International Distributions Services plc

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the company's obligations under Article 17 of MAR

International Distributions Services plc
18 May 2023

INTERNATIONAL DISTRIBUTIONS SERVICES plc
UNAUDITED PRELIMINARY RESULTS FOR THE 52 WEEK PERIOD ENDED 26 MARCH 2023

Reported measures (£m)[1]	52 weeks ended March 2023	52 weeks ended March 2022	Change[2]
Revenue	**12,044**	12,712	(5.3)%
Operating (loss)/profit	**(748)**	577	(229.6)%
- Royal Mail	**(1,044)**	250	(517.6)%
- GLS	**296**	327	(9.5)%
Basic (loss)/earnings per share (pence)	**(91.3p)**	61.7p	(248.0)%
Adjusted measures (£m)[1]			
Operating (loss)/profit	**(71)**	758	(109.4)%
Operating margin (%)	***(0.6%)***	*6.0%*	*(660)bps*
(Loss)/profit before tax	**(110)**	707	(115.6)%
Basic (loss)/earnings per share (pence)	**(20.5p)**	60.0p	(134.2)%
In year trading cash (out)/in flow	**(34)**	519	(106.6)%
Pre-IFRS16 in-year trading cash (out)/in flow	**(213)**	353	(160.3)%
Net debt	**(1,500)**	(985)	52.3%
Net (debt) / cash (pre-IFRS 16)	**(181)**	307	(159.0)%

Summary segmental results[1]

	Revenue			Adjusted operating (loss) / profit		
(£m)	52 weeks ended March 2023	52 weeks ended March 2022	Change[2]	52 weeks ended March 2023	52 weeks ended March 2022	Change[2]
Royal Mail	**7,411**	8,514	(13.0)%	**(419)**	416	(200.7)%
GLS	**4,650**	4,219	10.2%	**348**	342	1.8%
Intragroup	**(17)**	(21)	(19.0)%	**–**	–	–
Group	**12,044**	12,712	(5.3)%	**(71)**	758	(109.4)%

Key points:

- Group reported operating loss of £748 million (2021-22: £577 million profit), comprised of loss in Royal Mail of £1,044 million (2021-22: £250 million profit) and a profit in GLS of £296 million (2021-22: £327 million profit).
- Royal Mail adjusted operating loss of £419 million (2021-22: £416 million profit) due to industrial action, inability to deliver the in-year benefits of planned productivity improvements, lower test kit volumes and a weaker online retail market, partly offset by successful management actions to reduce costs and rightsize the business in the second half of the year.
  - Excluding voluntary redundancy charges, adjusted operating loss of £386 million, in line with revised guidance.
- GLS adjusted operating profit of £348 million, up 1.8% year-on-year (0.2% in Euros), with 7.5% adjusted operating profit margin (down 60 basis points), slightly ahead of consensus.
- Impairment charge of £539 million as carrying value of Royal Mail reduced to £900 million given the current risk backdrop and ongoing industrial dispute.
- Royal Mail:
  - Delivering on change - good progress on five-point plan: revisions now fully deployed, c.10k reduction in FTE (Full Time Equivalent) at end March 2023, exceeding target of c.5k, delivering £150 million benefit in 2023-24, rolled out dedicated parcel hubs and Midlands Super Hub on track to open in June 2023.
  - Pay & Change agreement ratified by CWU Postal Executive Committee and recommended to members. Creates platform for the next phase of stabilising the business whilst continuing to drive efficiency and change, improve quality of service

  - and competitiveness, and reduce cost and environmental impact. Cumulative pay increases for next two years funded by operational change efficiencies.
  - Quality of service performance disappointing, impacted by industrial action and higher levels of absence. Improvement plan is underway.
  - Universal Service Obligation (USO) requires major reform. We urge the Government to work with us to protect the long-term sustainability of the one-price-goes-anywhere Universal Service.
- GLS:
  - Resilient trading through a combination of pricing actions, quality of service, targeted efficiency measures and impact from acquisitions. Prior year investments in automation and digitalisation helped mitigate cost pressures. Flexible business model, balanced B2C and B2B portfolio, and diversified geographic exposure continue to underpin performance.
  - Continuing to invest in growth, efficiency, diversification and digitalisation through the cycle.
- Despite increase in net debt, balance sheet remains strong with pre-IFRS16 net debt of £181 million (2021-22: £307 million net cash) and liquidity of £1.7 billion.
- Dividend: Given the performance of Royal Mail and increasing investment in GLS, Board is not recommending a final dividend.
- Outlook: Targeting Group adjusted operating profit in 2023-24:
- Royal Mail: 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.
  - Benefits of CWU agreement offset pay costs over two years.
  - Revenue growth initiatives reliant on quality of service improvement.
  - H1 2023-24 adjusted operating loss expected to be higher year on year. H2 expected to see significant year on year improvement, due to revenue recovery and efficiency initiatives as well as lapping main impacts of industrial disruption.
  - Targeting 2023-24 in year trading cash outflows to be offset with proceeds from real estate disposals.
  - Extent of progress dependent on improvement in service quality and delivery of change in operations.
- GLS 2023-24:
  - Revenue growth year on year in Euros expected to be in the 3 to 5% range.
  - Strategic initiatives such as the accelerated roll-out of parcel lockers, Serbia start-up costs and entry into new adjacent service areas such as 2-person handling, will place downward pressure on operating profit. However, these initiatives will enable growth opportunities to be captured and lay the platform for long term margin expansion. These initiatives, together with adverse working days effects, are expected to result in a temporary reduction in adjusted operating profit to between €350 to €370 million.
  - Underlying adjusted operating profit, excluding strategic investments and working day effects, expected to be in the range €380 to €400 million - only slightly below the 2022-23 outturn - despite challenging macroeconomic conditions.
  - Short term uplift in capex, to approx. 5% of sales, returning to historic 3-4% within 2-3 years.
  - Target €500 million adjusted operating profit in 2026-27.

Volume and revenue

Revenue (£m)	**52 weeks ended March 2023**	52 weeks ended March 2022	52 weeks ended March 2020	% change[2] 2023 vs 2022	% change[2] 2023 vs 2020
Group[3]	**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 (ex. international)[4]	**3,226**	4,021	2,831	(19.8)%	14.0%
International Parcels[5]	**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 ended March 2023**	52 weeks ended March 2022	52 weeks ended March 2020	% change[2] 2023 vs 2022	% change[2] 2023 vs 2020
Royal Mail					
Total Parcels	**1,205**	1,517	1,312	(21)%	(8)%
Domestic Parcels (ex. international)[4]	**1,064**	1,365	1,039	(22)%	2%
International Parcels[5]	**141**	152	273	(7)%	(48)%
Addressed letters (ex. elections)	**7,280**	7,961	9,703	(9)%	(25)%
GLS	**862**	870	667	(1)%	29%

Keith Williams, Independent Non-Executive Chair, commented:
"*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."

Martin Seidenberg, Chief Executive, GLS added:

"GLS delivered a robust financial performance despite challenging macro-economic headwinds that impacted our sector, in particular cost inflation. This was achieved through a combination of price, quality of service and targeted efficiency measures underpinned by our flexible operating model, balanced B2C and B2B portfolio and diversified geographic exposure.

"We have the right model and the right strategy and are continuing to invest in our networks and portfolio to deliver long-term growth, and margin expansion."

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 in the APM section and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group' functional currency of Sterling and Euro) are provided where appropriate.
2. All percentage changes reflect the movement between figures as presented, unless otherwise stated.
3. 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).
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.
6. As referenced in Royal Mail's ESG Report 2021-22, page 9.
7. 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).

Results presentation

A results presentation for analysts and institutional investors will be held at 9:00am today, Thursday 18 May 2023 at Bank of America, 2 King Edward St, London EC1A 1H. The meeting will also be webcast at https://www.internationaldistributionsservices.com/en/investors/financial-results-presentations.

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The person responsible for arranging the release of this announcement on behalf of IDS plc is Mark Amsden, Company Secretary.

Financial Calendar

Q1 Trading update and Annual General Meeting	20 July 2023

GROUP REVIEW: INDEPENDENT NON-EXECUTIVE CHAIR

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.

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 companies[6] 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 €500 million 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 basis[1] (2021-22: £577 million profit) reflecting the impairment charge in Royal Mail in addition to business performance during the year. Group adjusted operating loss[1] 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 today, 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.

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-economic 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.

ROYAL MAIL OPERATING AND STRATEGIC REVIEW

Operating Review

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 that during the year in the domestic parcels market 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 the 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)[4] decreased by 19.8%, reflecting volume declines partially offset by price increases and mix.

International parcel volumes[5], including import and export parcels for Royal Mail and Parcelforce Worldwide, were down 7% year-on-year, a result of the global economic situation and to a lesser extent, the cyber incident in January 2023. International parcel revenue[5] 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.

Strategic Review

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.

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.

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 action[7]), against our target of 93%. On second class we delivered 90.7% within three working days (95.2% adjusted for the impact of strike action), vs. a 98.5% target.

Improving quality is a key focus and we need to change the way we manage absences as well as gear our operations towards better management of larger parcels through our dedicated parcel hubs, and adapting to the change of traffic mix, with more parcels and fewer letters. The Business Recovery, Transformation and Growth Agreement will allow us to do just that, through changes to indoor delivery methods, designed to ensure we can spend more time outdoors delivering for our customers, along with continued revisions to allocate work more fairly and better balance resource with mail volumes. Improving quality will help to underpin the growth of our business, which is an important way for us to generate efficiencies in a network of our scale and make ourselves more competitive.

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

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

We know customers increasingly value a lower environmental impact for their deliveries. "Steps to Zero" is our environment strategy to achieve net zero by 2040 and reduce our average emissions per parcel to 50gCO_2e 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. More detail is in the ESG Review section of the Annual Report, which will be published in June 2023.

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 CO_2 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.

GLS OPERATING AND STRATEGIC REVIEW

Operating Review

We continued to make good progress on our 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 APM section), 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-economic 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.

Strategic Review

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.

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		
There is extensive trade union representation across our UK workforce, with strong and active trade unions. **One or more material disagreements or disputes could result in widespread localised or national industrial action.** **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.**	**Stable risk** 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. 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. Any further industrial action would cause significant damage to the UK business, necessitate further job losses and make the deal unaffordable. Going forward, there are risks over the improvement of industrial relations to ensure effective execution of the agreement and business transformation.	• 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.

Risk	Status	Controls and actions to mitigate
2. Failure to reduce our operational cost base (previously 'Failure to reduce our cost base') – High risk		
We must become more efficient and agile to compete effectively in the parcel and letter markets. **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.** **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.**	**Stable risk** 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. 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. 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. 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.	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: • 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. The effective implementation of the Business Recovery Transformation and Growth Agreement is key in delivering operational efficiencies. In GLS, actions include: • Accelerating GLS' productivity initiatives. • Reviewing the operational efficiency of GLS' networks.

Risk	Status	Controls and actions to mitigate
3. Economic and political environment – High risk		
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.	**Stable risk** 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. Weakening consumer confidence and demand due to a squeeze on household incomes and discretionary spending has impacted revenue growth. 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.	• 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		
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. **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.** **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.**	**Stable risk** 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. 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. 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. 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.	• 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.

Risk	Status	Controls and actions to mitigate
5. Customer expectations and our responsiveness to market changes – High risk		
Failure to deliver against existing and changing customer needs and expectations (including quality of service) could impact the demand for our products and services. **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.**	**Stable risk** 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. 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.	We are responding to market changes and becoming more customer centric. Royal Mail is: • 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. GLS is: • Delivering sustainable growth and customer innovation through the GLS strategy.
6. Talent: workforce for the future – Moderate risk		
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. **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.** **A high level of employee trust and engagement is essential if we are to deliver Royal Mail's transformation and growth strategy.** **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.**	**Stable risk** 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. 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. 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. 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.	Royal Mail: • 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. GLS: • 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		
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).	**New risk** 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. 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). The previous 'UK Regulatory Framework' risk has been removed as the framework has now been set by Ofcom for the next five years.	• 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		
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. **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.** **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.** **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.**	**Stable risk** 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. 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. We are committed to implementing the TCFD recommendations and have made progress during the year on our ongoing TCFD implementation project.	• 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. • 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.

Risk	Status	Controls and actions to mitigate
9. Actual or suspected breaches of material law and/or regulation – Moderate risk		
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.	**Stable risk** There continues to be a focus on controls in relation to material laws and regulations for which the Group must comply. 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. 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. 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. Following publication of our USO QoS for 2022-23, Ofcom has now opened a full investigation.	• 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		
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.	**Stable risk** 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. 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). 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.	• 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		
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. **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.**	**Stable risk** The health, safety and wellbeing of our people, customers and members of the public is of paramount importance. 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. Whilst health and safety risks can be assessed and controlled, the risk of harm to people cannot be eradicated. 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.	• 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.
12. Failure to manage liquidity – Low risk for IDS plc but represents a material risk for Royal Mail Group Ltd		
There is a risk that the Group fails to secure ongoing access to finance. **The decline in the macro-economic environment, high inflation and impact of industrial action has adversely affected Royal Mail's sales volumes and revenue. This has driven operating losses and trading cash outflows in that subsidiary. As a result, there is a risk that the Royal Mail fails to secure ongoing access to finance and/or is unable to manage working capital and cash to support the ongoing running of, and investment in the Royal Mail business.**	**New risk** 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. 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. 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.	Royal Mail Group Ltd: • 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 exploring leasing options. • Implementing sustainable pricing changes and initiatives to recover revenue. IDS Group plc: • 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.

Key: Change in risk score :

- Stable risk = No significant change year on year

Financial Review

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 flow[4]			**(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)

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 in the section entitled 'Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group' functional currency of Sterling and Euro) are provided where appropriate.
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 in the section entitled 'Alternative Performance Measures'.
3. Intragroup revenue and costs represent trading between Royal Mail and GLS, principally a result of Parcelforce Worldwide operating as GLS' partner in the UK.
4. Pre-IFRS16 in-year trading cash flow is a non-GAAP measure

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, 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 Note 5 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).

	52 weeks ending March			% change[2]	% change[2]
Revenue (£m)	**2023**	2022	2020	2023 vs 2022	2023 vs 2020
Group[4]	**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 2023	2022	2020	% change[2] 2023 vs 2022	% change[2] 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.

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.

Adjusted operating costs[2]

(£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 in the section entitled 'Alternative Performance Measures'

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 charge 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 Royal Mail Strategic Review) and 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 USO QoS 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 – GLS[7]

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.

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 adjustments 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 5 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 adjustments 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 the expected settlement 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 flow[1]

	52 weeks ending March 2023			52 weeks ending March 2022		
(£m)	**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 section entitled 'Specific items and pension charge to cash difference adjustment'] and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group' 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 £202million (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).

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 higher 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 debt[1]

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)/cash[14]	**(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 in the section entitled 'Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS (and in the case of GLS reconciliations between the Group' 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 RMCPP 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 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.

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: • Meet all obligations, including pensions. • Manage future risks, including the principal risks.	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). 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. 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. 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.

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.	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). 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). 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.
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.	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. The gross capital investments of GLS were £152 million (2021-22: £162 million).
Maintain suitable financial leverage	Retain sufficient leverage, commensurate with the Board's assessment of the risk environment.	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. During the year, the Group made dividend payments of £127 million (2021-22: £366 million including a special dividend of £199 million). The net debt position (pre-IFRS 16) at 26 March 2023 was £181 million (2021-22: net cash £307 million).

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 2023-24; 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 sub-contractors, and therefore is not significantly directly exposed to higher fuel costs. Nevertheless, there is an indirect exposure, as increasing fuel costs for sub-contractors 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 are 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.

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 9 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.

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 • Customer expectations and our responsiveness to market changes • Business continuity and operational resilience
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.	• 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 • Failure to reduce our cost base • Customer expectations and our responsiveness to market changes
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.	• 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 • Business continuity and operational resilience
Assumptions:	• Cyber breach impacting revenue collection.	
Scenario:	• Increase in attrition of key roles.	• Talent: workforce for the future
Assumptions:	• Recruitment costs, interim resource and higher salaries.	

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.

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.

Consolidated Income Statement

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Notes	**Unaudited Reported 52 weeks 2023 £m**	Reported 52 weeks 2022 £m
Continuing operations			
Revenue	2	**12,044**	12,712
Operating costs[1]	3	**(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 items[2]		**(204)**	584
Operating specific items	4/10	**(544)**	(7)
Operating (loss)/profit		**(748)**	577
Profit on disposal of property, plant and equipment (non-operating specific item)[2]	4	**6**	72
(Loss)/profit before interest and tax		**(742)**	649
Finance costs		**(60)**	(57)
Finance income		**21**	6
Net pension interest (non-operating specific item)[2]	4/9	**105**	64
(Loss)/profit before tax		**(676)**	662
Tax charge	6	**(197)**	(50)
(Loss)/profit for the year		**(873)**	612
Earnings per share			
Basic	7	**(91.3)**	61.7p
Diluted	7	**(91.3)**	61.4p

1 Operating costs are stated before operating specific items.

2 For further details on APMs used, see the section entitled 'Alternative Performance Measures'

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Notes	**Unaudited 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	9	**413**	(181)
Remeasurement (losses)/gains of the defined benefit surplus in RMPP and RMSEPP	9(c)	**(1,285)**	457
Remeasurement gains of the defined benefit deficit in DBCBS	9(d)	**378**	172
Deferred tax associated with DBCBS	6	**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	6	**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	**Unaudited Reported at 26 March 2023 £m**	Re-presented[1] Reported at 27 March 2022 £m
Non-current assets			
Property, plant and equipment		**3,298**	3,571
Goodwill		**445**	428
Intangible assets		**304**	488
Investments in associates		**1**	1
Financial assets			
Pension escrow investments		**208**	213
Derivatives		**3**	30
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	9	**1,957**	2,723
Other receivables	9	**13**	94
Deferred tax assets	6	**10**	116
		6,239	7,664
Assets held for sale		**4**	–
Current assets			
Inventories		**42**	34
Trade and other receivables		**1,590**	1,659
Income tax receivable		**20**	41
Financial assets			
Investments		**–**	70
Derivatives		**23**	74
Cash and cash equivalents[1]		**898**	1,199
		2,573	3,077
Total assets		**8,816**	10,741
Current liabilities			
Trade and other payables		**(2,144)**	(2,332)
Financial liabilities			
Interest-bearing loans and borrowings		**(3)**	-
Lease liabilities		**(220)**	(213)
Derivatives		**(13)**	(8)
Income tax payable		**(5)**	(10)
Provisions	10	**(129)**	(176)
Bank overdrafts[1]		**(89)**	(62)
		(2,603)	(2,801)

	Notes	Unaudited 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		**(944)**	(872)
Lease liabilities		**(1,142)**	(1,128)
Derivatives		**(22)**	(36)
DBCBS retirement benefit deficit	9	**(145)**	(390)
Provisions	10	**(79)**	(94)
Other payables		**(24)**	(32)
Deferred tax liabilities	6	**(55)**	(54)
		(2,411)	(2,606)
Total liabilities		**(5,014)**	(5,407)
Net assets		**3,802**	5,334
Equity			
Share capital		**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.

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					
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					
Employee Free Shares issue	**–**	**1**	**–**	**–**	**1**
LTIP	**–**	**1**	**–**	**–**	**1**
Tax charge on share-based payments	**–**	**(1)**	**–**	**–**	**(1)**
Unaudited Reported at 26 March 2023	**10**	**3,761**	**32**	**(1)**	**3,802**

Consolidated Statement of Cash Flows

For the 52 weeks ended 26 March 2023 and 52 weeks ended 27 March 2022

	Notes	**Unaudited 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)	9	**(105)**	(64)
Net finance costs		**39**	51
Profit on disposal of property, plant and equipment (non-operating specific item)	4	**(6)**	(72)
Specific items (operating)	4	**544**	7
Operating (loss)/profit before specific items[1]		**(204)**	584
Adjustment for:			
Depreciation and amortisation		**602**	540
EBITDA before specific items[1]		**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	4/9	**133**	174
Share-based awards (LTIP and DSBP) charge		**2**	3
Cash cost of operating specific items	4	**(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		**–**	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	Unaudited 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

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1 For further details on APMs used, see the section entitled ‘Alternative Performance Measures’

2 Items comprise total gross capital expenditure within ‘in-year trading cash flow’ measure (see Financial Review).

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 17 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.

The financial information set out above does not constitute the Company's statutory accounts for the 52 weeks ended 26 March 2023 and 27 March 2022. The financial information for the 52 weeks ended 27 March 2022 is derived from the statutory accounts for 52 weeks ended 27 March 2022 which have been delivered to the registrar of companies. The auditor has reported on the 27 March 2022 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 52 weeks ended 26 March 2023 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

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 in the section entitled 'Alternative Performance Measures'.

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 the 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 EBTIDA 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 17 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.

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 is 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 Groups 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.

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 prepared for the same 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

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 9.

- 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 9.

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.

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.

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 5.

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 4 and 10).

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

Significant accounting judgements

Frontline employees pay offer

A provision of £61 million has been recognised in the financial statements in respect of a one off payment of £500 per person to frontline employees (see Note 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.

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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 5) 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.

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 section entitled 'Alternative Performance Measures'). 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
Continuing operations	**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**
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
Continuing operations	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
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.

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.

52 weeks 2023	**Royal Mail (UK operations) £m**	**GLS (Non-UK Operations) £m**	**Eliminations[2] £m**	**Total £m**
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)**

52 weeks 2022	Royal Mail (UK operations) £m	GLS (Non-UK Operations) £m	Eliminations[2] £m	Total £m
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.

52 weeks 2023	**UK £m**	**Continental Europe £m**	**North America £m**	**Eliminations[2] £m**	**Total £m**
Revenue	**7,411**	**4,043**	**607**	**(17)**	**12,044**
Non-current assets	**2,169**	**1,379**	**513**	**-**	**4,061**

52 weeks 2022	UK £m	Continental Europe £m	North America £m	Eliminations[2] £m	Total £m
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. 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 9)	**(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%

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.

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.

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 tables of the Directors' Remuneration Report in the 2022-23 Annual Report and Financial Statements. The highest paid Director details are included in the single figure tables of the Directors' Remuneration Report.

4. 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 5 for further details.

The £33 million (2021-22: £nil) in GLS relates to the settlement of VAT 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 10).

The cash cost of operating specific items of £53 million comprises a payment of £52 million to Ofcom (2021-22: £nil) (see Note 10), 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%.

5. Royal Mail excluding Parcelforce Worldwide impairment

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 restructuring or improving or enhancing the assets which an entity is not yet committed, at the balance sheet date. The VIU approach, after adjusting for the restructuring and transformational cashflows, resulted in a full impairment.

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

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

The key assumptions in the impairment assessment are:

Expected revenue and operating margin performance

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

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

The difficult trading circumstances of the last year have been damaging to Royal Mail, with early resolution of the industrial dispute through the upcoming ballot and the required operational changes and improvements in Royal Mail fundamental to its turnround 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 million[1] 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.

Sensitivity to changes in assumptions

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

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

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

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

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

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

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

The impairment charge of £539 million has been allocated to the various Group asset categories as set out below.

	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Goodwill £m	Software assets £m	Total £m
Carrying value at 26 March 2023 before impairment[3]	**604**	**532**	**158**	**449**	**349**	**2,092**
Impairment charge[2]	**(141)**	**(199)**	**(50)**	**(4)**	**(145)**	**(539)**
Carrying value at 26 March 2023 after impairment[3]	**463**	**333**	**108**	**445**	**204**	**1,553**

1 This valuation is within Level 3 of the fair value hierarchy as defined with 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.

3 The carrying values represent the position of the Group not just the Royal Mail excluding Parcelforce Worldwide CGU.

6. 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)

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.

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	(148)	6	(1)	–	1	20	10
Net deferred tax asset/(liability)	62	(124)	24	(1)	(5)	(1)	–	(45)

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.

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.

7. 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.

The diluted earnings per share for the year ended 26 March 2023 is based on a weighted average number of shares of 958,845,444 (2021-22: 996,495,404) to take account of the potential issue of 637,768 (2021-22: 2,087,313) ordinary shares resulting from the Deferred Share Bonus Plans and 2,277,767 (2021-22: 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 the 2022-23 Annual Report and Financial Statements.

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. The Company, however, does not hold any shares in treasury.

8. 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.

9. 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 costs[3]		
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.

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 (RMCPP) commences.

DBCBS members build up a guaranteed lump sum benefit of 19.6% of their pensionable pay each year. Although there are no guaranteed increases to this lump sum, the aim is to provide above inflation increases and the Trustee invests the scheme assets accordingly. If the value of the DBCBS assets were to fall below the value of the members' guaranteed lump sum benefits, then no increases would be awarded until asset values had recovered. The 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.

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.

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.

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 (see(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.

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.

Mortality

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

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:

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

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

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).

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

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

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.

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.

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).

10. Provisions

	Charged as specific items			Charged in operating costs				
	Industrial diseases £m	Regulatory fine £m	Other £m	Voluntary redundancy £m	Property decommissioning £m	Litigation claims £m	Other £m	Total £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 4).

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.

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)

11. 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 4). 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.

12. 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.

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 24.6% (2020-21: 19.5%) and the actual cash payments of 15.6%.

Operating specific items

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

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: £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.

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 RMCPP 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 2022-23		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).