International Distributions Services plc

Full Year Results 2022-23

Connecting Customers, Companies and Countries

18 May 2023

UNAUDITED PRELIMINARY RESULTS FOR THE 52 WEEK PERIOD ENDED 26 MARCH 2023

Disclaimer

This presentation contains various oral and written statements and graphic representations (together, ‘forward-looking statements’) that reflect management's current views and projections with respect to future events and financial and operational performance. The words ‘target’, ‘objective’, ‘growing’, ‘scope’, ‘platform’, ‘future’, ‘forecast’, ‘expected’, ‘estimated’, ‘accelerating’, ‘expanding’, ‘continuing’, ‘potential’, ‘sustainable’ and similar expressions or variations on such expressions identify certain of these forward-looking statements.

Others can be identified from the context in which the statements or graphic representations are made. These forward-looking statements, as well as those included in any other material discussed as part of this presentation, involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond International Distributions Services Group’s control, and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements.

All statements (including forward-looking statements) contained herein are made as of the date of this presentation and International Distributions Services Group disclaims any obligation to update any forward-looking statements made in this presentation, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

This presentation does not contain or constitute an invitation, inducement or offer to underwrite, subscribe for, or otherwise acquire or dispose of any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

No part of this presentation should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever.

Agenda

Keith Williams

IDS Independent Non-Executive Chair

Mick Jeavons

IDS CFO

Martin Seidenberg

GLS CEO

Q&A

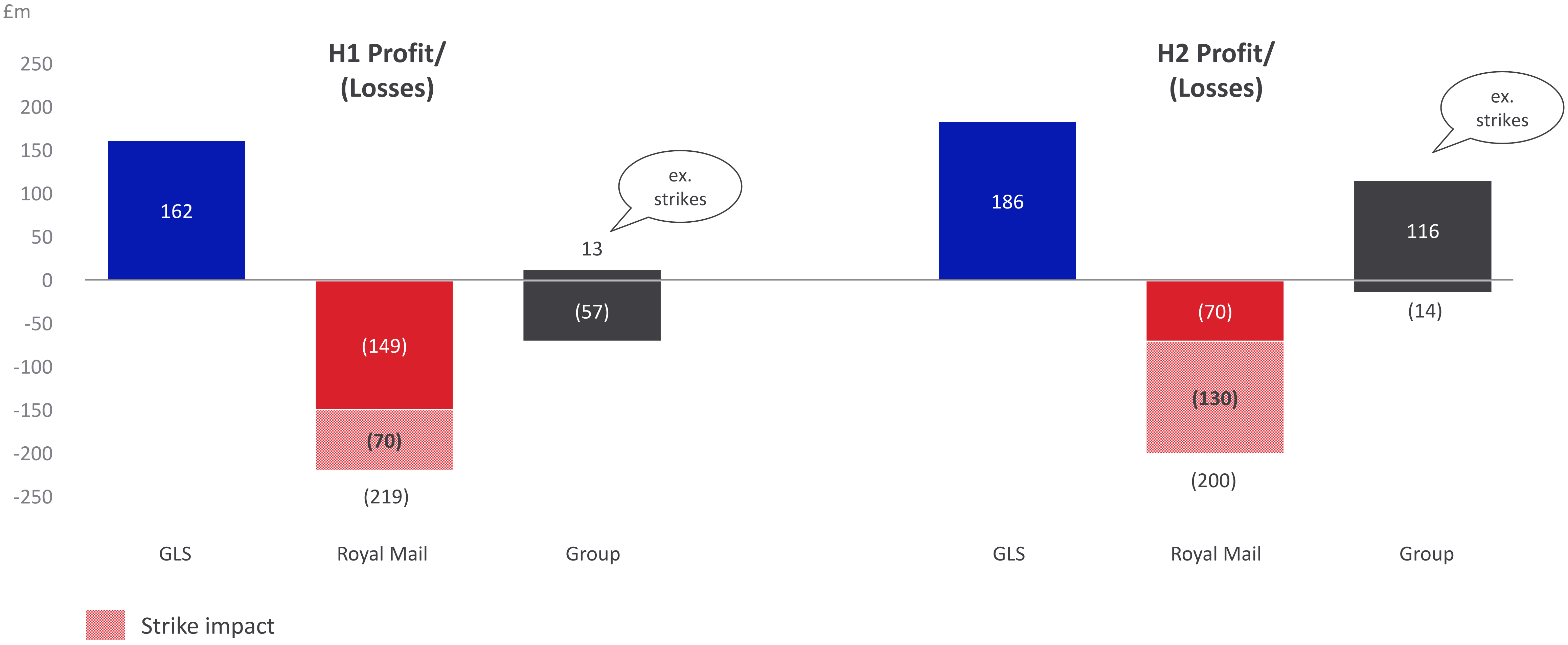
Introduction

Keith Williams
International Distributions Services plc
Independent Non-Executive Chair

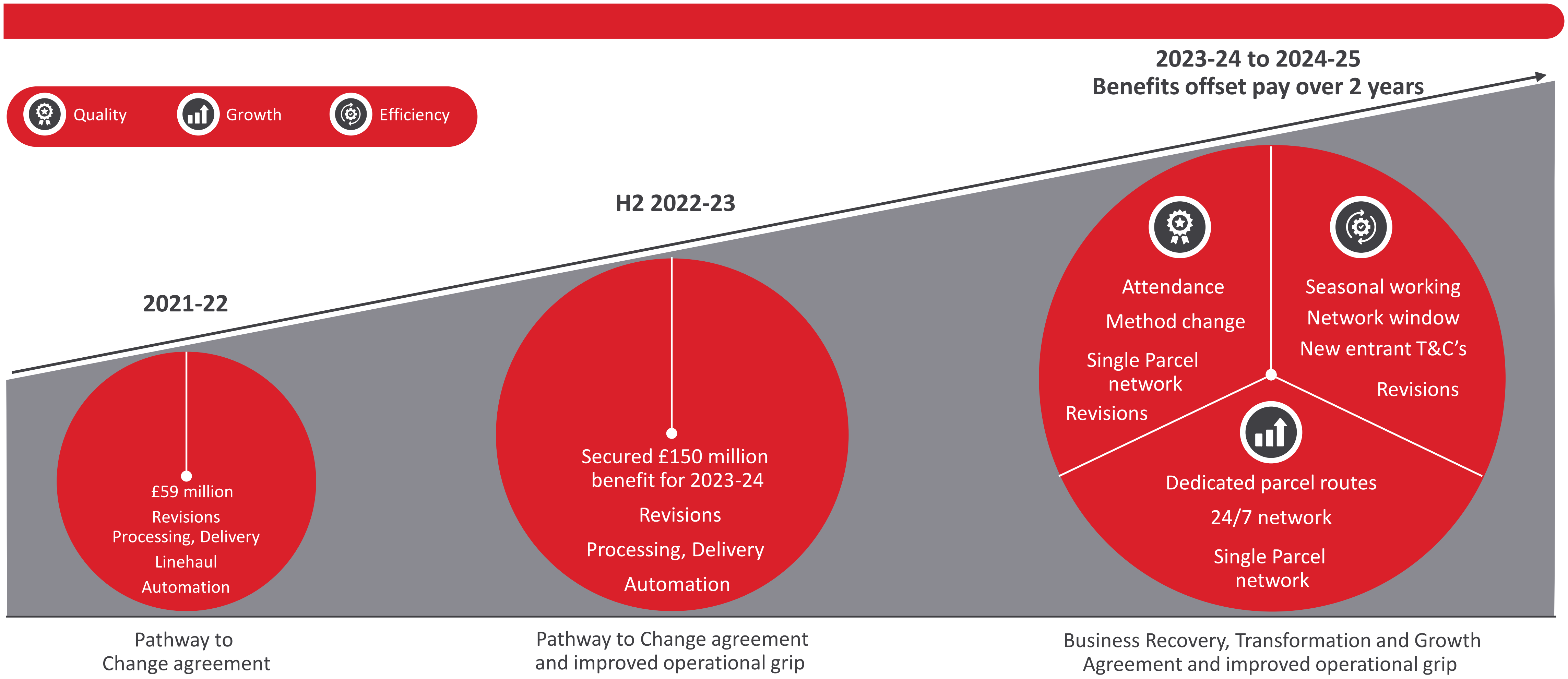
Summary – grounds for optimism

Half year	Full year
1 Business performance highlights we are at a crossroads	1 Business plan in place to move forwards
2 GLS’ balanced and flexible business model showing its resilience	2 GLS profit maintained through pricing offsetting cost inflation
3 Royal Mail’s lack of flexibility damaging both company and group	3 Royal Mail second half underlying performance improved
4 All options remain open to protect the value and prospects of the group, including separation	4 Essential to see delivery of business plan

Underlying position improving



Progress on transformation at Royal Mail

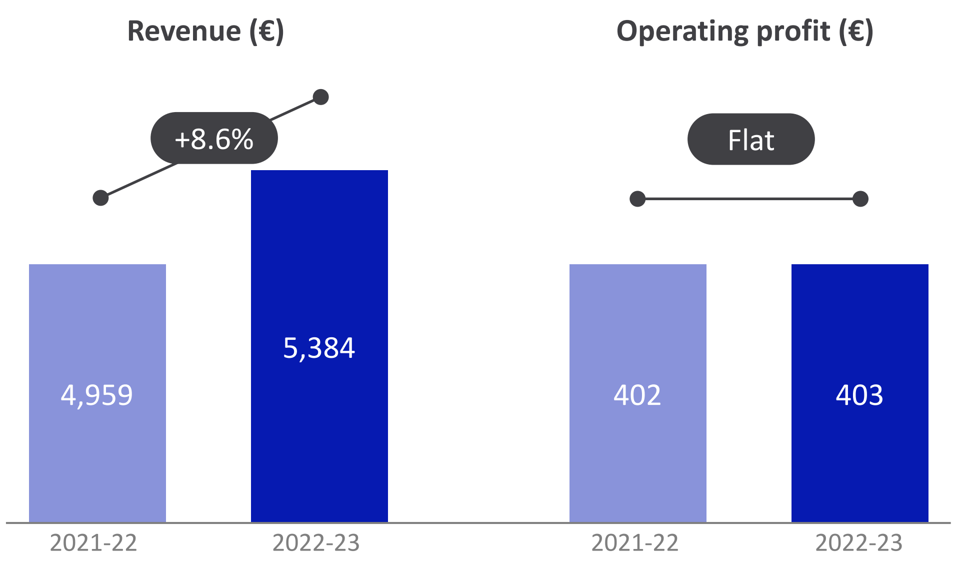


Investment in Transformation

	5 year history		2 year history		Looking ahead	
	Royal Mail	GLS	Royal Mail	GLS	Royal Mail	GLS
Capex	c. £1,400m	c. £680m	c. £700m	c. £310m	c. £200-£250m p.a.	5% revenue
Acquisition	-	c.£440m	-	c.£210m	-	✓
Opex	c. £750m	-	c. £300m	-	c. £120-150m p.a.	-

- Royal Mail investment in network hubs and automation largely complete, now need to leverage commercial opportunity
- GLS investment in strategic acquisitions plus investment in network and final mile. Returning to historic 3-4% of revenues within 2-3 years

GLS performing well



- Proven track record of achieving top line growth, solid margins and cash generation
- Good performance given the difficult economic backdrop
- Underperforming countries:
  - Spain delivering sustainable operating profits
  - France now breakeven
  - Taking further measures to improve our performance in the US
- Will continue to invest to become more global, digital and diverse
  - New markets
  - Final mile proposition, including lockers
  - New services
  - Will continue to look at good strategic investments

Note: GLS adjusted operating profit excludes specific items

Group balance sheet - strong

	Royal Mail	GLS	Corp. Centre	Group
Net Cash / Net Debt (pre-IFRS16)	**(203)**	**135**	**(113)**	**(181)**
Operating Leases	(897)	(422)	-	(1,319)
Net Debt (post-IFRS 16)	**(1,100)**	**(287)**	**(113)**	**(1,500)**

Group retained earnings £3.8 bn

Group liquidity £1.7 bn @ 26 March 2023

Business Plan to Beyond 2025

Adjusted operating (loss)/profit

[1] Underlying profits excludes investment in strategic initiatives
[2] Excluding Voluntary Redundancy

International Distributions Services plc

Full Year Results 2022-23

Mick Jeavons

International Distributions Services plc
CFO

2022-23 Group financial summary

	2022-23	2021-22	% change
Revenue (£m)	**12,044**	12,712	**(5.3)%**
Adjusted operating (loss)/profit (£m)	**(71)**	758	**(109.4)%**
Adjusted operating (loss)/profit margin	***(0.6%)***	*6.0%*	**(660)Bps**
Adjusted earnings per share (basic)	**(20.5)p**	60.0p	**N/A**
In-year trading cash flow (£m)			
Post-IFRS 16	**(34)**	519	**(106.6)%**
Pre-IFRS 16	**(213)**	353	**(160.3)%**
Reported operating (loss)/profit	**(748)**	577	**(229.6)%**
Net (debt)	**(1,500)**	(985)	**52.3%**
Net (debt)/cash pre-IFRS 16 (£m)	**(181)**	307	**(159.0%)**
Dividend per share[1]	**-**	20.0p	**N/A**

- Revenue fell 5.3% driven by challenging macroeconomic conditions and the prior period benefitting from COVID lockdowns. Royal Mail also adversely impacted by industrial action and lower test kit volumes
- Parcel revenue accounted for 71% of total revenue (2021-22: 71%)
- Royal Mail and GLS in very different situations
  - Group adjusted operating loss of £71 million, driven by £419 million loss in Royal Mail, only partially offset by £348 million profit in GLS
  - Carrying value of Royal Mail impaired to £900 million given ongoing impact of industrial disruption
  - In-year trading cash flow deterioration almost entirely due to poor trading performance in Royal Mail. Effective cash conservation measures during H2 in Royal Mail
  - Reported Group loss after tax includes impairment of £539 million and write-off of deferred tax asset in Royal Mail
- Balance sheet remains conservative, with net debt of £181 million (pre-IFRS 16). Available liquidity of £1.7 billion, including £925 million Revolving Credit Facility
- No final dividend for 2022-23

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. [1]Ordinary dividend only

Royal Mail results

		Adjusted		
		2022-23	2021-22	% change
Revenue	£m	**7,411**	8,514	**(13.0%)**
Operating costs	£m	**(7,830)**	(8,098)	**(3.3%)**
Operating (loss)/profit	£m	**(419)**	416	**(200.7)%**
Operating (loss)/profit margin	*%*	***(5.7%)***	*4.9%*	***(1,060)bps***
Total parcel volumes	m units	**1,205**	1,517	**(21%)**
Addressed letter volumes (excluding elections)	m units	**7,280**	7,961	**(9)%**

- Revenue decline driven by weakening online retail trends, lower COVID test kit volumes, the impact of industrial action and a return to structural decline in letters
- Parcel volumes down 21%; addressed letter volume down 9%
- Parcel revenue accounts for 53% of total Royal Mail revenue (2021-22: 56%)
- Operating loss excluding voluntary redundancy costs £386 million vs revised guidance in January 2023 of mid-point of £350 to £450 million loss.

£m	2022-23	2021-22
Adjusted EBITDA	**14**	813
Trading working capital movements	**(70)**	(36)
Gross capital expenditure[2]	**(269)**	(441)
Net finance costs paid	**(22)**	(41)
Other[1]	**2**	8
Income tax received/(paid)	**39**	(23)
In-year trading cash flow	**(306)**	280
Capital element of operating lease repayments	**(104)**	(102)
Pre-IFRS 16 in-year trading cash flow	**(410)**	178

- Adjusted EBITDA lower largely due to adverse trading performance
- Gross capex lower due to tighter cash management & £100 million reduction in capex in H2
- Tax receipts due to repayments in respect of prior years and patent box claim

Note: Adjusted results exclude specific items and the pension charge to cash difference [1] Other consists of dividend from associate undertaking £nil (2021-22: £5m) and Share based awards (LTIP and DSBP) charge adjustment £2m (2021-22: £3m). [2] Gross capital expenditure includes £14m for Estate Upgrade Programme

GLS results

£m	Adjusted 2022-23	Adjusted 2021-22	% change
Revenue	**4,650**	4,219	**10.2%**
Operating costs	**(4,302)**	(3,877)	**11.0%**
Operating profit	**348**	342	**1.8%**
Operating profit margin	***7.5%***	*8.1%*	**(60)bps**
Volumes (m)	**862**	870	**(1)%**
Average £1 = €	**1.16**	1.18	

- Excluding acquisitions, revenue was up 7.7% in Sterling (6.1% in Euros)
- Underlying revenue growth was driven by higher prices, including the benefit from higher fuel surcharges
- Volumes declined 1%, development impacted by unwinding of temporary benefits from COVID lockdown restrictions in the prior period and a general deterioration in economic conditions
- B2C volume share was 55%, in line with 2021-22

€m	Reported 2022-23	Reported 2021-22	% change
Revenue	**5,384**	4,959	**8.6%**
Operating costs	**(4,981)**	(4,557)	**9.3%**
Operating profit before specific items	**403**	402	**0.2%**
Operating specific items	**(59)**	(17)	**247.1%**
Operating profit	**344**	385	**(10.6)%**

- Operating profit development includes the benefit from acquisitions – principally the Rosenau transaction in Canada which completed 1 December 2021
- Operating profit margin of 7.5% was 60bps below prior year, due to operational cost pressures including general inflation and driver shortages across most markets
- Operating specific items include a cost of €39 million (£33 million) in relation to VAT in Italy covering the years 2016 to 2021

Note: GLS adjusted operating profit excludes specific items

GLS in-year trading cash flow

£m	2022-23	2021-22
Adjusted EBITDA[1]	**517**	485
Trading working capital movements	**18**	12
Gross capital expenditure	**(152)**	(162)
Net finance costs paid	**(19)**	(11)
Income tax paid	**(92)**	(85)
In-year trading cash flow	**272**	239
Capital element of operating lease repayments	**(75)**	(64)
Pre-IFRS 16 in-year trading cash flow	**197**	175

€m	2022-23	2021-22
Adjusted EBITDA[1]	**599**	570
Trading working capital movements	**21**	14
Gross capital expenditure	**(176)**	(190)
Net finance costs paid	**(22)**	(13)
Income tax paid	**(107)**	(100)
In-year trading cash flow	**315**	281
Capital element of operating lease repayments	**(87)**	(74)
Pre-IFRS 16 in-year trading cash flow	**228**	207

- GLS in-year trading cash flow remains robust and improved compared with prior year due to higher EBITDA, lower capital expenditure and good working capital development, partly mitigated by increased income tax payments and higher interest costs
- Higher income tax payments due to the Rosenau scope effect and timing of payments across other jurisdictions

[1] GLS adjusted EBITDA excludes specific items

Capital allocation

Group balance sheet - strong

	Royal Mail	GLS	Corp. Centre[1]	Group
Net Cash/Net Debt (pre-IFRS16)	**(203)**	**135**	**(113)**	**(181)**
Operating Leases	(897)	(422)	-	(1,319)
Net Debt (post-IFRS 16)	**(1,100)**	**(287)**	**(113)**	**(1,500)**

Group retained earnings £3.8 bn

Group liquidity £1.7 bn @ 26 March 2023

- Maintain conservative balance sheet - Board considers Group's current net debt position (pre-IFRS 16) is robust
- Disciplined capital allocation
- Uncertain outlook in Royal Mail has the Group on negative watch from BBB investment grade. Taken action to maintain liquidity and continue to target best possible rating
- Group has available liquidity of around £1.7 billion, including undrawn bank syndicate loan facility of £925 million
- Avoiding cross subsidy between the businesses, whilst appropriately supporting business strategies and priorities
  - Royal Mail will look to offset the negative impacts on cashflow from its trading losses with certain material real estate disposals
  - Increasing investment in GLS

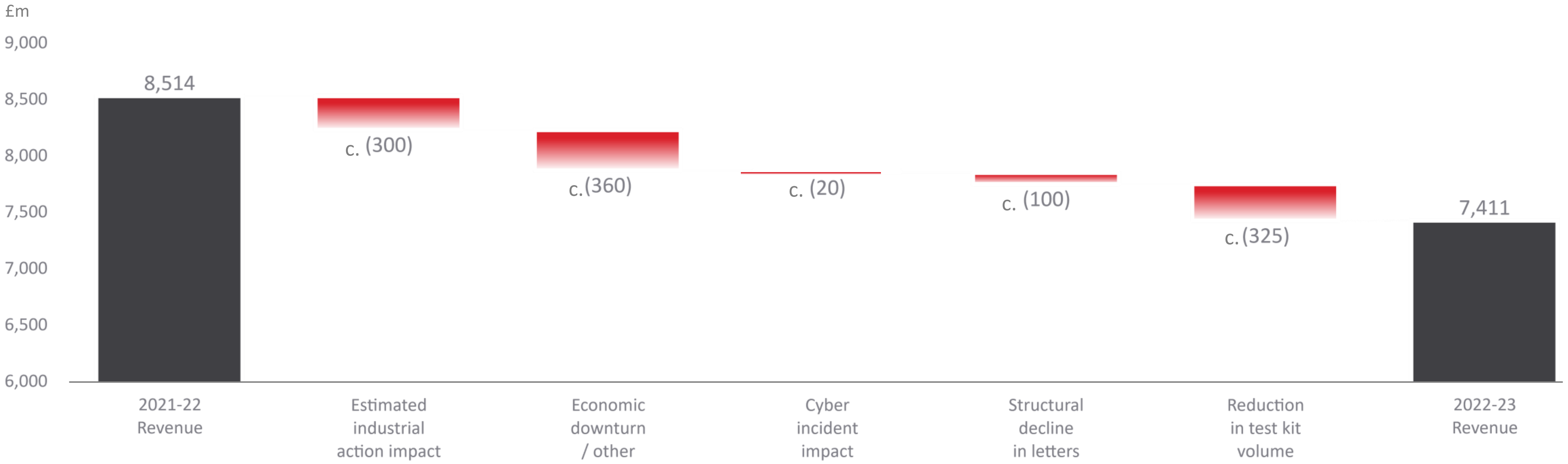
[1] Corp Centre includes International Distributions Services plc, RMGLS Holdco Limited, RM Finance CAD Limited and Postcap (Guernsey) Limited

Royal Mail

Key themes

1. Year on year revenue decline
2. Impact of industrial disruption
3. Progress on stabilisation - five point plan
4. Negotiators agreement with CWU
5. Implications for outlook

Year on year revenue decline



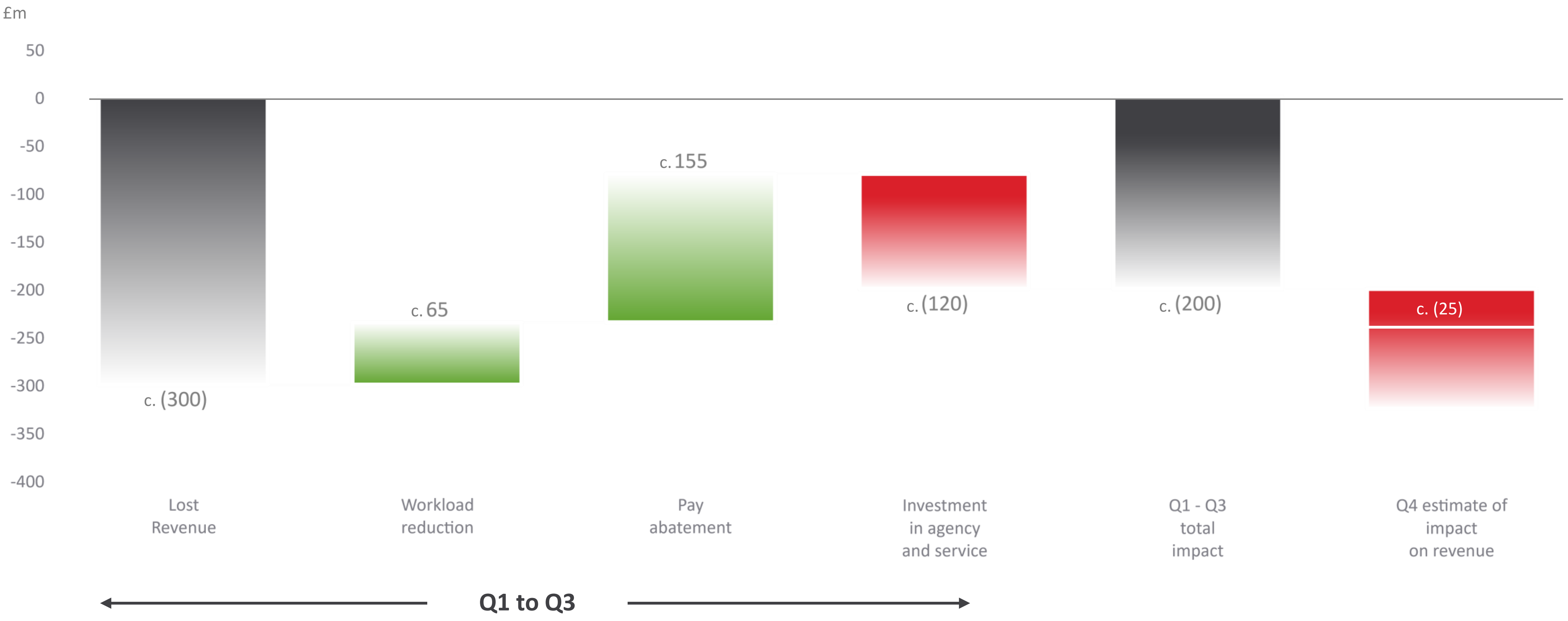
Parcels

- Total parcel volumes down 21%; revenue down 18.5%
- Domestic parcels (ex. International) volumes down 22%; revenue down 19.8%;
  - COVID test kits accounted for less than 1% of total parcel volumes (2021-22: c.7%)
- International volumes down 7% (cyber incident < 0.5%); revenue down 12.2%

Letters

- Addressed letter volumes (ex. elections) down 9%, reflecting a return to decline in the letters market following growth in 2020-21 immediately post lockdown
- Total letter revenue down 5.7%, reflecting above inflation price increases
- Business mail volumes down 5%, revenue up 4.6%; advertising letter volumes down 8% driven by macro environment

Estimated impact of industrial disruption 2022-23



Good progress on five-point plan to stabilise Royal Mail

1	Rightsizing our business	c. 10K FTE reduction by end March 2023[1] vs. March 2022, exceeding c. 5k target Revisions completed in every unit in Processing & Delivery Need to improve Quality of Service
2	Creating the headroom to invest	Tight management of cash, £100m capex saving versus our 2022-23 plan. Disposal of real estate
3	New resourcing models	New attendance policy from 1 August and new starters T&Cs
4	Efficient use of our network & assets	Scan in Scan Out and Dedicated Parcel Routes deployed. Midlands hub on track to open June 2023 Currently c. 80% parcel automation
5	Building management capability and effectiveness	Benefits of management re-organisation; 7,000 managers attended Academy

1. Frontline Full Time Equivalents (FTE) were 111.3k at the end of the year 2022-23, down 10.1k (8%) from 121.4k at the end of 2021-22

The proposed CWU deal is the best outcome for all stakeholders

The principle of joint working to successfully deploy change underpins the whole agreement

Key objectives:

1. Give certainty for employees over job security, pay, terms and conditions
2. Deliver the changes required to reduce the overall cost base and make RMG more competitive and agile
3. Deliver for customers on price, product and quality
4. Grow the business and build a successful future for employees, customers and all stakeholders
5. Allow employees to share in the future success of Royal Mail

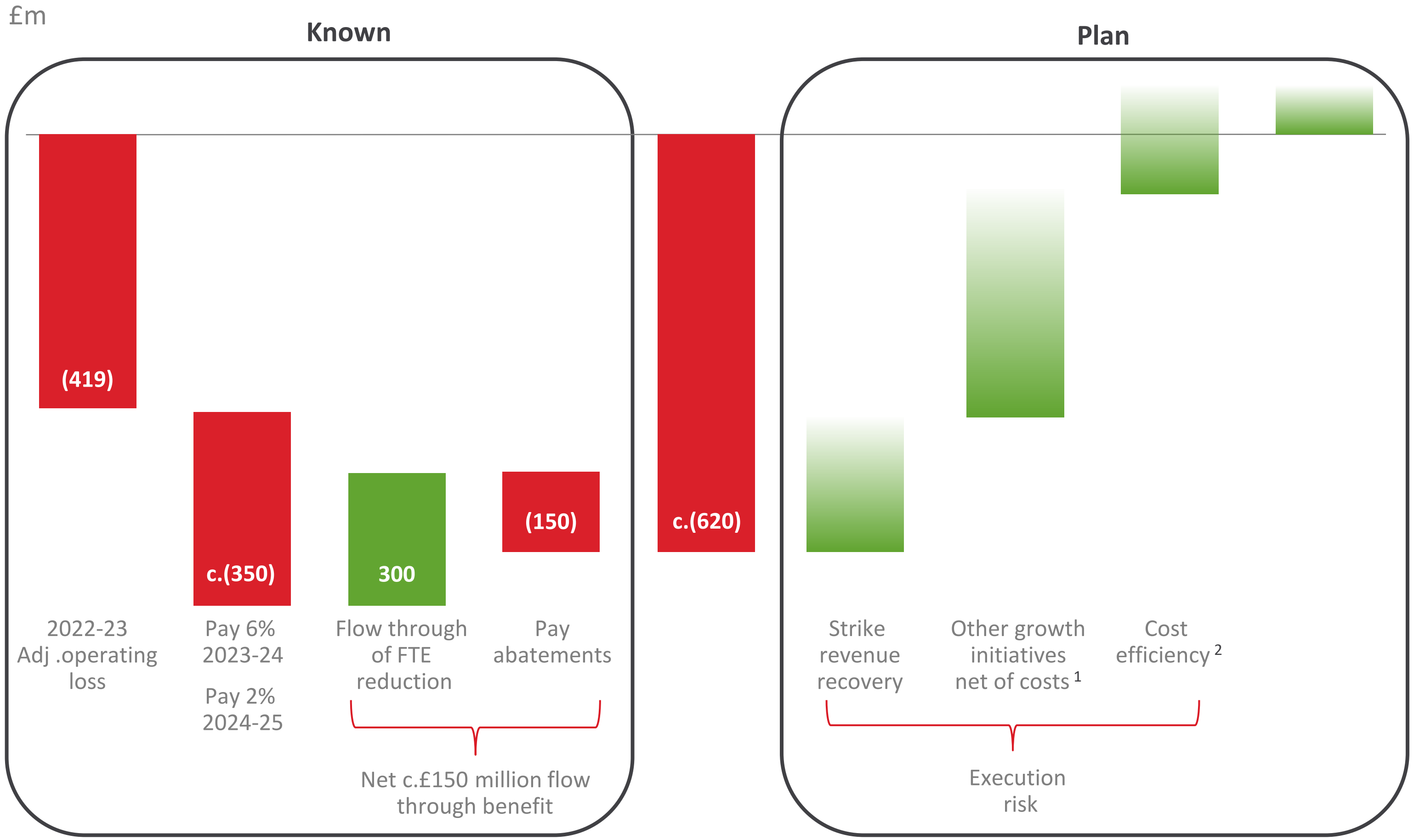
Pay	People
Sick / absence	Quality, Efficiency
Attendance	Quality, Efficiency
Performance management	Quality
Job security	Quality, People
Single Parcel Network	Growth, Quality
Indoor delivery method change	Growth, Quality, Efficiency
Seasonal hours & network window	Growth, Quality, Efficiency
New entrant T&C's	Efficiency
Dedicated parcel routes	Growth, Quality
Joint working on sustainable USO	Efficiency
Joint growth initiatives	Growth

Ballot 25 May to 14 June

Quality People Growth Efficiency

Royal Mail outlook

Royal Mail 2 year outlook to restore profitability



- Flow through impact of deal and change delivered in 2022-23 including pay, FTE reduction and abatements
- Revenue growth plans heavily reliant on restoration of Quality of Service
- Efficiency initiatives including method change, network window and sick/absence policy also improve quality
- Return to adjusted operating profit in 2024-25 targeted
- For 2023-24
  - H1 loss higher y-o-y due to cost of pay deal and lag in revenue recovery following industrial action
  - H2 significant improvement expected y-o-y as further savings initiatives deployed and impact of strikes in prior year lapped

Note: 1. Dedicated parcel routes 24/7 network, Single Parcel Network 2.Seasonal working, Network window, New Entrant T&C's, Revisions

Group summary

Key themes

1. 2022-23 adversely impacted by industrial action and macro-economic slowdown
2. Agreement with CWU enabling transformation of Royal Mail
3. Increasing investment in GLS
4. Liquidity position secured, separate net debt positions for RM and GLS now published
5. Return to Group profitability 2023-24

Martin Seidenberg
CEO GLS

Profit ahead of guidance - despite strong headwinds

- Volumes preserved despite sharp economic downturn
- Price increases successfully implemented
- Record inflation largely offset by management actions and impact from acquisitions
- Operating profit ahead of guidance and in line with prior year
- Margin remains significantly above pre-COVID levels

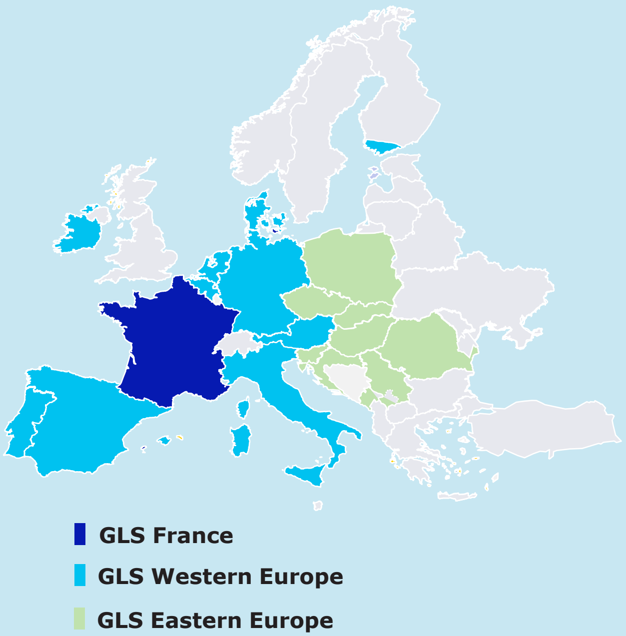
Current year performance	2021-22	2022-23	Change 23 vs 22
Parcels millions	870	862	**(1)%**
Revenue €m	4,959	5,384	**+8.6%**
Operating profit[1] €m	402	403	**+0.2%**
Margin %	8.1%	7.5%	**(60)bps**

[1]Operating profit excludes specific items.

Resilient performance across Europe

France: best results in over a decade

- Another important milestone in turnaround plan
- Business break-even after > 10 years of losses
- Firm yield management, cost control and benefits from automation
- Further medium-term potential
  - new central Paris hub late 2024
  - improved B2C proposition following digital start-up acquisition (Tousfacteurs)



Western Europe: resilient performance

- Resilient performance in Germany, Italy & Spain
- High quality supporting price initiatives

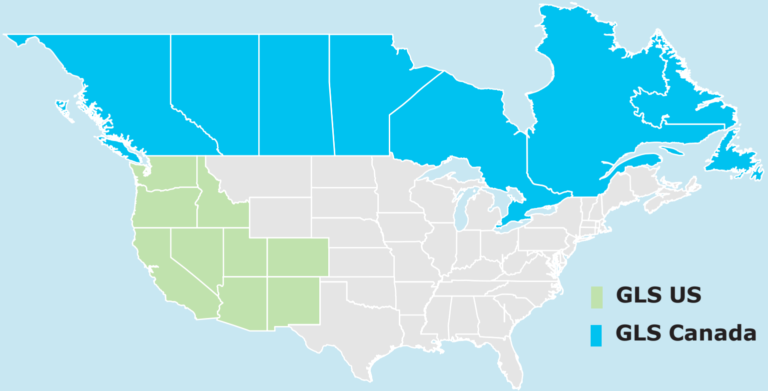
Eastern Europe: continued growth

- Volume and revenue growth
- Margin pressure due to high inflation and increased competition

Canada on track
Challenges in US

Canada: sustained improvement

- Rosenau performing well
- Synergies being secured
- Overall strong underlying profit improvement in Canada



US: underperforming

- Difficult market for all players
  - volume normalising post pandemic
  - driver & people shortages
- Focus on US turnaround
- Initiatives to improve financial performance in progress including right-sizing business
- Progress under constant review

GLS well positioned to continue positive trajectory

Leveraged business model

- Flexible subcontractor base
- Geographic diversification
- Balanced B2C/B2B portfolio

Relentless focus on business excellence

- Entrepreneurial culture
- Strong pricing approach
- Quality, efficiency and cost focus

Successful strategic initiatives

- Upgrading the network
- Growing the portfolio
- Transforming the last mile

Upgrading the network

- Investments in quality and efficiency
- Focus on automation and other productivity improvements
- New Madrid and Florence hubs opened during 2022-23
- Strong investment pipeline to upgrade or replace facilities
- Key projects underway in most markets (e.g. Dublin & Paris)

Diversifying the portfolio

- Extending GLS reach and capabilities to realise synergy potential
- Key initiatives in progress:
  - Greenfield market entry - Serbia
  - 2-person handling – Hungary
  - Fulfillment – Germany
- Short-term cost impact - delivering long term growth and benefits
- Increase volumes from China

Transforming the last mile

- Improvements to customer experience and efficiency ongoing
- Parcel lockers provide compelling opportunity in many markets
- Investments to be accelerated during 2023-24
  - more than 2k installations
  - c. €40 million capital expenditure
  - temporary profit impact
- Supported by continued digital initiatives
- Continue to develop and deploy sustainability concepts to reduce emissions

Market remains challenging in short term

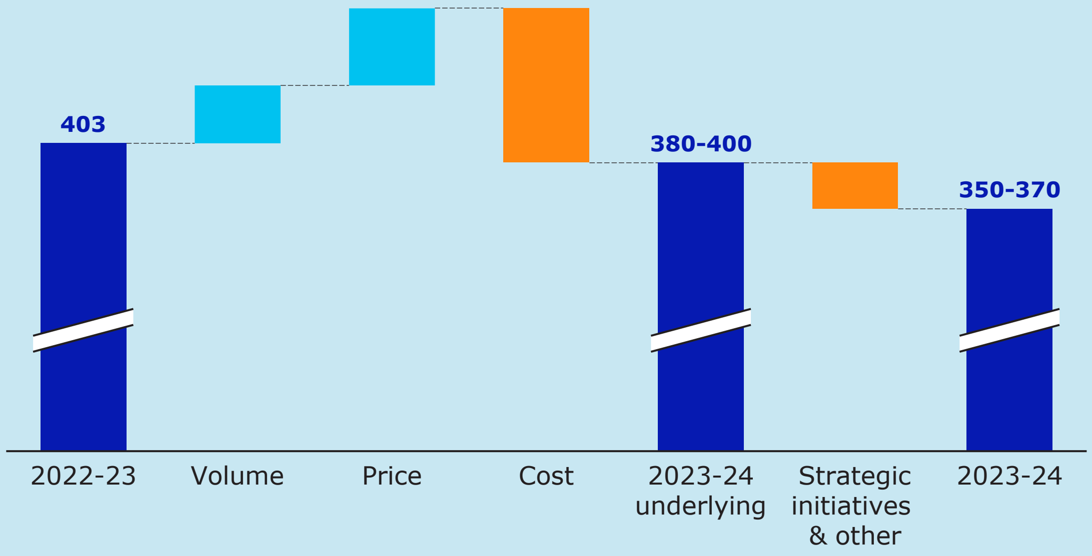
- Slow and fragile economic recovery
- High and sticky inflation
- Additional cost of business (e.g. (minimum) wage)
- Limited scope to increase price

Priorities to protect & grow

- Maintain cost and yield management discipline
- Move forward US turnaround plan
- Execute strategic initiatives to secure long-term
- Pursue opportunistic/synergetic M&A

2023-24 underlying performance broadly unchanged although temporary impact from initiatives

Operating profit[1] (€m)

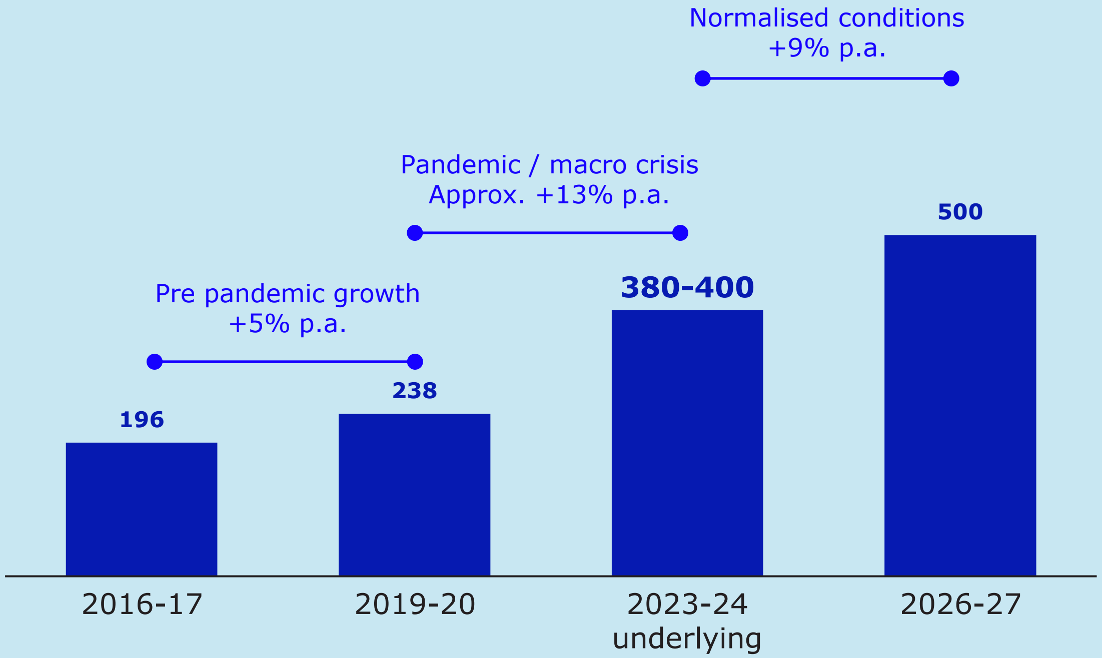


	Outlook 2023-24
Revenue Growth %	3-5%
Underlying operating profit €m	380-400
Operating profit[1] €m	350-370
Capital expenditure Revenue %	c.5%

[1]Operating profit excludes specific items.

Measures launched support pathway to €500m operating profit by 2026-27

Operating profit[1] (€m)



- Step change in profitability secured since COVID pandemic despite extreme macro pressures
- Return to normalized conditions now expected
- GLS targeting €500 million operating profit by 2026-27
- Profit improvement underpinned by strategic initiatives already underway
- Capital expenditure to converge to previous guidance range (3-4% of revenues) within 2-3 years

[1]Operating profit excludes specific items.

Performance

- Strong performance despite headwinds
- Successfully managed quality, pricing and costs

Direction

- Focus on delivering results
- Continue strategy execution and investments

Outlook

- Challenging environment in 2023-24
- GLS well positioned for future success

Q&A

Appendix

Specific items and pension adjustment

£m	2022-23	2021-22
GLS amortisation of intangible assets in acquisitions	**(19)**	(16)
GLS VAT adjustments	**(33)**	-
RM excl Parcelforce impairment	**(539)**	-
RM damages award	**35**	-
RM Legacy / other items	**12**	9
Total operating specific items	**(544)**	(7)
Profit/(loss) on disposal of property, plant & equipment	**6**	72
Net pension interest	**105**	64
Total non-operating specific items	**111**	136
Pension charge to cash difference adjustment (within people costs)	**(133)**	(174)
Total specific items and pension charge to cash difference adjustment	**(566)**	(45)

	2022-23	
£m	Reported	Adjusted
Loss before tax	(676)	(110)
Loss after tax	(873)	(196)
Earnings per share (basic)	(91.3)	(20.5)

- Amortisation of acquired intangible assets largely relates to acquisitions made by GLS in recent periods in Canada, Spain, the US and Italy
- GLS VAT adjustment relates to the expected settlement of VAT adjustments in Italy, covering the years 2016 to 2021
- RM Cash Generating Unit (which excludes Parcelforce Worldwide) impaired to a carrying value of £900 million
- The £35 million (2021-22: £nil) damages award follows a claim by Royal Mail against DAF Trucks Limited
- The legacy item comprises a £10 million credit in respect of Industrial Diseases claims, the credit is as a result of an increase in the discount rate versus the prior period. The prior year relates to largely the same item
- The profit on disposal of property, plant and equipment primarily relates to the sale of a number of Royal Mail properties. Prior year relates to the sale of Plots E, F and G at the Nine Elms development site
- The decrease in the pension charge to cash difference adjustment is due to the increase in the net discount rate (versus CPI) between March 2021 and March 2022

Commodity exposure

Percentage of forecast volume hedged in Royal Mail as at 26 March 2023

	2023-24	2024-25	2025-26
Diesel (%)	82	41	-
Inland Jet (%)	89	29	-
Gas (%)	84	43	-
Electricity (%)	100	21	-

- Royal Mail operates a layered rolling approach to hedging its larger commodity exposure up to 36 months in advance of physical purchase
- The aim of the hedging programmes is to provide Royal Mail with a high degree of certainty over its forecast volume cost
- The programme has been in place for a number of years and covers diesel, inland jet and gas which are fixed via financial derivatives
- The price of Royal Mail's electricity has been fixed via a long-term supply contract on which the fixing ends in March 2024
- Fuel costs for GLS are mainly managed indirectly via negotiations with subcontractors. Electricity and gas costs at GLS are not hedged

Pensions summary

Defined benefit £m	26 March 2023	
	Legacy RMPP[1]	DBCBS[2]
Assets	7,604	1,652
Accounting liabilities	(4,601)	(1,797)
Surplus/(deficit) before IFRIC14 adjustment	**3,003**	**(145)**

Defined Benefit

- The legacy RMPP section shows a surplus of £3,003 million on an accounting basis. This valuation is for accounting purposes only and could not be recovered by the Group
- The RMPP Section and DBCBS Section are well funded. The RMPP Section had an actuarial funding surpluses of £661 million at the last triennial valuation at 31st March 2021. The DBCBS had an estimated funding surplus of £40 million at 31st March 2023
- The legacy Royal Mail Senior Executive Pension Plan (RMSEPP) which closed to accrual in 2012 was fully bought out in the period and is expected to be wound up in the coming months

Collective Pension Plan

- The Group aims to introduce a new scheme, the Royal Mail Collective Pension Plan (RMCPP) which will comprise a Collective Defined Contribution (CDC) section and a Defined Benefit Lump Sum (DBLS) section. The Trustee's application to the Pensions Regulator for authorisation as a CDC plan has been approved. However, further changes are needed to regulation before RMCPP can be launched
- The total employer contributions will be fixed at 13.6% of pensionable pay plus an additional 1% for employees who choose to save for an additional lump sum
- 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 RMCPP is now expected to increase cash pay costs by c.£30-35 million per annum, based on the prior year's payroll, 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

[1]Legacy Section of the Royal Mail Pension Plan
[2]Defined Benefit Cash Balance Section

Pensions

Total income statement charge

£m		2022-23	2021-22
RMPP[1]		**(11)**	(15)
DBCBS		**(374)**	(426)
RMDCP[2]		**(124)**	(116)
GLS		**(9)**	(9)
PSE[3]		**(174)**	(181)
Total EBIT pension costs		**(692)**	(747)
Pension interest credit[4]		**105**	64
Total net PBT pension costs		**(587)**	(683)
Pensionable payroll (£bn)	DBCBS	**1.6**	1.7
Income statement rate	DBCBS[5]	**22.9%**	24.6%
	RMDCP[6]	**8.9%**	8.9%
Number of active members	DBCBS	**c. 65,500**	c. 70,600
	RMDCP	**C. 57,300**	c. 60,900

Pension cash costs

£m	2022-23	2021-22
DBCBS	**(252)**	**(267)**
RMDCP[2]	**(124)**	**(116)**
GLS	**(9)**	**(9)**
PSE[3]	**(174)**	**(181)**
Income statement cash costs	**(559)**	(573)

		2022-23	2021-22
Pensionable payroll (£bn)	DBCBS	**1.6**	**1.7**
Cash rate	DBCBS	**15.6%**	**15.6%**
	RMDCP[6]	**8.9%**	**8.9%**

[1] Comprises pension administration costs of £11m (2021-22: £9m pension administration costs and a £6m past service cost relating to historic GMP liabilities) 2 Excludes £13m insurance premium costs (2021-22: £12m) which are included in wages and salaries costs.
[3] Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay.
[4] Non-operating specific item. 5 Rate determined by real discount rate at end of March based on longer term RPI and appropriate AA corporate bond rates at the time
[6] Average employer contribution rate for the period, excluding benefits.

Group tax

£m	Reported 2022-23			Adjusted 2022-23		
	Royal Mail	GLS	Group	Royal Mail	GLS	Group
Profit/(Loss) before tax	(951)	275	(676)	(436)	326	(110)
Tax credit/(charge)	(119)	(78)	(197)	(4)	(82)	(86)
Effective tax rate "ETR"	**N/A**	**28.4%**	**N/A**	**N/A**	**25.2%**	**N/A**
Cash tax (payments)/receipts	39	(92)	(53)	N/A	N/A	N/A

Income statement tax

Royal Mail

- There is uncertainty about the future profitability of Royal Mail and therefore the deferred tax assets of £115 million have been written off to specific items. The effect of non-recognition of deferred tax assets is the predominant factor for Royal Mail and Group ETRs.

GLS

- **Adjusted ETR:** higher than 2021-22 (23.6%) mainly due to higher losses in the US for which no deferred tax credit is recognised.
- **Reported ETR**: is higher than the adjusted rate due to the settlement of VAT adjustments in Italy for which no tax relief arises.

Cash tax

Royal Mail

- Cash tax receipt (£23 million payment in 2021-22) in relation to the repayment of tax overpaid in previous years, mainly as a result of the settlement of the patent box dispute.

GLS

- Cash tax payments are higher than 2021-22 (£85 million) mainly due to catch up payments in respect of the prior year and an increase in cash tax in Canada following the acquisition of Rosenau Transport.

Group in-year trading cash flow and capital expenditure

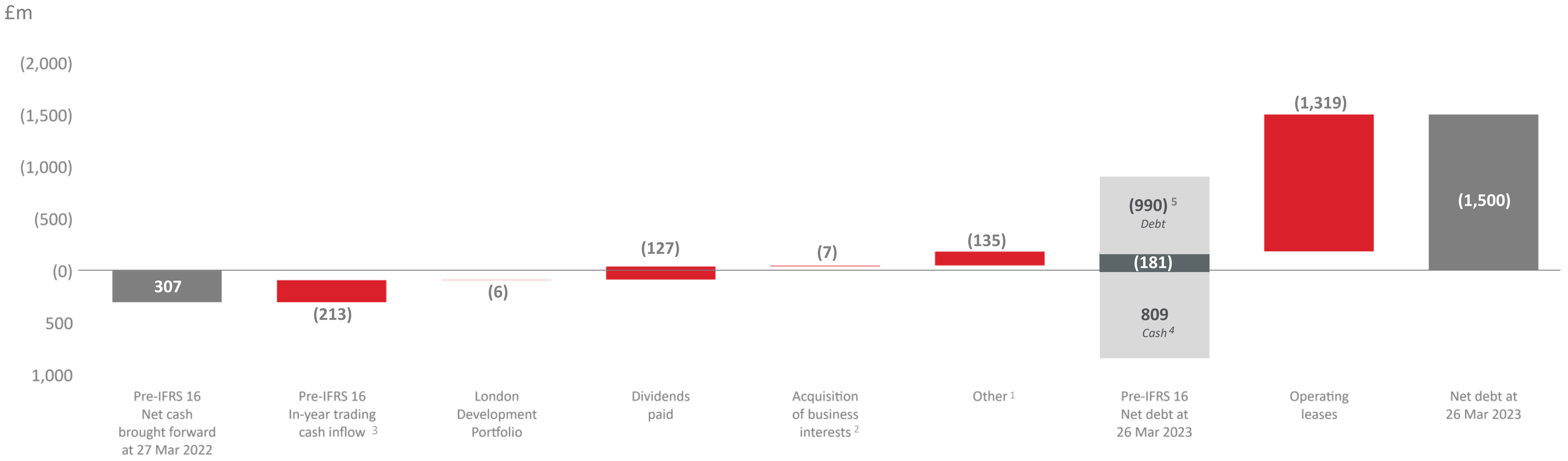
£m	2022-23	2021-22
Adjusted EBITDA	**531**	1,298
Trading working capital movements	**(52)**	(24)
Gross capital expenditure	**(407)**	(603)
Estate Upgrade Programme[1]	**(14)**	-
Net finance costs paid	**(41)**	(52)
Other[2]	**2**	8
Income tax paid	**(53)**	(108)
In-year trading cash flow	**(34)**	519
Capital element of operating lease repayments	**(179)**	(166)
Pre-IFRS 16 in-year trading cash flow	**(213)**	353
Attributable to Royal Mail	**(410)**	178
Attributable to GLS	**197**	175

£m	2022-23	2021-22
GLS capex	**(152)**	(162)
Royal Mail transformation capex	**(127)**	(205)
Royal Mail maintenance capex	**(128)**	(236)
Gross capex	**(407)**	(603)

- Pre-IFRS 16 in-year trading cash flow is a £213 million outflow
- Lower adjusted EBITDA due to reduced profitability of Royal Mail
- Trading working capital outflow driven by Royal Mail
- Royal Mail transformation capex relates largely to investment in parcel Super Hubs and automation. Royal Mail maintenance capex reduced because the prior year included spend on a PDA refresh which was a one-off programme
- Income tax paid £55 million lower mainly due to a receipt in Royal Mail from HMRC following an agreement on patent box claims

[1] 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. [2] Other consists of Dividend from associate undertaking £nil (2021-22: £5m) and Share based awards (LTIP and DSBP) charge adjustment £2m (2021-22: £3m).

Net cash/(debt)



- Net debt position on a pre-IFRS 16 basis of £181 million as at 26 March 2023
- Operating lease obligations of £1,319 million. New/increased operating lease obligations during the period of £188 million, of which £139 million relates to properties. Lease obligations have also increased as a result of vehicle and plant/machinery additions
- S&P BBB rating affirmed; outlook updated to negative

[1] Other comprises of proceeds from operating asset disposals +£11m, cash cost of operating specific items -£53m, movement in GLS client cash (excluding revaluation) -£2m, foreign exchange movement excluding operating lease foreign exchange movements -£35m, purchase of Pensions Escrow investments -£13m and new finance leases (non cash) -£43m; [2] Acquisition of business interests includes -£5m GLS acquisition of Tousfacteurs -£3m deferred consideration for other GLS acquisitions and +£1m inflow in relation to prior year acquisition of Rosenau Transport. [3] Includes capital element of operating lease repayments
[4] Cash Includes £36m of GLS client cash and -£89m bank overdrafts that are part of a cash pool for the UK companies which has a net nil balance across the Group and forms an integral part of the Group's cash management. [5] Includes Bonds of -£922m and finance leases of -£68m

Net debt and capital allocation

Net debt split by business area

£m	Royal Mail	GLS	Corp Centre[1]	Group
		2022-23		
Bonds	-	-	(922)	(922)
Asset finance		(25)		(25)
Finance Leases	(32)	(11)	-	(43)
Cash and cash equivalents[2]	445	326	2	773
GLS 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 (post-IFRS 16)	**(1,100)**	**(287)**	**(113)**	**(1,500)**

[1] Corp Centre includes International Distributions Services plc, RMGLS Holdco Limited, RM Finance CAD Limited and Postcap (Guernsey) Limited [2] Cash and cash equivalents includes bank overdrafts of -£89m at 26 March 2023 and -£62m at 27 March 2022 that are part of a cash pool for the UK companies which has a net nil balance across the Group and forms an integral part of the Group's cash management

Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
500m Euro bond[1]	2.5%	440	440	2024
550m Euro bond[2]	2.7%	482	482	2026
Bank syndicate loan facility[3]	SONIA+CAS +0.475%	925	-	2026
Asset finance	2.1%	25	25	2025
Total		**1,872**	**947**	

- S&P reaffirmed investment grade rating of BBB and revised outlook to negative
- Bank syndicate loan facility covenants amended on 24th March 2023 to replace Group EBITDA in the covenant calculations with GLS EBITDA in the covenants tests for March 2023, September 2023 and March 2024 before reverting to Group EBITDA from September 2024 onwards.
- On 9 May 2023, IDS secured a backstop facility of €500 million 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. As at the balance sheet date, this facility was undrawn.

Net debt[4]

£m	26 March 2023	27 March 2022
Bonds	**(922)**	(872)
Asset finance	**(25)**	-
Leases[5]	**(1,362)**	(1,341)
Cash and cash equivalents[6]	**773**	1,171
GLS client cash	**36**	36
Pension escrow (RMSEPP)	**-**	21
Net debt	**(1,500)**	(985)

- Cash and cash equivalents decreased by £398 million, largely as a result of free cash outflow of £122 million, capital element of lease repayments £202 million[7] and the payment of £127 million in external dividends
- Net debt increased also due to new/amended leases of £204 million and new asset finance to fund the purchase of tangible fixed assets in GLS
- Bonds increased due to exchange rate movement against Sterling

[1] €500m liabilities net of discount and fees at spot rate £1/€1.136 revalued at balance sheet date [2] €550m liabilities net of discount and fees at spot rate £1/€1.136 revalued at balance sheet date [3] The total margin over SONIA consists of a 0.40% margin plus Credit Adjustment Spread (using ISDA published 5 year historical mean on the fixing date 5 March 2021) and a utilisation fee of 0.075% (when the facility is under one third drawn). Interest is compounded daily and a credit adjustment spread (CAS) of between 0.0% and 0.3% is added [4] Net debt excludes £208m related to RMPP and RMCPP pension escrow investments which are not considered to fall within definition of net debt [5] Includes £1,319m operating leases at 26 March 2023 [6] Includes current asset investments of £nil at 26 March 2023 and £70m at 27 March 2022 Cash. Includes bank overdrafts of -£89m at 26 March 2023 and -£62m at 27 March 2022 that are part of a cash pool for the UK companies which has a net nil balance across the Group and forms an integral part of the Group's cash management [7] The capital element of lease payments is made up of the capital element of operating lease payments of £179 million and the capital element of finance lease payments of £23 million.

International Distributions Services plc