022 £m
Non-current assets			
Investment in subsidiaries	6	2,914	2,912
Intergroup and other receivables	7	615	611
Total non-current assets		3,529	3,523
Current liabilities			
Intergroup and other payables	8	(12)	(49)
Net current liabilities		(12)	(49)
Interest-bearing loans and borrowings	9	(922)	(872)
Net assets		2,595	2,602
Equity			
Share capital	10	10	10
Retained earnings		2,585	2,592
Total equity		2,595	2,602

The balance sheet was approved and authorised for issue by the Board of Directors on 22 May 2023 and signed on its behalf by:

Mick Jeavons

Chief Financial Officer

Statement of changes in equity

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Share capital £m	Retained earnings £m	Total equity £m
At 28 March 2021	10	2,074	2,084
Profit for the year	–	1,098	1,098
Share buyback	–	(201)	(201)
Purchase of own shares	–	(17)	(17)
Share-based payments	–	4	4
Dividend paid	–	(366)	(366)
At 27 March 2022	10	2,592	2,602
Profit for the year	–	118	118
Share-based payments	–	2	2
Dividend paid	–	(127)	(127)
At 26 March 2023	10	2,585	2,595

1. Parent Company accounting policies

Accounting reference date

The financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are prepared for the 52 weeks ended 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 year ended 26 March 2023 were authorised for issue by the Board of Directors on 22 May 2023. The Company is incorporated and domiciled in England and Wales.

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

The Company has not presented its own income statement, as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in Note 4 to these Parent Company Financial Statements.

Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ('UK-adopted IFRS') in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

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

Accounting policies

The accounting policies are consistent with those of the previous year except for an additional policy statement regarding intergroup receivables (see below).

Key sources of estimation uncertainty and critical accounting judgements

The carrying amount of the Parent Company's investments in, and amounts due from, subsidiaries are significant balances. The recoverability of the investments has been considered by management by reviewing the net assets of the relevant subsidiary (being an approximation of their minimum recoverable amount) and confirmed that they were in excess of the carrying value of the Parent Company's investment in that subsidiary at 26 March 2023 (see Note 6 below).

Investment in subsidiaries

The investment in subsidiaries is stated at cost, and includes deemed capital contributions arising from share-based payment transactions, less any accumulated impairment losses.

Intergroup receivables

Whilst they are repayable on demand, the interest-bearing intergroup loans are deemed to be non current assets for the year ended 26 March 2023, as the Company's intention at the balance sheet date is that the loans will not be settled by Royal Mail Group Limited or RMGLS Holdco Limited 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.

2. Directors' remuneration

The Directors of the Company are not paid any fees by the Company for their services as Directors of the Company. The Directors are paid fees by other companies of the Group. This remuneration is disclosed in the Group Consolidated Financial Statements (see Note 5) and in the Group Directors' Remuneration Report on pages 103 to 136.

International Distributions Services plc

Parent Company Financial Statements continued

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by other companies of the Group. This remuneration is disclosed in the Group Consolidated Financial Statements (see Note 4).

1 Exemption taken as equivalent disclosures are included within the Consolidated Financial Statements of International Distributions Services plc.

4. Income statement

The Company is a non-trading company. The profit for the year of £118 million (2021-22: profit of £1,098 million) is primarily the net sum of: a £nil dividend (2021-22: £781 million) received from Royal Mail Group Limited; a £127 million dividend received from RMGLS Holdco Limited (2021-22: £324 million); management charges to and from Royal Mail Group Limited; and net interest on the €500 million bond, the €550 million bond and intercompany balances with Royal Mail Group Limited. A loss of £50 million (2021-22: profit of £23 million) on retranslation of the bond liabilities and a profit of £50 million (2021-22: loss of £23 million) on the retranslation of intercompany balances with Royal Mail Group Limited has also been recognised in the year.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiaries

	At 26 March 2023 £m	At 27 March 2022 £m
Investment in RMGLS Holdco at 28 March 2022 and 29 March 2021	2,912	2,127
Distribution of RMGLS Holdco Limited to Royal Mail plc by Royal Mail Group Limited	—	781
Transfer of investment in Royal Mail Group Limited to RMGLS Holdco Limited	—	(2,127)
Issue of shares by RMGLS Holdco Limited to RM plc – settlement of Royal Mail Group Limited transfer	—	2,127
Charge for Employee Free Shares/LTIP/DSBP	2	4
Investment in RMGLS Holdco at 26 March 2023 and 27 March 2022	2,914	2,912

As a result of the impairment of the Royal Mail excluding Parcelforce Worldwide CGU, management has tested the Parent Company's investment in RMGLS Holdco and has determined that its recoverable amount is in excess of its carrying amount at 26 March 2023.

7. Intergroup and other receivables

This balance consists of intergroup loans of £483 million to Royal Mail Group Limited amounting to the proceeds from the issue of the €550 million bond (see note 9) and intergroup loans of £130 million to RMGLS Holdco Limited related to the proceeds from the issue of the €500 million bond (see note 9) offset by RMGLS Holdco limited funding the historic dividends and the share buyback programme in excess of dividends received by International Distributions Services plc. An additional £2 million (2021-22: £nil) relates to other receivables.

8. Intergroup and other payables

This balance comprises £nil (2021-22: £40 million) intergroup payables with Royal Mail Group Limited, £10 million (2021-22: £9 million) external interest payable and £2 million (2021-22: £nil) other payables.

9. Interest-bearing loans and borrowings

In July 2014, the Company issued €500 million 2.375% Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375%. In October 2019, the Company issued €550 million 1.25% Senior Fixed Rate Notes due October 2026 with a fixed annual interest coupon of 1.25%.

10. Share capital

	At 26 March 2023 £m	At 27 March 2022 £m
Authorised and issued		
956,193,475 (2021-22: 956,193,475) ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 263,566 (2021-22: 2,265,008) are held by an Employee Benefit Trustee (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury.

The EBT is funded by the Company and has been treated as an extension of the Company for accounting purposes within these Financial Statements.

Shareholder Information

Annual General Meeting

The 2023 AGM will be held on Thursday 20 July 2023. Full details of the business to be considered at the meeting will be included in the Notice of Annual General Meeting that will be sent to shareholders and published on our website at www.internationaldistributionsservices.com/investors/annual-general-meetings.

Final dividend

Given the performance of Royal Mail in 2022-23, and increased investment in GLS, the Board has decided not to pay a final dividend in respect of 2022-23.

Managing your shares online

Shareholders can register through Shareview, via a platform provided by the Company's registrars, to access shareholder information online at www.shareview.co.uk. This service allows you to:

- Manage your shares online.
- Receive notifications of new shareholder information by e-mail.
- Arrange dividend payments.
- Update personal records.

When registering, you will need to have your shareholder reference number which can be found on your share certificate, dividend voucher or AGM voting documents.

Be scam smart

Investment scams are designed to look like genuine investments.

Spot the warning signs

Have you been:

- Contacted out of the blue?
- Promised tempting returns and told the investment is safe?
- Called repeatedly?
- Told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

Avoid investment fraud

Reject cold calls

If you have received unsolicited contact about an investment opportunity, the chances are it is a high-risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

Check the FCA Warning List

The FCA Warning List is a list of firms the FCA has identified as operating without its authorisation.

Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Report a scam

If you suspect that you have been approached by fraudsters, please tell the FCA using the reporting form at www.fca.org.uk/consumers/report-scam-us. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk.

Find out more at www.fca.org.uk/scamsmart.

Remember: if it sounds too good to be true, it probably is.

Information for investors

Our website provides information for investors, such as trading updates, share price information, AGM and dividend information, shareholder FAQs and results and reports. The website can be accessed via www.internationaldistributionsservices.com/investors.

If you have any queries relating to your shareholding, you can also email shareholderquestions@royalmail.com.

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Independent auditor

KPMG LLP

Corporate brokers

Bank of America
Barclays Bank plc

Glossary of Alternative Performance Measures

Presentation of results and alternative performance measures (APMs)

The Group uses certain APMs in its financial reporting that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information.

These APMs are not a substitute for, or superior to, any IFRS measures of performance. They are used by Management, who considers them to be an important means of comparing performance period-on-period and are key measures used within the business for assessing performance.

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

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

Reported to adjusted results

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

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

Presentation of results

Consolidated reported and adjusted results

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

Group (£m)	52 weeks March 2023			52 weeks March 2022		
	Reported	Specific items and pension adjustment ¹	Adjusted	Reported	Specific items and pension adjustment ¹	Adjusted
Revenue	12,044	–	12,044	12,712	–	12,712
Operating costs	(12,248)	(133)	(12,115)	(12,128)	(174)	(11,954)
People costs	(6,573)	(133)	(6,440)	(6,665)	(174)	(6,491)
Non-people costs	(5,675)	–	(5,675)	(5,463)	–	(5,463)
Distribution and conveyance costs	(3,721)	–	(3,721)	(3,556)	–	(3,556)
Infrastructure costs	(1,178)	–	(1,178)	(1,059)	–	(1,059)
Other operating costs	(776)	–	(776)	(848)	–	(848)
Operating profit before specific items	(204)	(133)	(71)	584	(174)	758
Operating specific items ¹ :						
GLS VAT adjustments	(33)	(33)	–	–	–	–
Amortisation of intangible assets in acquisitions	(19)	(19)	–	(16)	(16)	–
Impairment charge	(539)	(539)	–	–	–	–
Damages claim	35	35	–	–	–	–
Legacy/other items	12	12	–	9	9	–
Operating profit	(748)	(677)	(71)	577	(181)	758
Profit on disposal of property, plant and equipment (non-operating specific item) ¹	6	6	–	72	72	–
(Loss)/profit before interest and tax	(742)	(671)	(71)	649	(109)	758
Finance costs	(60)	–	(60)	(57)	–	(57)
Finance income	21	–	21	6	–	6
Net pension interest (non-operating specific item) ¹	105	105	–	64	64	–
(Loss)/profit before tax	(676)	(566)	(110)	662	(45)	707
Tax credit/(charge)	(197)	(111)	(86)	(50)	62	(112)
(Loss)/profit for the period	(873)	(677)	(196)	612	17	595
(Loss)/Earnings per share (pence)						
Basic	(91.3p)	–	(20.5p)	61.7p	1.7p	60.0p
Diluted	(91.3p)	–	(20.5p)	61.4p	1.7p	59.7p

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

Glossary of Alternative Performance Measures continued

Segmental reported results

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

Group (£m)	52 weeks March 2023				52 weeks March 2022			
	Royal Mail	GLS	Intragroup eliminations	Group	Royal Mail	GLS	Intragroup eliminations	Group
Revenue	7,411	4,650	(17)	12,044	8,514	4,219	(21)	12,712
People costs	(5,542)	(1,031)	–	(6,573)	(5,757)	(908)	–	(6,665)
Non-people costs	(2,421)	(3,271)	17	(5,675)	(2,515)	(2,969)	21	(5,463)
Operating (loss)/profit before specific items	(552)	348	–	(204)	242	342	–	584
Operating specific items ¹	(492)	(52)	–	(544)	8	(15)	–	(7)
Operating (loss)/profit	(1,044)	296	–	(748)	250	327	–	577
Profit/(loss) on disposal of property, plant and equipment (non-operating specific item) ¹	5	1	–	6	71	1	–	72
Earnings before interest and tax	(1,039)	297	–	(742)	321	328	–	649
Net finance costs	(17)	(22)	–	(39)	(39)	(12)	–	(51)
Net pension interest (non-operating specific item) ¹	105	–	–	105	64	–	–	64
(Loss)/profit before tax	(951)	275	–	(676)	346	316	–	662
Tax credit/(charge)	(119)	(78)	–	(197)	24	(74)	–	(50)
(Loss)/profit for the period	(1,070)	197	–	(873)	370	242	–	612

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

Alternative Performance Measures

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

Adjusted operating (loss)/profit

This measure is based on reported operating profit excluding the pension charge to cash difference adjustment and operating specific items, which Management considers to be key adjustments in understanding the underlying profit of the Group at this level. These adjusted measures are reconciled to the reported results in the table in the paragraph 'Consolidated reported and adjusted results'. Definitions of the pension charge to cash difference adjustment, and operating specific items are provided below.

Adjusted operating (loss)/profit margin

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

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

EBITDA is a widely used profit measure, not defined by IFRS, being earnings before interest, taxation, depreciation and amortisation.

EBITDA is reported operating profit before specific items with depreciation and amortisation added back. Adjusted EBITDA is EBITDA before specific items with the pension charge to cash difference adjustment added back.

(£m)	52 weeks ended March 2023	52 weeks ended March 2022
Operating (loss)/profit	(748)	577
Add back specific items	544	7
Reported operating (loss)/profit before specific items	(204)	584
Depreciation and amortisation	602	540
EBITDA before specific items	398	1,124
Pension charge to cash difference adjustment	133	174
Adjusted EBITDA	531	1,298

Adjusted earnings per share

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

Adjusted people costs

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

Pension charge to cash difference adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge and the actual cash payments. Management reviews the performance of the business based on the cash cost of the pension plans in the adjusted operating loss/profit of the Group. For the DBCBS this represents the difference between the IAS 19 income statement pension charge rate of 22.9% (2021-22: 24.6%) for the DBCBS pension plan.

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.

Amortisation of intangible assets in acquisitions

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

Legacy/other items

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

Non-operating specific items

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

Profit/loss on disposal of property, plant and equipment

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

Free cash flow

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

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

(£m)	Reported 52 weeks March 2023	Reported 52 weeks March 2022
Net cash inflow before financing activities	48	401
Adjustments for:		
Finance costs paid	(61)	(56)
Movement in GLS client cash ¹	2	5
Net release of pension escrow investments	(8)	–
(Sale)/purchase of financial asset investments	(70)	70
Free cash flow	(89)	420
Capital element of operating lease repayments ²	(179)	(166)
Pre-IFRS 16 free cash flow	(268)	254

1. The movement in GLS client cash is shown excluding foreign currency exchange gain of £2 million (2021-22: Enil).

2. The capital element of lease payments of £202 million (2021-22: £192 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £179 million (2021-22: £166 million) and the capital element of finance lease payments of £23 million (2021-22: £26 million).

Alternative Performance Measures continued

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude movements in GLS client cash and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions, net finance payments and dividends received from associates. The prior period has been re-presented to reflect the re-allocation of deferred revenue (including SITHOP) into trading working capital (included within net cash inflow from operating activities). These balances were previously excluded from in-year trading cash flow as part of other working capital movements. In-year trading cash flow is used primarily by management to show cash being generated by operations less cash investment. In-year trading cash flow is also shown on a pre-IFRS 16 basis as it is used to support dividend cover analysis, taking into account all cash flows related to the operating businesses.

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

(£m)	Reported 52 weeks ended March 2023	Reported 52 weeks ended March 2022
Net cash (outflow)/inflow from operating activities	373	1,160
Adjustments for:		
Movement in GLS client cash ¹	2	5
Cash cost of operating specific items	53	4
Purchase of property, plant and equipment	(328)	(519)
Purchase of intangible assets	(93)	(84)
Dividends received from associates	—	5
Net finance costs paid	(41)	(52)
In-year trading cash flow	(34)	519
Capital element of operating lease repayments ²	(179)	(166)
Pre-IFRS 16 in-year trading cash flow	(213)	353

1. The movement in GLS client cash is shown excluding foreign currency exchange gain of £2 million (H1 2021-22: £nil).
2. The capital element of lease payments of £202 million (2021-22: £192 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £179 million (2021-22: £166 million) and the capital element of finance lease payments of £23 million (2021-22: £26 million).

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. It is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Details of the borrowing facilities in place and the amounts drawn can be found in Note 23 of the 2022-23 Annual Report and Financial Statements. Net debt is also shown on a pre-IFRS 16 basis as the banking covenants are calculated on a pre-IFRS 16 basis.

(£m)	At 26 March 2023	At 27 March 2022
Loans/bonds	(922)	(872)
Asset finance	(25)	—
Leases	(1,362)	(1,341)
Cash and cash equivalents ¹	773	1,101
Investments	—	70
GLS Client cash	36	36
Pension escrow (RMSEPP)	—	21
Net debt	(1,500)	(985)
Operating leases ²	1,319	1,292
Pre-IFRS 16 net (debt)/cash	(181)	307

1. Cash and cash equivalents includes bank overdrafts of £89 million at 26 March 2023 and £62 million at 27 March 2022 that are part of a cash pool for the UK companies which generally has a net £nil balance across the Group and forms an integral part of the Group's cash management.
2. This amount represents leases that would not have been recognised on the Balance Sheet prior to the adoption of IFRS 16.

Loans and bonds increased by £50 million, largely as a result of exchange rate movements on the value of bonds.

Cash and cash equivalents and Investments (net of bank overdrafts which are part of a cash pool) decreased by £398 million, largely as a result of free cash outflow of £89 million (2021-22: £420 million inflow), the payment of £127 million in external dividends (2021-22: £366 million) and by the capital element of lease repayments of £204 million (2021-22: £192 million). In 2021-22 there were also outflows relating to the share buyback (£201 million) and purchase of own shares for awards schemes (£17 million).

Net debt excludes £208 million (2021-22: £192 million) related to the RMPP and RMCP. Pension escrow investments on the balance sheet which are not considered to fall within the definition of net debt.

Adjusted effective tax rate

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

GLS performance presented in Euro

IDS plc financial statements are presented in Sterling, being the Group functional currency. However, given GLS strategic targets are set using Euros, GLS financial performance is presented in Euro as well as Sterling in order to aid transparency.

The reconciliation between the Group functional currency of Sterling and Euro are set out below

	52 weeks 2021-22		52 weeks 2021-22	
	GLS performance in Sterling	GLS performance in Euro	GLS performance in Sterling	GLS performance in Euro
Revenue	4,650	5,384	4,219	4,959
People costs	(1,031)	(1,194)	(908)	(1,067)
Non-people costs	(3,271)	(3,787)	(2,969)	(3,490)
Operating profit	348	403	342	402

GLS performance has been translated using an average exchange rate between Sterling and Euro of £1:€1.16 (2021-22: £1:€1.18). This has resulted in a £5 million increase in GLS reported operating profit before tax in 2022-23 (2021-22: £16 million decrease).

Forward-Looking Statements

Disclaimers

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

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

Deliberately blank

International
Distributions
Services plc



Royal Mail

GLS.