

Registered Number 04138203

Royal Mail Group Limited
Annual Report and Financial Statements
For the 53 weeks ended 31 March 2024



Royal Mail Group Limited

Contents

Strategic report	2
Directors' report	26
Independent Auditor's Report to the members of Royal Mail Group Limited	29
Income statement	33
Statement of comprehensive income	34
Balance sheet	35
Statement of changes in equity	36
Notes to the Financial Statements	37
Corporate information	79

Royal Mail Group Limited

Strategic report

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

The Company makes up a significant part of the Royal Mail UK segment ('Royal Mail') within the IDS plc Group. The Company provides a UK and international parcels and letter delivery business under the 'Royal Mail' and 'Parcelforce Worldwide' brands.

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

Results and dividends

The Company's revenue for the 53 weeks ended 31 March 2024 was £7,819 million (52 weeks ended 26 March 2023: £7,418 million). The loss after tax for the same period was £83 million (2022-23: £1,107 million loss). The loss has reduced significantly due to the revenue increase highlighted above and reduced overall net costs, mainly a lower impairment charge of £48 million (2022-23: £535 million) and higher income from investments of £103 million (2022-23: £12 million).

In order to compare results on an equivalent 52-week Financial Year basis, an adjustment could be made to remove the effect of the 53rd week revenue and incremental costs, based on working days and only incremental costs for frontline staff, distribution and conveyance, property rates and utilities and Post Office Commissions. Applying this methodology, the 53rd week accounted for incremental revenue of £140 million and incremental operating profit of £42 million.

Revenue

Revenue grew year-on-year as the business successfully won back volume following industrial action in 2022-23 and implemented price increases during the year. Revenue growth has been achieved despite a backdrop of economic uncertainty from the cost-of-living crisis, higher inflation and struggling UK retail performance.

Costs

People costs

Total people costs increased by 1.5%. The Business Recovery, Transformation and Growth Agreement, agreed with the CWU included a 6% pay award from 1 April 2023 which was only partly offset in the year by savings delivered as a result of productivity improvements. Frontline FTEs were 110.1 thousand at the end of 2023-24, over 1,000 lower than 2022-23.

Operational people costs were also impacted by the changing volume mix towards parcels, with parcel volumes representing 13% of total Royal Mail volume versus 11% in 2022-23. Parcels, especially the high growth premium products, are more complex and costly to deliver than letters. As a result of this, as well as the impact of industrial action in 2022-23, total workload (a measure of the effort involved in processing and delivering mail) increased by 5.0% versus the previous year. Operational people costs include investment made to improve quality, including a £13 million peak incentive programme at Christmas.

Voluntary redundancy costs reduced by £21 million compared with 2022-23.

Non-people costs

Non-people costs decreased by 2.3% year-on-year.

Within non-people costs, distribution and conveyance costs increased by 4.1% driven by fuel inflation and the increasing cost of maintaining Royal Mail's fleet of vehicles. This was partly offset by a reduction in distribution costs related to international export volume.

Infrastructure costs reduced by 14.2% driven by reduced depreciation and amortisation, following the impairment of the business in 2022-23. The impact of utility inflation was largely offset by other cost savings.

Other operating costs increased 3.1% year-on-year. This was partly driven by the 2023 cyber incident and higher compensation expenditure as a result of quality of service issues, exacerbated by the industrial action in 2022-23.

Net assets

At 31 March 2024, cash and cash equivalents, including bank overdrafts were £146 million (2022-23: £354 million). Net assets decreased in the year by £363 million to £2,266 million, largely due to the loss after tax for the year of £83 million and a decrease in the Company's retirement benefit surplus of £280 million.

The Directors do not recommend a dividend (2022-23: no dividend).

Royal Mail Group Limited

Strategic report (continued)

Royal Mail strategy

Royal Mail is now back on the right trajectory. The business has been stabilised and has delivered improvements in quality, productivity and automation.

Longer-term strategic plans are being developed, including a network strategy to define the Company's future footprint, leveraging both Royal Mail and Parcelforce's networks, and progress has also been made on channel strategy and new growth initiatives, where the Company has already begun implementing a more diversified out-of-home offering.

Stabilisation and quality of service

In 2023-24 short-term actions to stabilise the business were taken as it came out of the longest industrial action in the Company's history. This included refocusing the Company's investment approach, instilling a new rigorous approach to cash management and cost control including capex reductions, whilst protecting investment for key transformation projects. Targeted price increases were also implemented. The business is now on a sounder footing, which has enabled it to move forward with the transformation agenda.

A commitment to improve quality, to deliver the service customers rightly expect and help win back business lost during the industrial action last year was implemented through the following initiatives:

- Reinforced operational management at both regional and local levels.
- Established a quality control centre to drive real time operational performance analysis and enable proactive intervention as required.
- Maximised the use of the Parcel Hubs, where parcels can be processed much faster and with higher quality of service in the middle mile. The Midlands Super Hub near Daventry increased its throughput to a record total of 950,000 parcels in a 21-hour shift.
- Reduced reliance on agency, recruiting more people on new terms and conditions and reducing sick absence.
- Launched a quality incentive for the Company's people over Christmas, based on local and national quality targets, providing additional support for the units where quality was most impacted.

As a result, quality of service has improved across both commercial and USO products, with a 3.9% increase in First Class mail arriving within one working day between Q2 and Q4. Across the year, the business delivered an average of 74.5% of First Class mail within one working day, with more than 91% delivered within two working days (in Q4, this was more than 93%). 92.4% of Second Class mail arrived within three working days. The Christmas performance was the best in four years with more than 99% of items posted before the last recommended posting dates arriving by Christmas Eve. A solution has also been developed for NHS mail which has improved service levels. This approach is working and the Company is on the right trajectory, but there is more to do.

Delivering transformation

There has been a continued drive to take the modernisation agenda forward with a clear plan for improvement. The Business Recovery, Transformation and Growth Agreement with CWU provides a solid foundation for future growth and good progress has been made on implementation during the year. Changes introduced include:

- Seasonal hours, requiring employees to work a longer week during peak and a shorter working week in the summer of 2024, were introduced for the first time during December 2023.
- New attendance and sick pay arrangements, with frontline absence rates declining steadily since their introduction in Autumn 2023.
- To support performance and efficiency, regular communication of key performance metrics to the posties using the Company's 'MyPerformance' app which was launched in October 2023. Feedback is currently provided on 3 KPIs, with 5 more on trial, which is already delivering improved first-time delivery rates and safety metrics.
- Reducing reliance on agency staff, recruiting more than 9,000 full-time employees (FTEs) on new terms and conditions with greater flexibility e.g. weekend working and supporting quality improvement.
- Enabling later start times to ensure more next day delivery, improve reliability, reduce cost and lessen impact on the environment, with the removal of around 50% of domestic flights from Royal Mail's transport network.

As the agreement has been implemented, some of the programmes have been adapted to deliver the associated benefits through a slightly different route – for example, on indoor methods, an alternative approach focused on improving upstream sortation has been implemented.

The transformation will take time and there's still hard work ahead, but Royal Mail is making good progress and heading in the right direction.

Royal Mail Group Limited

Strategic report (continued)

Efficiency and productivity

Automation levels hit 81% in March 2024, up from 76% in March 2023. This will enable the Company to push higher volumes of larger parcels more efficiently through the Royal Mail network and as a result, reduce costs and improve quality. The Company is also moving to a closer integration of the Royal Mail and Parcelforce networks to optimise parcel delivery through the most efficient route.

Productivity, across both processing and delivery, has improved. In Q4, productivity was 4.3% higher year-on-year, enabled by increased automation and improved ways of working. This is particularly pleasing given workload has increased, with bigger parcels now being transported through the network. The reduction of 10,000 FTEs, the position at the beginning of the year, was maintained and further reductions were made, with March 2024 frontline FTEs over 1,000 lower vs. March 2023.

The future network is being mapped out, along with the development of a plan to address the core challenge to move to a network setup that can efficiently deliver parcels of all shapes and sizes, whilst also delivering letters in the most efficient and cost effective way.

Expanding customer choice and convenience

The modernisation agenda is wider than just the CWU agreement. A new out-of-home growth plan has been developed, focused on making the service more convenient for customers, and two significant partnerships to broaden Royal Mail's final mile offering and give customers more options to drop off and collect parcels have been forged. Plans are in place to increase the number of parcel drop off locations by more than 50% to 21,000 through:

- 5,000 new Collect+ locations for customers to drop off parcels rolling out in 2024-25.
- Launch of Royal Mail locker network in partnership with Quadient, with 200+ rolled out, ramping up to 1,500 by end of 2024-25 and an initial target of 3,000 locations.
- Launching pilot Royal Mail Parcel Shop, with the potential to expand further.

Measuring performance

The Company's financial performance is measured as part of the KPIs within the International Distribution Services plc Group consolidated financial statements, using IFRS-based financial statements, but adjusted for certain items (Alternative Performance Measures) that in Management's view, provide a more meaningful basis on which to measure performance in the consolidated reported results of the IDS plc Group. These financial KPIs are not therefore disclosed in these Financial Statements.

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

Non-financial KPI		Performance in 2023-24	Performance in 2022-23
Lost Time Accident Frequency Rate (LTAFR)	Targets a continually improving safety culture for employees, customers and communities. Measured as the total number of accidents resulting in an absence on the next day or shift, per 100,000 hours worked ¹ .	LTAFR of 0.78, broadly in line with prior year.	LTAFR of 0.79 increased by 46% compared with 2021-22.

¹ Refers to direct employees only. 2023-24 covers 53 weeks and the two prior years cover 52 weeks.

Royal Mail Group Limited

Strategic report (continued)

Principal Risks and Uncertainties

Detailed below are the principal risks that it is considered could threaten the Company's business model, the execution of its strategy, and the preservation and creation of sustainable value for stakeholders. How the Company seeks to mitigate these risks and the material changes in risk score year-on-year are also explained below.

Material changes in risk score year-on-year

↑ Increasing risk – Low to moderate or moderate to high risk

↓ Decreasing risk – Moderate to low or high to moderate risk

↔ Stable risk – No material change

1. Economic and political environment – High risk ↔
Risk
Macro-economic conditions and/or the political environment across the Company's markets may adversely affect its 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.
Status
The Company's performance is closely aligned to economic growth in the market in which it operates. The current geopolitical outlook is uncertain and economic growth remains subdued in the UK, with high interest rates weakening households' disposable income. Whilst inflationary pressures are subsiding, inflation remains high. Conflicts across the globe could escalate which could negatively impact the stability and security of international transport routes crucial to the Company's business. Improving but low levels of consumer and business confidence are expected to impact discretionary spend, creating further unfavourable macro-economic headwinds over the course of 2024-25. Future political developments in the UK, including a general election in 2024-25, could affect the fiscal, monetary and regulatory risk landscape. Prolonged fiscal tightening could increase Company costs or further affect consumer confidence, which could impact parcel and letter volumes.
Current and planned mitigations
<ul style="list-style-type: none"> • Ongoing monitoring of the economic and wider external environment. • Implementing transformation and efficiency programmes to stabilise the Royal Mail business and build resilience into its operating model (see Risk 2). • Ongoing monitoring of the political landscape and regular engagement with politicians and policy makers, as appropriate.
2. Failure to reduce the Company's operational cost base – High risk ↔
Risk
The Company must become more efficient and agile to compete effectively in the parcel and letter markets. The Company must also reduce its operational cost base, manage wider cost pressures and deliver productivity benefits across the Royal Mail business. Failure to reduce operational costs and, at the same time, deliver high-quality services could result in a loss of customers, market share and revenue.
Status

Royal Mail Group Limited

<p>Royal Mail has a significant fixed cost base, with high operational gearing. While the business' 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 according to sales volumes.</p> <p>Whilst some transformation benefits to right-size the operation have been re-phased to 2024-25 and, despite challenging macro-economic factors and the drag from the protracted dispute with the CWU leading into 2023-24, the operational cost base has been stabilised. This has been achieved by improved day-to-day cash management measures and prioritising high-return investments. There is also an improvement in levels of employee absence.</p>
<p>Current and planned mitigations</p>
<p>Effective implementation of the Business Recovery, Transformation and Growth Agreement (the Agreement), is key to the delivery of operational efficiencies in Royal Mail, and governance processes are in place to oversee its timely implementation. There are also a number of initiatives in place to drive efficiency whilst remaining focused on high quality of service. These include:</p> <ul style="list-style-type: none"> • Measures to improve operational productivity, performance and right-size the business through a programme of operational revisions. • Improved automation through parcel hubs and mail centres to increase throughput and reduce costs per parcel. • Trialling frameworks to deliver operational improvements at a greater pace, such as letter sortation methods within delivery offices. • Use of digital tools to align scheduled and actual hours to match variation in workload throughout the year and scan-in scan-out technology across the delivery network. • Improving network efficiency including introducing later start times and longer spans, and a strategic review of the parcels network including optimising synergies with Parcelforce Worldwide.
<p>3. Industrial relations (previously 'Industrial action') – High risk ↔</p>
<p>Risk</p> <p>There is extensive trade union representation across the Company's 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 cause material disruption to the UK business and would result in an immediate and potentially ongoing significant loss of revenue. It may also affect Royal Mail's ability to restore Quality of Service (QoS) levels and meet targets prescribed by Ofcom, which may lead to enforcement action, fines and loss of customers.</p> <p>There is a further risk that Royal Mail will not successfully deliver the Agreement, strategic transformation and Universal Service reform unless management and the trade unions work effectively together.</p>
<p>Status</p> <p>In July 2023, following a lengthy dispute, Royal Mail and the CWU reached agreement on the terms of the Agreement. This is an important enabler in the turnaround of the Royal Mail business.</p> <p>Management continues to engage with trade unions on the Agreement, strategic transformation and Universal Service reform.</p>
<p>Current and planned mitigations</p>

Royal Mail Group Limited

- Joint implementation of the Agreement.
- Rollout of a modern and collaborative framework to allow quicker decisions, trials and change implementation.
- Externally facilitated ways of working sessions to review the Royal Mail/CWU relationship supported by appropriate expertise where required.
- Developed operational contingency plans in the event of local and/or national industrial action.

4. Major breach of information security, data protection regulation and/or cyber attack – High risk

Risk

Due to the nature of its business, the Company collects, processes and stores confidential business, operational and personal information. As a result, it is subject to a range of laws, regulations and contractual obligations around the governance and protection of various classes of data to protect customers, employees and suppliers.

In common with all major organisations, the Company is the potential target of cyber attacks that could threaten the confidentiality, integrity and availability of data and systems, and trigger material service and/or operational interruption.

Also, a major breach of information security, data protection laws and regulations and/or a cyber attack could adversely impact Royal Mail's reputation, resulting in financial loss, regulatory action, business disruption and loss of stakeholder confidence.

Status

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.

It is recognised that in a business with around 125,000 staff who use data and devices to deliver services and process large quantities of documentation, there is a possibility of human error in the protection of data.

The Company continues to invest in its cyber-capabilities and has made progress in deploying a number of controls across the technology estate, via an ongoing multi-year programme that targets the highest priority areas.

Current and planned mitigations

- Ongoing investment in cyber-resilience including enhancing the Company's cyber-control capabilities across the technology estate to protect customers, employees, services and assets.
- Strengthening its ability 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 the workforce.
- Encouraging an open and prompt reporting culture so that appropriate remedial action can be taken as soon as possible.
- Operate data privacy and protection policies and a compliance framework, which includes assessment and monitoring of data risks and controls across all operations.

5. Customer expectations and the Company's ability to grow revenue – High risk

Risk

Royal Mail Group Limited

<p>Failure to deliver against existing and changing customer needs and expectations, including improvements to quality of service, could impact the demand for products and services.</p> <p>Royal Mail's success at scaling and growing new areas of business is dependent on identifying profitable and sustainable areas of growth and embedding appropriate structures to support transformation.</p>
<p>Status</p> <p>Societal expectations continue to change rapidly and demand is continuing to grow for high-quality, convenient and sustainable deliveries that are competitively priced. In response the Company is becoming more agile and customer centric.</p> <p>The impact of industrial action in Royal Mail in 2022-23 (see Risk 3) and headwinds created by the economic environment (see Risk 1) have impacted consumer confidence and spending, which places pressure on parcels and letters revenue in Royal Mail.</p> <p>In Royal Mail, targeted pricing and surcharge measures have been introduced together with a programme to win back lost customers and increase throughput in the Midlands Parcel Hub, which opened during the second quarter of 2023-24.</p> <p>The Company is moving fast with Out of Home (OOH) delivery plans, including the trial and roll out of parcel lockers in conjunction with partners, and continues to target large retail networks in the UK to expand its parcel shop offering.</p>
<p>Current and planned mitigations</p> <ul style="list-style-type: none"> • Restoring quality of service. • Implementing strategic pricing and surcharge actions. • Expanding channel mix and service offerings such as OOH, parcel shops, Collect+ and rollout of locker banks. • Driving agility in new product development and simple digital services. • Growing doorstep services such as Parcel Collect. • Increasing tracked services and near-universal barcoding of products. • Increasing Sunday deliveries.
<p>Financial sustainability of the Universal Service (previously 'Failure to secure Universal Service reform') - High risk ↑</p>
<p>Risk</p> <p>Without urgent reform, the continuing structural decline in addressed letter volumes and increased competition in the parcels market pose significant risks to the financial sustainability of the Universal Service. A modern and sustainable postal service is crucial for the Company and its customers and people.</p>
<p>Status</p> <p>According to Ofcom, a financially sustainable Universal Service should be able to achieve an EBIT margin of 5-10%. Since privatisation in 2013, the Universal Service network has only achieved this twice. Letter volumes have continued to decline since their peak in 2004-05. It is not sustainable to maintain the costs of a network built for 20 billion letters when only 6.7 billion are being delivered. Reforming the Universal Service is essential if Royal Mail is to have a sustainable future.</p> <p>In January 2024, Ofcom published a call for input, setting out evidence and options for how the Universal Service might need to evolve to more closely meet consumer needs. Ofcom's report demonstrates that reform is urgently needed to protect the future of the Universal Service.</p> <p>Royal Mail has been calling on Government and Ofcom to tackle this issue for several years, and the lack of action means that Royal Mail is now facing a much more serious situation. Whilst other countries have grasped the opportunity to change, the UK is being left behind.</p>

Royal Mail Group Limited

<p>Ofcom's call for input closed on 3 April 2024. A summary of Royal Mail's response is available at www.internationaldistributionservices.com/en/about-us/regulation/the-future-of-letter-deliveries. Royal Mail is calling on Ofcom to open a consultation in the Summer, and for any changes to the Universal Service to be live from April 2025.</p>
<p>Current and planned mitigations</p> <ul style="list-style-type: none"> Continued engagement with Ofcom, the Government, unions, people and other stakeholders on the case for change. Ran an extensive customer engagement programme and international benchmarking to assess the alternative possible options available for a more modern and sustainable Universal Service. Undertook a consultation and detailed modelling exercise on potential reform options which informed the Company's response to Ofcom's call for input. Executing the Royal Mail transformation plan to underpin the sustainability of the Universal Service.
<p>7 Talent: workforce for the future - Moderate risk ↔</p>
<p>Risk</p> <p>The Company's performance, operating results and future growth depend on its ability to attract and retain talent with the appropriate skills and expertise.</p> <p>Transformation and structural market change are creating the need for new and different skills. There is a risk that the capability of frontline managers is not developed and senior leaders with the right capabilities and behaviours are not attracted and retained. In light of an ageing workforce, socio-economic factors and demographic change, there is also a risk that a robust pipeline to fulfil frontline roles is not maintained.</p>
<p>Status</p> <p>Due to challenges in the business environment over the last 18 months, there has been an increase in retention risk across Royal Mail's senior management population. The Company is also experiencing higher than targeted levels of new joiner attrition in the frontline workforce.</p> <p>Following the end of the industrial dispute the Company is better placed in the market and is finding more success in attracting high-calibre talent.</p>
<p>Current and planned mitigations</p> <ul style="list-style-type: none"> Launched an Employee Value Proposition and developed an employer brand. Developing a future leader framework that will provide an understanding of leadership capabilities at all levels. Offer a number of development programmes including the Future Manager Development Programme for frontline managers. Operate a performance management framework. Implementing a range of initiatives to improve diversity, equity and inclusion across teams. Established the Operations Frontline Talent Steering Committee to accelerate and bring together related workstreams. Introduced a new onboarding tool and updating induction and supporting materials. Creating a 'Talent Ecosystem' to enable internal mobility, provide opportunities for career progression and improve succession planning.
<p>8 Climate change and environmental management - Moderate risk ↔ (see also TCFD Statement on page 23)</p>
<p>Risk</p>

Royal Mail Group Limited

<p>Climate change is a global threat and, in common with all major organisations, it poses a number of risks and opportunities. The Company has identified priority physical and transition risks that could impact its business.</p> <p><i>Transition risks:</i> As 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 the Company adapts to government and regulatory changes (including potential carbon taxes) to progress towards Net-Zero emissions and air quality targets for towns and cities.</p> <p><i>Physical risks:</i> An increase in the frequency of extreme weather events may result in disruption to operations and impact the Company's ability to meet customer expectations, its obligations under the Universal Service or other contractual requirements. It may also see cost inflation as a result of resource scarcity, increased operational costs and required investment to protect the business and its people from extreme weather events.</p> <p>The Company must also ensure that it complies with an expanding framework of environmental legislation and regulation, and prepare for emerging requirements to avert the risk of reputational damage, increased costs and potential fines.</p>
<p>Status</p> <p>Demonstrating leadership on environmental issues, including the impact of the Company's activities, is the right thing to do. It is also essential if the Company is to achieve competitive advantage, create value and deliver its strategy.</p> <p>The Company's environmental strategy will help reduce its environmental footprint and play its part in the transition to a low-carbon future while offering greener solutions to customers.</p> <p>The Company is committed to implementing the TCFD recommendations and has made progress during the year on its ongoing TCFD implementation project.</p>
<p>Current and planned mitigations</p> <ul style="list-style-type: none"> • Developed ESG ambitions and principles that are aligned to the ESG issues that matter most to the business and stakeholders. • Executing environmental strategies, including accelerated ambitions for decarbonisation to reach Net-Zero emissions before 2050 in support of the Paris Agreement. • Investing in low- and zero-emission vehicles and technology and equipment to support energy and fuel efficiency across the property estate. • Improving network efficiency, including looking to rationalise the property estate. • Engaging the workforce and suppliers to become more efficient and reduce use of natural resources. • Monitoring the impact of extreme weather events on operations and across the property estate to determine suitable preventive and precautionary measures. • Reducing water consumption and reducing the amount of waste generated. • Monitoring compliance with existing environmental legislation and preparing for future regulatory changes.
<p>9 Actual or suspected breaches of material law and/or regulation Moderate risk</p>
<p>Risk</p> <p>Failure to comply with relevant material laws and regulations that apply to the business, including competition, anti-bribery, regulatory conditions imposed by Ofcom (including QoS targets), trade sanctions, taxation and corporate governance. Actual or suspected breaches could result in financial loss, fines, regulatory enforcement action, criminal charges, debarment and/or reputational damage impacting the Company's ability to operate and grow.</p> <p>Failure to comply with material laws and regulations related to the following matters are covered by the specified other risks GDPR (Risk 4), health and safety (Risk 11) and environmental legislation (Risk 8).</p>
<p>Status</p>

Royal Mail Group Limited

There continues to be a focus on controls in relation to material laws and regulations with which the Company must comply.

Competition law:

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. There have been two case management conferences (in December 2023 and April 2024) at which a trial date has been set for November 2025, plus significant milestones leading to the trial. Royal Mail believes Whistl's claim is without merit and will defend it robustly.

Regulatory conditions imposed by Ofcom:

In November 2023, following an investigation, Ofcom concluded that Royal Mail was in breach of its First and Second Class mail Universal Service QoS targets for the 2022-23 regulatory period. It fined Royal Mail £5.6 million (£8 million discounted for mitigations).

The Company's current year Universal Service QoS for First and Second Class mail has been below the targets set by Ofcom who are expected to open an investigation. The Company is focused on improving service levels and it regularly engages with Ofcom on QoS.

See Notes 20 and 28 of the Financial Statements.

Current and planned mitigations

- Assess risks and obtain advice from specialist lawyers and compliance/regulatory professionals on a regular basis.
- Horizon scan to prepare for legislative changes and develop policies and processes to address them.
- Monitor compliance and assurance provision.
- Foster a culture where colleagues can speak up so the Company can promptly address any issues and stop them happening again.
- Engage with Ofcom in relation to USO QoS monitoring and restoration activity.

10 Business continuity and operational resilience – Moderate risk ←→

Risk

The Company may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Company, its customers and supply chain. This could also impact on the ability of Royal Mail to meet its regulatory obligations.

Key threats include utility interruption and IT outages. Key threats related to the following matters are covered by the specified other risks: cyber attacks (see Risk 4), industrial relations (see Risk 3) and extreme weather (see Risk 8).

Status

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.

Royal Mail has experienced several disruptive events in recent years, including the COVID pandemic, national industrial action and a cyber attack, and the crisis management response process has been shown to be effective.

The Company continually focuses on improving business resilience and continuity action plans and the capability to remediate current and future threats.

Current and planned mitigations

- Ongoing strategic threat assessment and horizon scanning to promptly identify and assess emerging and current risks and develop prompt remediation strategies.
- Regularly review crisis management governance including lessons learned following disruptive events.

Royal Mail Group Limited

- Delivered a refreshed training plan covering crisis and continuity planning.
- Deploy a cross-functional strategic crisis and resilience governance structure and response teams to ensure an integrated resilience approach.
- Develop business impact assessments to map systems and interdependencies of critical products and services and alignment of disaster-recovery plans.
- Develop and implement tactical arrangements to support operational contingency plans and incident management.

11. Health, safety and wellbeing – Moderate risk

Risk

A health and safety incident or global health crisis could result in the serious injury, ill health or death of people in the Company, 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 people in the Company 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.

Status

The health, safety and wellbeing of the Company's people, customers and members of the public is of paramount importance.

Royal Mail has many employees, including seasonal staff and agency workers. The Company also operates one of the largest commercial fleets in the UK, manages a significant real estate footprint and interacts extensively with members of the public. A large proportion of the Company's people spend most of their time working outdoors on foot or driving, where the environment is unpredictable and can be more difficult to control.

Key health and safety risks include outdoor accidents such as road traffic as well as other accidents (such as dog attacks), and indoor accidents in operational sites.

The Company has a large number of properties that are required to be maintained and kept safe for employees and customers. In common with other businesses with a large property estate, sites are surveyed to ensure risk assessments are kept up to date, any new risks are understood and remedial work is undertaken as required.

Whilst health and safety risks can be assessed and controlled, the risk of harm to people cannot be eradicated.

Current and planned mitigations

- Launched a refreshed programme of focused site audit activity to provide a more comprehensive baseline of compliance with the internal Safety, Health and Environment Management System.
- Continue to streamline and simplify the various health and safety systems in place to enhance their effectiveness.
- Undertake property surveys across the estate.
- Developed a Road Safety Plan aimed at reducing the number of road traffic collisions.
- Implement policies, directives, procedures and systems, supported by tailored training and awareness to embed a compliance culture and improve employee engagement.
- Senior leaders promote safe behaviours and reinforce compliance to standards through participation in regular communications and campaigns.
- IDS Board and ESG Committee oversee performance metrics.
- Operate Group-wide measures to protect and support employees in line with guidance and provision of wellbeing programmes.
- Monitor and review measures in place to assist in risk control and accident prevention, including undertaking appropriate investigation following incidents and near misses.

Royal Mail Group Limited

12. Failure to manage liquidity - Low risk for Royal Mail Group Limited and IDS plc ↓
<p>Risk</p> <p>Uncertainty in the macro-economic environment, a prolonged period of high inflation and the impact of industrial action have adversely affected Royal Mail's business performance. These have driven operating losses and trading cash outflows in the Company.</p> <p>As a result, there is a risk that Royal Mail fails to secure ongoing access to finance and/or is unable to manage working capital and cash to support the ongoing running of, and investment in, the Royal Mail business.</p>
<p>Status</p> <p>Royal Mail has implemented measures to manage its cash position during the year through working capital management and prioritising capital expenditure. Royal Mail's generation of positive trading cashflows is key to preserving liquidity. In the meantime, Royal Mail takes all reasonable steps to finance the necessary transformation and turnaround from its own resources.</p> <p>The Company is dependent on the ongoing support of its parent, IDS plc. IDS plc management has taken effective action to preserve Group liquidity, including bond refinancing in the second quarter to provide additional cash headroom. The IDS plc Group also has access to a £925 million bank syndicate loan facility that is available until September 2026.</p> <p>A material uncertainty exists over the Company's ability to continue as a going concern as a result of the potential change of control following the proposal by EP Group to acquire IDS plc (see Note 1).</p>
<p>Current and planned mitigations</p> <ul style="list-style-type: none"> • Delivery of turnaround plan and effective implementation of efficiency programmes. • Measures to conserve cash and prioritisation of capital expenditure. • Raising capital through asset-backed funding arrangements such as sale and leaseback options. • Exploring alternative means of raising capital including asset disposals. • IDS plc Board has indicated they will provide further financial support to the Company, to ensure the Company has sufficient liquidity (See Note 1).

Royal Mail Group Limited

Strategic report (continued)

Financial risk management objectives and policies

Interest rate risk

The Company's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed. At 31 March 2024, there was no external hedge of interest rate risk (2022-23: none). Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Foreign currency transaction risk

The Company was previously exposed to foreign currency risk due to interest payments on the €500 million and €550 million bond-related loans from IDS plc (these loans have been novated and replaced with Sterling loans from IDS HoldCo Limited); the Company remains exposed to foreign currency risk due to interest payments on certain obligations under Euro-denominated leases; trading with overseas postal administrations; and various purchase contracts denominated in foreign currency.

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

Foreign currency translational risk

The Company's functional currency is Sterling (£). The loans from IDS plc relating to the €500 million and €550 million bonds (prior to their novation) and €3 million (2022-23: €9 million) Euro-denominated leases are revalued at closing Sterling/Euro exchange rates, and the gains/losses recognised in the income statement.

The €550 million bond-related loan from IDS plc was fully hedged by the Company for foreign currency risk by a cross-currency swap. This swap was novated to IDS HoldCo Limited at the same time as the bond-related loan was novated. Prior to novation, the gains/losses on this bond-related loan were offset by gains/losses on the revaluation of the cross-currency swap. During the year, foreign currency exchange gains on the bond-related loans of £12 million (2022-23: £52 million gains) and foreign exchange losses on the lease payables of £nil (2022-23: £1 million) were largely offset by foreign exchange losses of £nil (2022-23: £26 million losses) on the loan to IDS HoldCo Limited, and foreign exchange losses of £12 million (2022-23: £26 million losses) on the cross-currency swap and were recognised in the income statement.

Commodity price risk

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

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

Included within derivative assets at 31 March 2024 are diesel and jet contracts and gas contracts which have been designated as hedge instruments. The diesel and jet hedges are for 179 million litres of fuel (2022-23: 228 million litres) with a net derivative asset value of £5 million (2022-23: £12 million). The gas hedges are for 16 million therms of gas (2022-23: 19 million therms) with a net derivative liability value of £14 million (2022-23: £4 million). The movement in the fair value of these three hedged programmes of £3 million gain (2022-23: £5 million loss) has been recognised in other comprehensive income and hedge ineffectiveness of £1 million loss (2022-23: £1 million loss) has been recognised within other operating costs.

Credit risk

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that Royal Mail is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, commensurate with the Company's appetite for risk. An analysis of aged debt is included within Note 16.

The Company's exposure to credit risk from other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. At 31 March 2024, 59% (2022-23: 84%) of financial assets were held with AA or above rated counterparties.

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

Royal Mail Group Limited

Strategic report (continued)

Liquidity risk

The Company's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused committed facilities of the Company's ultimate parent company IDS plc at 31 March 2024 of £925 million expire in 2026 (2022-23: £925 million expiring in 2026). See the going concern disclosure in Note 1 to the Financial Statements for further details.

ESG Review

Demonstrating leadership across the broad ESG agenda is the right thing to do. It is also essential if the Company is to achieve competitive advantage and create value for its stakeholders. The Company aims to run its business in a responsible and sustainable way and be an integral, trusted and valued part of the communities it operates in.

ESG approach

In recognition of the impact the Company's operations have on society and the continuing growth in demand for sustainable products and services, its approach to ESG is built around the ambitions and principles set out below. They focus on the topics identified by stakeholders as being material and support a number of the United Nations Sustainable Development Goals (UNSDGs).

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

ESG Principles

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

Environment

The Company aims to operate in an environmentally responsible way, focused on reducing the impacts associated with its operations, and playing its part in the transition to a low-carbon future.

Social

The Company aims to deliver economic and social benefits for its people, customers and the communities it serves, in the UK as the Universal Service provider.

Governance

The Company endeavours to act with integrity and transparency in the interests of its stakeholders, ensuring it has effective mechanisms in place to deliver its business operations in a responsible manner.

Environment

Royal Mail's environmental strategies include pathways, targets and mitigating actions that help to reduce its environmental footprint and play its part in the transition to a low-carbon future, while offering greener solutions to its customers. The metrics and targets associated with their implementation are set out below.

Key material issues

Climate change and emissions reduction: Achieving Royal Mail's Net-Zero ambitions by decarbonising its business and managing its climate risks and opportunities.

2023-24 highlights

Royal Mail's Net-Zero and near-term targets were validated by the SBTi.

Decarbonising the business

The Company recognises the need to take decisive steps to help tackle the global climate emergency and prepare the business for a low-carbon future. It aims to take a leadership role in the industry's transition and to support the implementation of the Paris Agreement.

Royal Mail is the UK's greenest delivery option for letters and parcels.¹ 'Steps to Zero', its environmental strategy, is aimed at achieving Net-Zero by 2040, which consists of reducing:

Royal Mail Group Limited

Strategic report (continued)

- Scope 1 and 2 emissions 50% by 2030.
- Scope 3 emissions 25% by 2030.
- Scopes 1, 2 and 3 emissions 90% by 2040.

In September 2023 the Company announced that the above targets had been validated by the SBTi. The validation provides further confidence to the Company's customers that the business' targets are aligned to the latest climate science and to a 1.5°C decarbonisation pathway across all scopes of greenhouse gas (GHG) emissions.

¹ Based on average gCO₂e emissions per parcel delivered by UK parcel operators, as published by Citizens Advice 2023 Parcels League Table.

As part of 'Steps to Zero', Royal Mail is:

- Optimising its distribution network and modernising its vehicles to reduce transport fuel emissions.
- Improving the energy efficiency of its buildings, making space for more parcel automation and technology.
- Transforming its operations and behaviours to embrace circularity by enabling re-use models and reducing single-use items.
- Decarbonising its supply chain, by engaging with key suppliers on carbon performance and reducing domestic air freight.
- Using its size, scale and reputation to play a positive role in championing sustainability in its industry, for its workforce and customers.

Royal Mail also tracks and reports its average CO₂e per parcel and letter, which helps customers make informed decisions about their carbon footprint. Largely due to its final-mile 'feet on the street' delivery model, Royal Mail UK's CO₂e per parcel is currently 200g CO₂e, compared to the business' main peers which reported emissions of between c.350g and 600g CO₂e per parcel during 2023-24. The 'feet on the street' model sees many final-mile deliveries completed largely or partly on foot, with posties taking up to a billion steps a day.

Carbon ambitions and targets

Net-Zero by 2040 across Scopes 1, 2 and 3¹ aligned to 1.5°C, the latest climate science and science-based target standards.

Net-Zero and interim targets:

GHG emissions	90% reduction in Scope 1, 2 and 3 emissions by 2040 50% reduction in Scope 1 and 2 emissions by 2030 25% reduction in Scope 3 emissions by 2030
Renewable electricity	100% from 2022 (achieved)
Zero-emission final mile	100% by 2035
Company cars	100% zero-emission by 2030

Royal Mail's total (market-based) emissions were 1,171 KtCO₂e in the year, representing an overall decrease of 8% on the base year in 2020-21 and a 2% decrease since last year. This emission reduction was primarily due to Scope 1 and Scope 2 (market-based) emissions decreasing 18% on the base year and 6% on the prior year. Royal Mail achieved these reductions despite opening the Midlands Parcel Hub and returning to normal levels of activity following industrial action in the prior year. This was primarily due to the deployment of 10 million litres of hydrotreated vegetable oil (HVO), a fossil-free biofuel, saving c.30,000tCO₂e in direct emissions compared to diesel.

1. Royal Mail reports its carbon emissions in line with the GHG Protocol Corporate Standard. The standard classifies a company's GHG emissions into three scopes. Scope 1 emissions are direct emissions from sources that are owned or controlled, including combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity for own use. Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. Royal Mail also reports 'Outside of Scopes' emissions in its ESG data pack to account for the biogenic emissions associated with the combustion of biogas and biofuel which sit outside of Scopes 1 to 3. For information about conversion factors, please refer to the reporting criteria (<https://www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance/>).

Royal Mail Group Limited

Strategic report (continued)

Buildings

During the year estate emissions accounted for 8% of Royal Mail's total annual emission profile (2022-23: 8%). The partial electrification of its final-mile fleet and increased automation to grow parcel capabilities and improve efficiency are adding considerable electricity needs to the built estate.

To reduce energy consumption across Royal Mail's operations, the business continues to focus on energy efficiency measures, including optimising time and temperature controls throughout the coldest months. Royal Mail purchased and generated 100% renewable electricity, the majority being achieved through a 100% renewable electricity tariff backed by Renewable Energy Guarantees of Origin certificates, which has been in place since April 2022. The business is now looking to purchase renewable electricity via power purchase agreements, ensuring a sustainably priced renewable electricity supply and renewable generation in the future.

Currently, solar panels are installed at ten Royal Mail sites to help to reduce renewable energy costs and provide greater resilience. Discussions are ongoing with several landlords regarding new photovoltaic (PV) installations and several schemes are expected to be progressed in 2024.

Transport

Royal Mail operates one of the largest commercial fleets in the UK, which alongside air and rail emissions accounts for around 70% of the business' total emissions profile. Around 23% of the business' delivery routes are zero-emission, undertaken by a dedicated or shared electric van or by walking and c.5,000 electric vans are now in operation at 164 units of which 18 are fully electrified. A financial review of 15% of these locations undertaken last year showed that, on average, vehicle maintenance costs had fallen 55% and fuel costs 80%. Factoring in the additional investment required for an electric van and associated charging infrastructure, Royal Mail's electrification scheme is anticipated to break even at around three and a half years, making savings over the vehicle lifecycle of seven years. Royal Mail also made significant progress on decarbonising its line haul fleet of large trucks, through the deployment of HVO, a biofuel that reduces direct carbon emissions by up to 90% compared to diesel. The business works with suppliers to ensure the HVO procured is derived from sustainable feedstocks and purchases only International Sustainability & Carbon Certification (ISCC) certified HVO.

Air accounts for 4% of Royal Mail's domestic mail volume and the business is committed to reducing its use of domestic flights where possible. In the year, flights to Jersey and the Isle of Man were removed from the delivery network to streamline services and mail is now conveyed via existing road and ferry services, which have a reduced environmental footprint. In the coming year, increased flexibility of delivery window times, will enable the removal of a further 18 flight routes, which when fully realised, will equate to a saving of c.30,000 tCO₂e per year or over 50% of Royal Mail's base year domestic air freight emissions.

Responsible consumption

In 2023-24 Royal Mail generated 29,500 tonnes of waste (2022-23: 35,700 tonnes). This represents a total reduction of 27% against the base year (2020-21) and early achievement of the business' target of 25% reduction in waste volumes by 2030. Royal Mail will endeavour to maintain this reduction going forward. In addition to reducing waste overall, Royal Mail recycled, re-used, or diverted 98% of its waste, a similar performance to the prior year (99%).

Royal Mail continues to develop its circular plan to minimise the use of materials, especially virgin and raw resources, and reduce the waste generated by its operations. In 2023-24 a number of initiatives were introduced to enhance sustainability across the business, including a re-use programme for pallets, measures to reduce Royal Mail's reliance on single-use plastic cable ties and the deployment of re-usable trolley sleeves.

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

Royal Mail Group Limited

Strategic report (continued)

Social

Royal Mail aims to be an integral, valued and trusted part of every community that its service reaches and an employer of choice.

Key material issues

Health and safety: Ensuring a safe and healthy work environment for its people, while considering the safety of customers and other members of the public.

Customer service: How it delivers fast, convenient and environmentally sustainable services, with great quality of service for customers and communities.

Employees: Offering attractive employment opportunities and promoting an inclusive working environment.

2023-24 highlights

- Expanded wellbeing programme for Royal Mail employees.

Creating a safe and healthy work environment

Royal Mail wants to create a safe and healthy working environment for its people. Its priority is to ensure a workplace where everyone is free from injury and enjoys good physical and mental health.

Royal Mail's Health and Safety policy, which is available at www.internationaldistributionsservices.com/en/sustainability/governance/policies, is implemented through the business' integrated Safety, Health and Environment (SHE) management system. This provides the framework for managing risk, improving performance and maintaining a safe, healthy and environmentally responsible workplace.

Following increased investments in health and safety in the prior year, during 2023-24 Royal Mail carried out over 1,400 health and safety audits focused on risk management, compliance standards and performance. Additionally, health and safety information and training was provided to all employees, so that they understand their responsibilities and can implement standards relevant to their role. In 2023-24 particular focus was given to the completion of six managerial training products and, overall, there was a 90% completion rate across the target group.

With the rise in dog ownership, animal attacks in the UK continued to increase (2022-23: 1,964 versus 2023-24: 2,271 animal attacks). In response, Royal Mail has intensified its focus on preventive measures. The business ran an extensive communications campaign to reduce the risk of dog attacks and encourage responsible dog ownership. The campaign included updates to online advice for dog owners and the production of an educational film in partnership with Merseyside Police. Royal Mail continues to work closely with the police to raise the profile of attacks and ensure proportionate action is taken when they occur.

Health and safety performance

The Company strives to continuously improve health and safety performance and monitor and report key safety metrics regularly to the Board and the ESG Committee.

Royal Mail's lost time accident frequency rate (LTAFR) decreased by 1% and the total accident frequency rate increased, by 6%.

Royal Mail monitors and reports its road traffic collisions frequency rate (RTCFR). In 2023-24, RTCFR increased by 21% compared with the previous year. The business has continued to invest in larger vans and line haulage to transport a growing volume and size of parcels, which in some cases, due to the increases in vehicle manoeuvres, has added to the likelihood of collisions. The fleet's transformation is being supported by the business' safety team, which assesses risks and creates action plans. At the same time, the business is looking to improve driver behaviour by delivering in-cab training alongside regular road safety communications campaigns and via the use of telemetry. In 2023-24, Royal Mail updated its van driver induction training to increase the focus on key causes of collisions. Royal Mail is a partner of road safety charity Brake, and benefits from access to the charity's latest research, experience and expertise, which helps inform communications campaigns throughout the year.

However, despite efforts to reduce all risks, it is with great regret that one employee and five members of the public sadly lost their lives in accidents that involved Royal Mail vehicles in 2023-24. All serious and fatal accidents are investigated by a safety professional to identify causes, which are shared with relevant Board members, and the implementation of all follow-up actions are tracked.

Royal Mail Group Limited

Strategic report (continued)

Employee wellbeing

The Company has a responsibility to not only keep its people safe and healthy, but to also support their overall wellbeing. An extensive range of wellbeing programmes and tools is made available, a number of which were expanded during the year.

Royal Mail launched an enhanced wellbeing programme which covers Mind, Health, Money and Life matters. Royal Mail employees and their immediate families can access an online wellbeing hub, as well as 24/7 access to a number of services including online GP services and up to eight physiotherapy sessions a year and unlimited mental health consultations. Further information about the business' wellbeing programmes is included in the Royal Mail ESG Report, which is available at www.internationaldistributionservices.com/en/sustainability/reporting-and-performance.

The level of sickness absence in Royal Mail during the year was 6.75% (2022-23: 7.50%).

Employee engagement

Ongoing dialogue with colleagues across the Royal Mail business is essential and there are a number of employee listening programmes in place, including quarterly People Panels and a Non-Executive Director sponsored Employee Voice Forum, which provide valuable feedback on a range of issues.

In September 2023 the annual employee survey, The Big Trust Survey, was launched inviting all employees to share their views on what it is like to work at Royal Mail. This year 53% of employees participated in the survey, compared to 69% last year. The survey results produced a Trust Index score of 59 and an Engagement Index score of 47, a decline of 9 points and 16 points respectively, compared to the prior year. This was largely due to the legacy of the industrial dispute and quality of service challenges.

To address the survey's key findings, Royal Mail's Chief Operating Officer led a roadshow outlining the business' operational priorities for the year ahead. Local managers are also implementing plans to address issues in their area and check-in pulse surveys are being introduced to measure the effectiveness of new initiatives. To restore company pride, one of the survey's key findings, the business has launched its Change for Good campaign and The Heart of Royal Mail Awards, an employee recognition programme that will be introduced in the coming year.

Rewarding people fairly

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

In 2023-24 a UK postie's basic pay was 18-28% higher than the UK National Living Wage (NLW) for the same period. All temporary workers receive pay in line with the NLW, with the majority receiving hourly pay above the voluntary Real Living Wage set by the Living Wage Foundation at national level.

Royal Mail believes all its people should be rewarded fairly for their work, regardless of gender. In 2023 the total average pay for male and female Royal Mail employees continued to be broadly the same as the prior year, with the mean pay gap now at 1.5% and 2.6% in favour of male employees when measured on a median basis. Information on the Royal Mail 2023 Gender Pay Gap Report is available at www.internationaldistributionservices.com/en/sustainability/reporting-and-performance.

Providing learning and development opportunities

The Company aims to provide the tools, knowledge and resources for its people to have fulfilling careers and develop the next generation of talent. In 2023-24 Royal Mail invested £5.3 million in learning and development, equivalent to 57,435 days, compared with £8.4 million and 30,000 days in 2022-23, due to the targeting of a bigger audience. The Royal Mail Academy, which has a flagship training centre in Daventry and sites in Edinburgh, Warrington, Bristol, Gatwick, Oxford and Glasgow, is focused on leadership and management, supporting transformation, and wider learning and development.

In response to the challenges the business continues to face in relation to leadership capability, talent attrition and recruitment, The Academy team has introduced new initiatives focused on developing managers, including a new Future Manager Development Programme and a new Leadership Development Framework. The business has also renewed its focus on talent management, and as part of a wider development programme, introduced a regular performance and development management process for frontline delivery employees. The programme was launched in October 2023 across 330 delivery offices and now for the first time in Royal Mail history, all posties have their own KPI performance data at their fingertips via a new app.

Royal Mail Group Limited

Strategic report (continued)

Further information on Royal Mail's training and development initiatives are included in the ESG Report, which is available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.

Diversity, equity and inclusion (DEI)

The Company strives to create an inclusive, fair, respectful and accessible working environment. To achieve this, Royal Mail has developed DEI strategies relevant to its markets and business.

Royal Mail's DEI strategy underpins the business' ambition to develop a workforce that reflects the broad diversity of the communities it serves. Diversity includes, but is not limited to, age, disability, marital or civil partnership status, pregnancy or maternity status, race, ethnicity and national origin, religion/faith or belief, sex or gender identity, and sexual orientation.

The business' DEI strategic priorities are to:

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

Supporting communities

Royal Mail seeks to be an integral, valued and trusted part of every community in which it operates. In 2023-24, the business contributed £2.9 million to good causes and charitable schemes. This included match giving for colleague fundraising and the cost of its Articles for the Blind service. In addition to the total contributed, Royal Mail colleagues raised £2.13 million for charitable causes.

Royal Mail's community investment strategy is structured into three key areas:

Leveraging its national scale: In February 2023, British Heart Foundation (BHF) became Royal Mail's national charity partner. The four-year partnership aims to raise £2 million and train 100,000 of Royal Mail employees in CPR. In addition, employee fundraising will be used to fund the new Community Hearts Programme, which aims to deliver CPR training for one million young people, fund community defibrillators across the UK and develop accessible heart health information for the nation. As at March 2024, the partnership has raised £463,300, trained 7,251 employees in CPR and installed 141 defibrillators in local communities. As a result of the funds the partnership has raised, in August 2023, BHF's vital patient helpline was made free to call and, in September 2023, a free CPR teaching tool for 11- to 16-year-old pupils was launched in educational settings across the country. The latest partnership impact report is available at www.royalmail.com/bhf.

Using its local presence: Many of Royal Mail's employees volunteer and build relationships with charities in their local communities and the business offers grants of up to £400 to help meet the costs of volunteering. As Royal Mail employees are present in every community across the UK, the business is uniquely placed to support the search for missing people. Since 2014, Royal Mail has posted alerts from the charity Missing People to its posties via their handheld devices.

Unlocking potential through education: Royal Mail is committed to developing the skills of young people in communities across the UK. Royal Mail continued to support the virtual delivery of The Postal Museum's 'Jolly Postman – Once Upon A Bicycle' programme for a third year. The sessions inspire a love of reading and connect the fictional story with the factual experience of writing, sending and delivering letters for primary school children.

Royal Mail continues to support the Disasters Emergency Committee (DEC) by providing a dedicated PO Box which enables the UK public to respond to national appeals for overseas disasters. Throughout the year, the business' employees have continued to support the DEC's Turkey-Syria earthquake appeal. In total, including match funding from Royal Mail, just over £13,000 has been raised. In 2023-24, the DEC directly raised a combined total of £20.3 million, with 7% (equivalent to c.£1.4 million) being received via the PO Box. In October 2023 Royal Mail announced a new partnership with National Emergencies Trust (NET), a UK charity which raises and distributes funds to support those affected by UK disasters.

Protecting human rights

Royal Mail is committed to playing its part to uphold and protect human rights in its business and across its supply chain globally. Royal Mail obeys the laws, rules and regulations of every country in which it operates and implements the UN Guiding Principles on Business and Human Rights, the UN Declaration of Human Rights and the International Labour Organization Fundamental Conventions within the business and its supply chain. These cover freedom of association, the abolition of forced labour, equality and the elimination of child labour.

Royal Mail Group Limited

Strategic report (continued)

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

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

The Modern Slavery Act Statement is available at www.internationaldistributionsservices.com/sustainability/reporting-and-performance.

Governance

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

Key material issues

Service responsibility: Maintaining integrity and transparency and addressing data protection and information security.

Compliance: Operating high standards of governance and complying with all applicable laws and regulations.

2023-24 highlights

- Royal Mail 'Change for Good' campaign launched.
- Royal Mail developed new supplier programme covering the top 100 significant suppliers.
- Royal Mail achieved a 13% decrease in bullying and harassment concerns.

The IDS plc Board is responsible for promoting the Company's long-term success. Fostering a trusting and inclusive culture across the IDS plc Group, ensuring a high standard of governance and the effective implementation of its ESG strategy are integral to this. The Board sets the tone from the top, demonstrating and encouraging values-driven behaviours.

ESG oversight and implementation

The following governance structure, processes and metrics are in place to support the IDS plc Board in its oversight of ESG matters and ensure effective implementation of the Company's ESG strategy:

ESG Committee: Provides Board-level oversight of the implementation of ESG Principles across the Company.

Executive sponsor: IDS plc Investor Relations Director is the ESG sponsor and the person ultimately responsible for Group-level stakeholder engagement.

Royal Mail Executive Board and dedicated ESG function: Responsible for ensuring effective execution of their respective ESG strategies and alignment of targets, policies and procedures with the Group's ESG Principles and ESG Policy Statement.

Risk management: Relevant social and environmental issues are assessed, monitored and managed using its risk management framework.

Reward: Relevant ESG performance metrics are incorporated into the Company's remuneration arrangements.

Policies and frameworks: Implement strategies, policies and processes tailored to the needs of the business and their respective stakeholders.

Ethical standards

The overarching business policies that set out the Company's approach to responsible conduct in the business and supply chain are available at www.internationaldistributionsservices.com/en/sustainability/governance/policies and www.gls-group.eu/GROUP/en/about-us/compliance.

Royal Mail employees have access to policies and guidance via the People App, intranet or the MyRoyalMail communication channel and the business operates a comprehensive ethics and compliance training programme. All employees are required to undertake training relevant to their role and managers are required to complete compliance refresher training annually which includes an attestation of the Royal Mail Business Standards. The overall completion rate for this annual training for assigned managers in 2023-24 was 99%.

Colleagues, contractors, agency and casual workers, suppliers, business partners and the public are encouraged to report any suspected policy breaches through the business' confidential whistleblowing process. The confidential Speak Up helpline is available 24/7 to current and former employees, contractors, temporary workers, subsidiaries, and suppliers and members of the public.

Royal Mail Group Limited

Strategic report (continued)

During the year Royal Mail launched the 'Change for Good' campaign, which encourages colleagues and managers to role-model good behaviours, treat each other fairly and call out inappropriate behaviours. As part of the campaign, the Royal Mail Business Standards were re-launched to provide clarity around expectations on behaviours and a new tool was introduced to help colleagues navigate the right channels when raising concerns.

Embedding ethical standards across the supply chain

The Company is committed to embedding high standards of social, ethical and environmental conduct across its supply chains and to ensuring that modern slavery and human rights abuse, including trafficking (together 'modern slavery') are not taking place in the business or supply chains. The Modern Slavery Statement is available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.

During the year Royal Mail developed a holistic supplier ESG programme that provides a comprehensive, coherent and effective ESG approach across the business' value chain. The programme aims to ensure that ESG requirements are filtered through every step of the sourcing process. As part of this programme Royal Mail is working to identify initiatives that will support its 'Steps to Zero' environmental strategy and accelerate its decarbonisation process. Royal Mail has identified its top 100 most significant suppliers based on their Scope 3 emissions materiality or level of social or governance risk. The business is starting to work with them to gather more granular information on their emissions and risk areas in order to increase the level of accuracy and transparency of its carbon reporting.

Reporting standards

The Company is committed to being as open and transparent as possible about its business, and ensuring its ESG reporting meets its obligations as a signatory to the United Nations Global Compact.

Royal Mail reports in accordance with the Global Reporting Initiative (GRI) Sustainability Framework and the 2023-24 ESG Report has been prepared in accordance with the GRI Standards for the period 1 April 2023 to 31 March 2024. The GRI index for the Royal Mail report can be found as part of the Royal Mail ESG 2023-24 Appendix which is available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.

Royal Mail engaged Bureau Veritas to provide limited assurance on reported key non-financial performance indicators and related assertions for 2023-24. Its assurance covers environmental indicators and metrics used to monitor culture, such as health and safety, sickness absence and diversity. Assurance in relation to Royal Mail data was performed in accordance with the ISAE 3000 (Revised). Further information, including the assurance statements, is available at www.internationaldistributionsservices.com/en/sustainability/reporting-and-performance.

Royal Mail Group Limited

Strategic report (continued)

Task Force on Climate-related Financial Disclosures (TCFD)

The Company's parent company, International Distribution Services plc (IDS plc) has provided TCFD information relevant to the Company in its 2023-24 Annual Report and Financial Statements as explained below.

Statement of compliance

IDS plc Group recognises climate change as a key global threat that poses particular risks and opportunities for the Group. Identifying and managing these risks and opportunities enables the Group to enhance its resilience and competitiveness.

IDS plc Group is committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board. During the year further progress was made against these recommendations along with the continued evolution of the Group's business, strategy and financial planning processes to take account of climate-related risks and opportunities. As explained below, there is further work to do to implement the recommendations in full and meet the expectations of the Financial Reporting Council.

In accordance with Listing Rule 9.8.6R(8), the IDS plc Annual Report is consistent with ten of the TCFD recommendations. It is partially consistent with the TCFD recommended disclosures relating to the impact of climate-related risks and opportunities on business and financial planning. To be fully consistent with this recommendation and the supplementary guide for non-financial groups by no later than 2025, the Group is taking additional steps to further embed climate-related risks and opportunities into its business and budgetary planning cycles to better support management's role in managing and assessing these. These disclosures are also considered to be compliant with the Companies Act 2006 as amended by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. In assessing the Group's consistency of disclosures, the 'Guidance for All Sectors' and the Supplementary Guidance for Non-Financial Groups has been followed.

Further details of the Group's approach to TCFD and the specific impact on Royal Mail can be found in the IDS plc Annual Report and Financial Statements 2023-24.

Royal Mail Group Limited

Strategic report (continued)

Section 172 statement

The Company's stakeholders are integral to its success, and it must take account of their issues and concerns if it is to create sustainable long-term value.

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

In relation to the decisions taken during the period ended 31 March 2024, and up until 28 June 2024, the Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172 of the Companies Act 2006.

Examples of principal decisions made by the Board during the 53 weeks ended 31 March 2024, and up until 28 June 2024, and the stakeholder issues and section 172 matters considered as part of the decision-making process, are set out below. 'Principal decisions' are defined as decisions which are material or strategic to the Company, and/or significant to any of its stakeholders. In each case, given the materiality and importance of these matters, the relevant management team made recommendations to the Board for consideration.

Universal Service Obligation

In March 2024 the International Distribution Services plc Board reviewed Royal Mail's response to Ofcom's call for input on the future of the universal postal service. The business' response is focused on meeting the needs of customers today and into the future. It creates a platform for growth, benefits the Royal Mail workforce and addresses the sustainability of the Universal Service.

Having considered the response, the Board concurred with Royal Mail's assessment and the need for change based on the following matters:

- **Customers:** In 2004-05 the business delivered 20 billion letters per year compared to 6.7 billion in 2023-24. At this rate of decline, letter volumes in the next five years will be closer to 4 billion. As letter volumes have declined, the number of delivery addresses has increased (by 15% since 2004-05). To secure Royal Mail's long-term future, it must operate a sustainable business model based on customer demand, which means delivering more parcels and fewer letters. In relation to those customers who could be affected by the change, for example a small number of magazine publishers, it was noted that Royal Mail was working to manage the change and mitigate the impact.
- **Employees:** Management believes that reform would bring significant benefits, including benefits for employees. In particular, a reformed Universal Service would enable Royal Mail to grow in a financially sustainable way, which would support job security in the long term. Also, opportunities to offer employees different working patterns would be created.
- **The long-term interests of the Company and all its stakeholders:** In developing its response, Royal Mail engaged with its stakeholders to canvas their views, which were reflected in the business' response. The Board also noted that according to Ofcom, a financially sustainable Universal Service should be able to achieve an EBIT margin of 5-10%. However, since privatisation in 2013, this has only been achieved twice. Ofcom has recognised that the USO is a net cost to Royal Mail of c.£325 million to £675 million. Reforming the Universal Service is essential if Royal Mail is to have a sustainable future.

Industrial relations

In April 2023, following an extensive period of industrial action, the International Distribution Services plc Board approved the final terms of the Business Recovery, Transformation and Growth Agreement (the Agreement). The Agreement sets out how Royal Mail and the CWU will work together to move to a more modern industrial relations framework. In coming to this decision, the Board considered the following matters:

- **The long-term interests of the Company and all its stakeholders:** The Agreement was an important step forward in the turnaround of Royal Mail. To enable the business to survive long term and succeed in a highly competitive market, it must adopt a more modern industrial relations framework to enable the business to become more agile and compete more effectively.

Royal Mail Group Limited

Strategic report (continued)

- **Customers:** Royal Mail needs to adapt much faster to changing customer demands in a highly competitive market. The new ways of working will enable the business to respond to customers' demands and changing needs. In particular, the operational changes in the Agreement are designed to improve quality of service for customers and, the later start times that came into effect from April 2024, will help Royal Mail respond to the market demand for more next day parcel deliveries.
- **Employees:** The three-year pay deal included in the Agreement provides certainty for employees and will ensure that Royal Mail remains the industry leader on pay, terms and conditions.
- **Environmental Impact:** Increased flexibility of delivery window times will enable the removal of 18 flight routes in the coming years.



Michael Snape

Director

Royal Mail Group Limited

Registered Number: 04138203

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

28 June 2024

Royal Mail Group Limited

Directors' report

The Directors present the Annual Report and Financial Statements of the Company. These Financial Statements relate to the 53 weeks ended 31 March 2024 (2022-23: 52 weeks ended 26 March 2023).

Directors and their interests

The following have served as Directors of the Company during the period ended 31 March 2024 and up to the date of approval of these Financial Statements, unless otherwise stated:

Michael Snape	Appointed on 18 January 2024
Mark Amsden	
Mick Jeavons	Resigned on 18 January 2024
Simon Thompson	Resigned on 12 May 2023

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

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

Research and development

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

Political donations

There were no political donations during the year (2022-23: £nil). The Company intends to continue its policy of not making such donations for the foreseeable future.

Audit information

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

Indemnity of Directors

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

Cautionary statement regarding forward-looking information

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

Going concern

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

Statement of Corporate Governance Arrangements

In accordance with the Companies (Miscellaneous Reporting) Regulations 2018, Royal Mail Group Limited (the Company) has, as part of the wider International Distribution Services plc Group (the Group), applied the principles of the UK Corporate Governance Code 2018 (the Code) for the financial period ended 31 March 2024.

The Group places a high value on good governance and promotes the highest levels of governance throughout the organisation. Full details of how the Group applied the Code can be found in the International Distribution Services plc Annual Report and Financial Statements 2023-24, which are available on the International Distribution Services plc website.

Royal Mail Group Limited

Directors' report (continued)

Statement of employee engagement

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

An extensive colleague engagement programme exists which includes:

- Two-way and peer-to-peer dialogue channels, including the Workplace platform
- Internal communication channels including Courier magazine and Royal Mail TV.
- Annual Big Trust Survey, Employee Voice Forums and People Panels.
- Face-to-face programmes to enhance colleagues' understanding of Royal Mail's strategy

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

Auditor

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

Strategic report

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

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

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

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

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

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

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

Royal Mail Group Limited

Directors' report (continued)

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

By Order of the Board



Michael Snape

Director

Royal Mail Group Limited

Registered Number: 04138203

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

28 June 2024

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

Opinion

We have audited the financial statements of Royal Mail Group Limited ("the Company") for the 53 week period ended 31 March 2024 which comprise the Income Statement, Statement of Comprehensive Income, Balance sheet, Statement of Changes in Equity and related notes, including the Basis of Preparation and accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its loss for the 53 week period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern.

We draw attention to note 1 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent on the continued financial support from its ultimate parent undertaking, International Distribution Services plc. The financial statements of International Distribution Services plc include a material uncertainty related to going concern and therefore the availability of support may be in doubt if required. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

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

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

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

- Reducing parcel and letter volume across the UK business;
- Widespread inflationary increases and the impact of that on consumer behaviour as well as the impact across all cost captions, including impacts of cyber attack and staff retention;
- Underperformance on transformation targets needed to return to profitability; and
- Impact of change on the borrowings of the group headed by International Distribution Services plc ("the Group").

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

Given the level of financial resources, and the risks inherent in the cash flows, particularly the achievement of transformation, our evaluation of the Directors' going concern assessment was of particular significance in our audit. Further, on 29 May 2024 the Group recommended the offer to its shareholders received from EP Group to acquire the entire issued share capital of the ultimate parent undertaking. The ultimate parent undertaking's bond agreements contain provisions that could result in required repayment or repurchase of the bond following a change in control, in certain circumstances.

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

Our procedures included critically assessing assumptions in base case and downside scenarios, considering the forecasted operating levels and how these relate to historic performance. We also compared past budgets to actual results to assess the Directors' track record of budgeting accurately. Since the Company may need financial support from the ultimate parent undertaking (International Distribution Services plc), we assessed the risk that this support would not be available. We inspected letters received by the Directors indicating the ultimate parent undertaking's intention to provide this support, examined financial statements to assess its ability to provide this support over the period of the Company's going concern assessment, including consideration of the impact of the material uncertainty related to going concern disclosures in those accounts. We assessed the business reasons why the ultimate parent undertaking may or may not choose to provide this support. Further, we inspected the finance agreements to assess the relevant clauses that would be triggered in the event of a potential change in control.

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

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

We performed procedures including:

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

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

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

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

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

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

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

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

For the Whistleblower claim discussed in note 28 we assessed disclosures against our understanding from legal correspondence.

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

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

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

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

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

Directors' responsibilities

As explained more fully in their statement set out on page 27, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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



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

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
28 June 2024

Royal Mail Group Limited

Income statement

for the 53 weeks ended 31 March 2024 and the 52 weeks ended 26 March 2023

	Notes	53 weeks 2024 £m	52 weeks 2023 £m
Continuing operations			
Revenue	2	7,819	7,418
Operating costs ^{1,2}		(8,021)	(8,000)
People costs	3	(5,453)	(5,372)
Other operating costs	4	(2,568)	(2,628)
Profit on disposal of property, plant and equipment		14	6
Operating loss before specific items		(188)	(576)
Operating specific items	5	(126)	(482)
Operating loss		(314)	(1,058)
Income from investments	7	103	12
Finance costs	8	(44)	(49)
Finance income	8	27	14
Net pension interest (non-operating specific item)	21(c)(e)	135	105
Loss before tax		(93)	(976)
Tax credit/(charge)	9	10	(131)
Loss for the year		(83)	(1,107)

¹ Operating costs are stated before operating specific items.

² Profit on disposal of property, plant and equipment has been re-presented in the prior year within operating loss before specific items, previously presented as a specific item after operating loss (see Note 1 – changes in accounting policy and disclosures).

Royal Mail Group Limited

Statement of comprehensive income for the 53 weeks ended 31 March 2024 and 52 weeks ended 26 March 2023

	Notes	53 weeks 2024 £m	52 weeks 2023 £m
Loss for the year		(83)	(1,107)
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to loss or profit:			
Amounts relating to retirement benefits		(280)	(488)
Decrease in withholding tax payable on distribution of RMPP and RMSEPP surplus	21	436	413
Remeasurement losses of the defined benefit surplus in RMPP and RMSEPP	21(c)(d)	(657)	(1,285)
Remeasurement (losses)/gains of the defined benefit deficit in DBCBS	21(e)	(59)	378
Deferred tax associated with DBCBS	9	-	6
Items that may be subsequently reclassified to profit or loss:			
Designated cash flow hedges		(5)	(70)
Gains/(losses) on cash flow hedges deferred into equity		2	(2)
Gains on cash flow hedges released from equity to income		(15)	(85)
Losses released from equity to the carrying value of non-financial assets		1	2
(Loss)/gain on cross-currency swap cash flow hedge deferred into equity		(4)	22
Loss/(gain) on cross-currency swap cash flow hedge released from equity to income - interest payable		12	(26)
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	9	-	18
Total other comprehensive expense for the year		(285)	(558)
Total comprehensive expense for the year		(368)	(1,665)

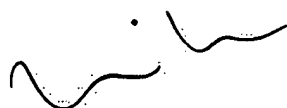
Royal Mail Group Limited

Balance sheet

At 31 March 2024 and 26 March 2023

	Notes	At 31 March 2024 £m	At 26 March 2023 £m
Non-current assets			
Property, plant and equipment	10	1,768	1,886
Intangible assets	12	170	167
Investments in subsidiaries and associates	13	331	375
Financial assets – pension escrow investments	14	102	208
Financial assets – derivatives		1	3
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	21	1,851	1,957
Other receivables	22	12	6
		4,235	4,602
Current assets			
Inventories	15	21	32
Trade and other receivables	16	880	724
Income tax receivable		10	13
Financial assets – derivatives		6	23
Cash and cash equivalents	17	209	449
Assets held for sale	23	3	4
		1,129	1,245
Current liabilities			
Trade and other payables	18	(1,895)	(1,837)
Financial liabilities – Lease liabilities	11	(156)	(142)
Financial liabilities – derivatives		(13)	(13)
Bank overdrafts	19	(63)	(95)
Provisions	20	(67)	(122)
		(2,194)	(2,209)
Net current liabilities		(1,065)	(964)
Total assets less current liabilities		3,170	3,638
Non-current liabilities			
Other payables		(1)	(2)
Financial liabilities – Lease liabilities	11	(772)	(784)
Financial liabilities – derivatives		(4)	(22)
DBCBS retirement benefit deficit	21	(60)	(145)
Provisions	20	(67)	(56)
		(904)	(1,009)
Net assets		2,266	2,629
Equity			
Share capital	25	-	-
Retained earnings		2,278	2,633
Other reserves	25	(12)	(4)
Total equity		2,266	2,629

The Financial Statements were approved by the Board of Directors on 28 June 2024 and signed on its behalf by:



Michael Snape

Director

Royal Mail Group Limited

Registered Number 04138203

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

Royal Mail Group Limited

Statement of changes in equity

for the 53 weeks ended 31 March 2024 and 52 weeks ended 26 March 2023

	Share capital	Retained earnings	Hedging reserve	Foreign currency translation reserve	Total equity
	£m	£m	£m	£m	£m
At 27 March 2022	-	4,227	69	(3)	4,293
Loss for the year	-	(1,107)	-	-	(1,107)
Other comprehensive expense for the year	-	(488)	(70)	-	(558)
Total comprehensive expense for the year	-	(1,595)	(70)	-	(1,665)
Transactions with owners of the Company, recognised directly in equity					
Employee Free Shares issue	-	1	-	-	1
Long Term Incentive Plan (LTIP)	-	1	-	-	1
Tax charge on share-based payments	-	(1)	-	-	(1)
At 26 March 2023	-	2,633	(1)	(3)	2,629
Loss for the year	-	(83)	-	-	(83)
Other comprehensive expense for the year	-	(280)	(5)	-	(285)
Total comprehensive expense for the year	-	(363)	(5)	-	(368)
Transactions with owners of the Company, recognised directly in equity					
Release of cumulative gains/losses on transfer of cross currency interest rate swaps to IDS Holdco Limited	-	3	(3)	-	-
Employee Free Shares issue	-	1	-	-	1
Long Term Incentive Plan (LTIP)	-	3	-	-	3
Deferred Share Bonus Plan (DSBP)	-	1	-	-	1
At 31 March 2024	-	2,278	(9)	(3)	2,266

Royal Mail Group Limited

Notes to the Financial Statements

1. Basis of preparation and accounting policies

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

Accounting reference date

The financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are made up to the 53 weeks ended 31 March 2024 (2022-23: 52 weeks ended 26 March 2023).

Authorisation of Financial Statements and statement of compliance with FRS 101

The Financial Statements of the Company for the period ended 31 March 2024 were authorised for issue by the Board of Directors on 28 June 2024. The Company is incorporated and domiciled in England and Wales.

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

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

Basis of preparation

The Company has applied FRS 101 for all years presented. The accounting policies which follow, set out those policies which apply in preparing the Financial Statements for the period ended 31 March 2024.

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

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

¹ Exemption taken as equivalent disclosures are included in the consolidated Financial Statements of International Distribution Services plc.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Going concern

The Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have performed a going concern assessment which indicates that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its ultimate parent company, International Distribution Services plc (IDS plc), including in downside cases to meet its liabilities as they fall due for that period.

In their assessment of going concern, for the 12 months from date of signing the financial statements and for which support from IDS plc is available (the going concern assessment period), the Directors have reviewed both the current business projections and a severe but plausible downside scenario and assessed these against cash and cash equivalents of £146 million (being £209 million cash and cash equivalents net of £63 million bank overdraft). In addition, as at 31 March 2024, the Company potentially has access to an undrawn bank syndicate loan facility of £925 million. In their assessment of going concern over the going concern assessment period, the Company has modelled two scenarios referred to below as the Base Case and the Downside Case.

The key inputs and assumptions underlying the Base Case include the economic impact driven by the ongoing macro-economic headwinds in the Company. Following agreement with the CWU of the Business Recovery, Transformation and Growth Agreement in July 2023, it does not assume any further industrial action taking place, and it also assumes that the benefits associated with activity to restore quality of service and transformation of the business are realised resulting in a more efficient operation that meets customers' changing needs. The Base Case assumes the Company has low double digit volume growth in parcels in 2024-25, supported by continued improvement in quality and strategic growth initiatives, including expanded channel mix (e.g. lockers). It will benefit from a general election in 2024-25 in letters but structural decline in letters will continue to be offset by pricing actions. Productivity improvements enabled by the pay deal and continued focus on cost control will more than offset operational headwinds including the 2% pay increase, the impact of higher workload and increasing fuel and fleet maintenance costs.

The Base Case does not anticipate any regulatory support from Ofcom or the Government, for example change to the scope of the USO. Management believes modernisation of the USO is critical for margins to be materially improved and for the sustainability of the USO. Ofcom have defined a commercial rate of return for the regulated business in the range of 5-10% EBIT margin. Regulatory reform could materially improve the prospects of the Royal Mail business.

The Downside Case applies further stress to the Base Case to model further deteriorating economic and market conditions impacting the Company.

Further details of the scenarios modelled are as follows:

Scenario: Deteriorating economic and market conditions.

Assumptions: Revenue growth in the Business Plan is not achieved.

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: Costs to avoid industrial action in Royal Mail.

Assumptions: Lower operating profit as a result of incurring costs to avoid industrial action.

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.

The Directors believe that the downside is a severe but plausible scenario, recognising that the Base Case already anticipates the negative impacts from the weak economy and flow through impact from industrial action that has already taken place in Royal Mail.

The Base Case projections indicate that whilst the Company would be in a positive cash position, the level of liquidity would not be sufficient without financial support from IDS plc.

The severe but plausible Downside Case applies a further stress to the Base Case to model further deteriorating economic and market conditions. In the severe but plausible Downside Case, the Company would require financial support from IDS plc in order to maintain sufficient liquidity.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

The Directors, having reviewed both the Base Case and Downside Case projections, have a reasonable expectation that the Company will continue to operate for a minimum of 12 months from the date of approval of these Financial Statements. Those projections are dependent on IDS plc, the Company's ultimate parent company, providing access to Group resources, and on IDS plc and its immediate parent company IDS Holdco Limited, not seeking repayment of the loan currently due to them, which at 31 March 2024 amounted to £616 million.

The IDS plc Board has indicated that they do not intend to (and will not instruct IDS Holdco Limited to) seek repayment of the loans due at the balance sheet date for at least the next 12 months and that IDS plc will provide further support to the Company, to ensure the company 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. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

However, continued support is dependent on the ability of the IDS plc being able to settle its liabilities as they fall due. The Directors of IDS plc have concluded that a material uncertainty exists over the IDS plc Group's ability to continue as a going concern as, on 29 May 2024, IDS plc, the Company's ultimate parent company, announced that it was recommending an offer of 370 pence per IDS share from EP Group for the entire issued share capital of IDS plc not already owned by EP Group and its affiliates, namely VESA Equity Investment S.a.r.l. (Vesa Equity). The offer follows significant negotiation including a number of earlier proposals from EP Group (the first of which was made on 9 April 2024 at a price of 320 pence per share in cash). The parent company IDS plc has a number of financial liabilities in the form of unsecured senior fixed rate notes in place with a carrying value of £1,454 million at 31 March 2024 and a bank syndicate loan facility of £925 million undrawn at 28 June 2024, as well as other contractual arrangements which contain provisions in relation to change of control of IDS plc. Upon a change of control, the bank syndicate loan facility would be subject to renegotiation which could result in withdrawal. In addition, the fixed rate notes contain provisions that in the event of a change of control of IDS plc together with an adverse credit rating change (downgrade to a non-investment grade rating), or credit rating withdrawal, the loan notes can be redeemed at the option of the noteholders. Whilst the IDS plc Board have been seeking assurances in relation to EP Group financing arrangements through due diligence and negotiation of contractual commitments, the financing arrangements of EP Group are outside of the control of the Board. Further details are described in the International Distribution Solutions plc Annual Report and Financial Statements 2023-24, which are available from www.internationaldistributionsservices.com/results or the Company Secretary, 185 Farringdon Road, London, United Kingdom, EC1A 1AA. The Directors have concluded that the extent of the uncertainty related to whether existing finance of IDS plc will be recalled following a change in control, together with a lack of visibility or control over the availability of funding following a change in control, are conditions that constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and that it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Based on their enquiries, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis, as they have concluded that the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements (the going concern assessment period). However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these Financial Statements are consistent with those in the Annual Report and Financial Statements for the 52 weeks ended 26 March 2023, along with the adoption of new and amended accounting standards with effect from 27 March 2023 as detailed below:

New and amended accounting standards adopted in 2023-24

None of the following new and amended standards have a material impact on the financial performance or position of the Company.

IFRS 17 'Insurance Contracts'

This new standard aims to increase transparency and reduce diversity in the accounting for insurance contracts and allow users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

These amendments require disclosure of material accounting policies instead of significant accounting policies.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

This is intended to improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and distinguish changes in accounting estimates from changes in accounting policies.

Definition of Accounting Estimates – Amendments to IAS 8

This amendment aims to differentiate between changes in accounting policies and changes in accounting estimates and reduce diversity in this regard in companies' financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

These amendments clarify whether the initial recognition exception applies to certain transactions that often result in both an asset and a liability being recognised simultaneously.

International Tax Reform Pillar Two Model Rules – Amendments to IAS 12

These amendments introduce a mandatory exemption from recognising deferred tax assets and liabilities related to Pillar Two income taxes.

Accounting standards issued but not yet applied

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

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 Disclosures.
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7
- Lack of exchangeability – Amendments to IAS 21
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
- IFRS 18 Presentation and Disclosure in Financial Statements

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

Profit/(loss) on disposal of property plant and equipment – income statement re-presentation

Profit/(loss) on disposal of property plant and equipment has been re-presented in the income statement within operating profit/(loss), previously presented as an operating specific item, after operating profit/(loss).

Sources of estimation uncertainty and critical accounting judgements

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

Significant accounting estimates

Pensions

Defined benefit obligation

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or changes in assumptions will be reflected in the Company's consolidated statement of comprehensive income. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP and DBCBS pension plans are included within Note 21.

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Company applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. For the main classes of assets:

- Equities listed on recognised stock exchanges are valued at the closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted.
-

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

- 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 including illiquid funds are valued using the net asset valuations produced by fund managers, which includes any necessary cashflow adjustments for lagged valuations.
- 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 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 21.

Defined benefit cash balance section (DBCBS) constructive obligation

The DBCBS was introduced in the Company's reporting year 2018-19. In addition to recognising its legal obligations under the DBCBS rules, the Company also recognises any constructive obligation arising from the entity's informal practices. Although there is no legal obligation on the Company or DBCBS Trustees to award increases to the DBCBS lump sum benefits to members in future years, since its inception, the Company has included an accounting constructive obligation in relation to annual increases.

When the DBCBS commenced in 2018-19, the Directors agreed that an appropriate IAS 19 accounting treatment was to recognise a 'specific' constructive obligation of CPI plus 2% in respect of annual increases over the lifetime of the scheme, with any differences compared with actual increases awarded being recognised as an experience gain/loss through other comprehensive income (OCI).

As a result of past experience, the Directors have agreed that the constructive obligation should change, commencing in 2024-25, to a non-specific constructive obligation, calculated based on the average of the previous five years of increases, but reserving the right to adjust the percentage addition to CPI if future increase expectations are significantly different to the calculated figure. The assumed future increases at 31 March 2024 are CPI plus 1.2% for accounting purposes.

The Company's appointed actuary has determined that a change to a constructive obligation to CPI plus 1.2% has resulted in a £172 million reduction in the DBCBS liability at 31 March 2024, which has been recognised as a 'past service credit' in the income statement as per IAS 19. Any future changes will be recognised through OCI to the extent that the methodology for calculating the assumption remains the same.

Deferred revenue

The Company 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, referred to as Stamps in the hands of the Public ('SITHOP'). Management must assess the value of deferred revenue in relation to SITHOP, and this requires a degree of estimation. These estimates require assumptions over various factors as set out below and were there to be significant changes in these estimates, the amount recognised in respect of SITHOP could materially impact the carrying value of the liability. Management utilises a number of different data sources to calculate the estimated SITHOP liability, given that stamps can be held and used for varying time periods. Royal Mail introduced barcoded stamps in February 2022 to replace non-barcoded stamps. A Stamp Swap Out scheme (where customers could swap out their existing unbarcoded stamps for barcoded stamps) was launched on 31 March 2022. Unbarcoded stamps became invalid for postage in August 2023.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Since the official introduction of barcoded stamps, Royal Mail has been developing a new methodology to calculate the SITHOP balance by using the barcode scan data. The new methodology uses barcode scan data to build a profile of how long stamps are held by customers before being used for postage, this profile is referred to as 'usage curve'. In building this profile it is necessary to estimate the month in which stamps are sold as there is no unique scan of individual stamps at the time of sale. This is estimated through 'bucketing' which makes the assumption that small groups of sequential barcodes ('buckets') are sold at a similar time and that the first stamp scanned in the bucket indicates the month of sale for all stamps in that bucket. The new methodology is reliant on having sufficient scan data history to develop the usage curves over a sufficient length of time and is therefore being used to calculate the SITHOP balance for the first time in 2023-24, now that sufficient scan data is available. The new methodology is based on actual scan data which seeks to estimate when the performance obligation in relation to stamp sales has been fulfilled and as such, is more data driven and less reliant on historic trends and judgements to reflect posting patterns of customers, as was necessary in the previous methodology. Given the impact of this change in methodology on future periods is dependent on sales made in future period, it is impractical to quantify this impact and has therefore not been disclosed.

At 31 March 2024 the Company recognised £138 million (2022-23: £140 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. This is materially consistent with the number that would have been recognised under the previous methodology and therefore the future impact of the change on the income statement is also not material.

The usage curves in conjunction with a number of assumptions are applied to historic sales to derive the deferred revenue liability.

Management must exercise a degree of estimation in deriving the SITHOP balance in relation to the following:

- Products removed from both scan data and sales data (to reflect that certain stamps are not typically purchased to be used e.g. collector stamps).
- Non-scan percentage (which refers to the estimate of stamps that are not scanned as they are manually sorted and therefore need to be reflected in the usage curve).
- Bucket size – referring to the number of stamps grouped together as part of estimating the month of sale.
- Method of extrapolating the usage curve beyond the 24 months for which actual scan data is not currently available, the usage curve is extrapolated out to 36 months.
- Level of breakage (which refers to the value of stamps sold that management estimate will not be used, and therefore the likelihood of a performance obligation being required is remote).
- Breakage period – the number of months after which Management considers it a remote possibility that any remaining stamps will be utilised. This is estimated to be after 36 months.
- Buy forward of stamps (refers to an adjustment required to reflect the change in customer behaviour in relation to purchasing stamps in advance of price increases).
- Retail stamp stock days – stamps sold direct to retailers for onwards sale to the public are included in the model but assumes a stock holding period by retailers before being included in the usage curve.

The Company has performed sensitivity analysis of reasonably possible changes in significant assumptions as follows:

- Increasing the bucket size for non-Christmas stamps from three sheets or books to four increases SITHOP by £6 million, whilst decreasing it from three sheets or books to two would reduce the estimate by £13 million.
- A 5% change in non-scan percentage changes the SITHOP estimate by £5 million.
- Increasing or decreasing the gradient when extrapolating the usage curves (changing the speed at which the usage flattens by 20%) changes SITHOP by c.£5-10 million.
- Increasing the breakage period from 36 to 48 months increases the SITHOP estimate by £14 million, whilst reducing the breakage period to 24 months reduces the SITHOP estimate by £21 million.

Although the impact of the assumptions are individually not material, in combination they could have a significant impact on the SITHOP balance.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Royal Mail excluding Parcelforce Worldwide CGU impairment test

In accordance with IAS 36, Management has performed an impairment assessment of the Royal Mail CGU whenever events or circumstances have indicated that the value of the balance sheet may not be recoverable. In 2023-24, this has resulted in an impairment charge of £48 million (2022-23 £535 million charge).

In the prior year the impairment review was carried out on a pre-IFRS 16 basis. This method included IFRS 16 lease liabilities in the carrying value of the CGU, excluded lease liabilities from the discount rate calculations and included the cash flows associated with lease repayments in the future cash flows. In the current year, the impairment calculation has been performed on a post-IFRS 16 basis with consequential changes to the carrying value, discount rate and future cash flows applied. The CGU carrying value of £1,925 million is therefore higher by c.£900 million to reflect this change when compared with the pre-IFRS 16 basis. There was no material difference in the impairment assessment as a result of the change in methodology.

In assessing whether the Royal Mail CGU remains impaired, the carrying value of the Royal Mail CGU of £1,925 million on a post-IFRS 16 basis (2022-23: £1,439 million on a pre-IFRS 16 basis) was compared to its recoverable amount. The recoverable amount is the higher of its Value in use (VIU) and its Fair value less cost to dispose (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 2024 five-year Business Plan reflects both the costs and benefits associated with this transformation.

Royal Mail has a robust process for tracking and managing environmental policy and legislation in the UK and is aiming to meet changing customer expectations for lower carbon alternatives. As such, management have considered the implications for the forecast cash flows in the five-year period, and the assumptions in the Business Plan reflect management's current climate strategy.

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 to which an entity is not yet committed, at the balance sheet date. The VIU approach, after adjusting for the restructuring and transformational cash flows, resulted in a significant further impairment.

Management therefore assessed the recoverability of the Royal Mail CGU using the alternative FVLCD methodology. The FVLCD considers the valuation from a 'market participant' perspective. 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 2024 five-year Business Plan as the base of the discounted cash flows in the FVLCD model (Level 3 fair value inputs). They then considered their assumptions in the context of information that would be available to a market participant. Cash flow adjustments have been made to reflect the risk in the plan.

Key assumptions in the impairment assessment

Expected revenue and operating margin performance: Forecast cash flows are based on the five-year Board Business Plan approved in April 2024.

The key inputs and assumptions underlying the Business Plan include the economic impact driven by ongoing macro-economic headwinds. Following agreement with the CWU of the Business Recovery, Transformation and Growth agreement in July 2023, it does not assume any further industrial action taking place. The plan assumes 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 agreed and benefits realisation from productivity improvements, including through lower absence, new T&Cs for new joiners and delivery gap closure. The plan does not anticipate any regulatory support from Ofcom or Government, for example a change in the scope of the USO.

To reflect a market participant's view, a risk adjustment has been applied to the plan cash flows to reflect macro-economic risks to the Business Plan assumptions.

Discount rates: The discount rate is based on the UK-specific post tax discount rate of 10.5% (2022-23: 11.3%), which reflects a risk premium a market participant would apply in order to reflect uncertainty in terms of ability to deliver revenue growth and improve operating margin. In deriving the risk premium a market participant would consider past performance in terms of delivering transformational change, and the significant change and efficiency programme to be delivered.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Property proceeds: Adjustments have been made to the real estate proceeds assumed in the Business Plan to reflect current market conditions and to better represent a market participant's view of realisable sales proceeds.

Recoverable amount

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 that was below the carrying value at the year-end, and therefore a further impairment charge of £48 million (2022-23: impairment charge of £539 million). The additional impairment charge in the year is mainly as a result of the deterioration in the property market since the previous year end resulting in lower property disposal proceeds included in the cash flows.

Sensitivity to changes in assumptions

The valuation of the Royal Mail 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, 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 a reasonable possibility in the future for the business to be restored to its full carrying value.

The following represent key areas of sensitivity in the model:

Regulation: The plan does not anticipate any regulatory support from Ofcom or Government, for example a change in the scope of the USO. Management believes modernisation of the USO is critical for margins to be materially improved and for the sustainability of the USO. Ofcom have defined a commercial rate of return for the regulated business in the range of 5-10% EBIT margin. Regulatory reform could materially improve the prospects and valuation of the business.

Market: if parcel growth rates are 1% per annum more positive this would result in a valuation of £3.1 billion but if parcel growth reduced by 1% it would result in a valuation of £570 million. If letter growth rates are 1% per annum less than has been assumed, this would result in a valuation of £1.0 billion.

Discount rate: Whilst we have risk-adjusted the plans for the purposes of the impairment model, further delivery risk remains that the planned change programmes are unable to progress at the rate targeted in the FVLCD model. An increase in the discount rate by a further 100 bps reflecting increased uncertainty would result in a valuation of £1,736 million and an implied further impairment of c.£140 million (2022-23: valuation of £787 million and further impairment of £113 million (pre-IFRS 16 basis)). A decrease in the discount rate of 100 bps would result in a valuation of £2,039 million and an implied impairment reversal of c.£160 million (2022-23: valuation of £1,038 million and implied reversal of £138 million (pre-IFRS 16 basis)).

Property proceeds: Current property proceeds are included at Alternative Use Value (AUV) in the cash flow workings. Using the current 'red book' valuations would result in a valuation of £1,845 million and an implied further impairment of c.£30 million.

Combined sensitivities: An 11% discount rate and 1% terminal growth rate would result in a valuation of £1,861 million. In order for there to be a full reversal of the impairment the discount rate would need to reduce by 240 bps, or the terminal growth rate would need to increase to 3.4% (2022-23: discount rate reduction of 175 bps and terminal growth rate increase to 2.0%).

Other estimates

Provisions – industrial diseases

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

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

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

In view of the above, management has applied a consistent approach to that of previous years and recognised a provision at 31 March 2024 between the medium and high estimates provided by the actuarial consultant. There has been no release of the provision in 2023-24 (2022-23 £10 million – recognised in the income statement as an operating specific item). Movement in the provision has been mainly driven by the settlement of claims, resulting in a closing balance at 31 March 2024 of £39 million (2022-23: £44 million) (see Notes 5 and 20).

A 50 bps decrease to the 4.39% discount rate used at 31 March 2024 would result in a £2 million increase in the overall provision. Any income statement movements arising from a change in accounting estimate are recognised as an operating specific item, subject to the Company's materiality threshold for such items.

Accounting policies

Climate change

When preparing the financial statements, the Directors consider the impact of climate change, particularly in the context of risks identified in the TCFD disclosure in the IDS plc Group 2023-24 Annual Report and Financial Statements. No material impact on the financial reporting judgements and estimates has been identified.

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

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

Revenue

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

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

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

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

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

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

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

Costs

The following costs are recognised in the Financial Statements on an accruals basis of accounting.

People costs

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

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators. These costs are disclosed separately on the face of the income statement

Infrastructure costs

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Other operating costs

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

The following are explanations of other cost measures:

Operating specific items

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

- *Legacy/other items*

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

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

Impairment of CGUs are considered to be 'significant accounting estimates' (see section above for more details). Impairments of investments in subsidiaries relate to instances where the carrying value of the investment is higher than the recoverable amount of the subsidiary, which is determined by its net assets value. Reversal of such impairments occurs when the net assets increase to the extent that they exceed the carrying value of the investment.

- *Regulatory and legal charges*

These are charges pertaining to obligations for Royal Mail in relation to regulated quality of service and legal claims.

Non-operating specific items

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

- *Net pension interest*

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

Share-based payments

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

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

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

Income tax and deferred tax

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

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

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

The Company has applied the exception to the requirements of IAS 12 and has not recognised nor has it disclosed any information about deferred tax assets and liabilities related to the OECD Pillar Two income taxes.

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

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

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

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

Cash Generating Units (CGUs) of the Company

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

Impairment test for Cash Generating Units (CGUs)

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

Royal Mail excluding Parcelforce Worldwide CGU

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

Parcelforce Worldwide CGU

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

Dividends

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

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

Software	3 to 10 years
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Investments in subsidiaries and associates

Investments in subsidiaries and associates within the Company's Financial Statements are stated at cost less any accumulated impairment losses (see note 13).

Borrowing costs

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

Non-current assets held for sale

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

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

Leases

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate incremental borrowing rate (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. Lease interest is shown within finance costs in the income statement (see Note 8). The lease liability may also be remeasured where there are changes in future lease payments or changes in the assessment of future extension or termination options.

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

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

The Company has lease break options in place for a majority of its property lease agreements. These options provide the Company with greater flexibility in managing the estate. These break options have in the main, historically, not been exercised due to ongoing operational requirements. Management has therefore made the decision that the reasonably certain length of the lease is the full lease term, assuming the break option will not be exercised. In only exceptional cases, when reasonably certain that it will enact the break, are leases recognised to the break date only. The unrecognised non-discounted cash flows in relation to these leases are £17 million (2022-23: £10 million).

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

IFRS 16 – Incremental borrowing rates (IBR)

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

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

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

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

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

Trade receivables

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

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

	2023-24 %	2022-23 %
Not yet overdue	0.22	0.18
Past due not more than one month	1.43	1.73
Past due more than one month and not more than two months	8.22	10.56
Past due more than two months	40.13	52.71

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

Inventories

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

Trade payables

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

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

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

The balance owed on the facility at 31 March 2024 was £18 million (26 March 2023: £24 million).

Financial instruments

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

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

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

Financial assets measured at amortised cost

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

Financial liabilities measured at amortised cost

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

Cash and cash equivalents

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

Bank overdrafts (in a cash pool)

Bank overdrafts represent the gross overdrawn balances within the Company that generally form part of a net £nil cash pool within the IDS plc Group. These form an integral part of the Company's cash management.

Financial assets – pension escrow investments

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Financial assets – other investments

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

Derivative financial instruments and hedging programmes

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

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

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

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

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

Fair value measurement of financial instruments

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

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

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

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

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

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

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

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

Provisions

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are explained further in the 'Other estimates' part of this Note 1.

Contingent liabilities

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

Contingent assets

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

Pensions and other post-retirement benefits

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

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

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

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

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

Intercompany trading

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

Foreign currencies

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

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

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

2. Revenue

	53 weeks 2024 £m	52 weeks 2023 £m
Parcels	4,093	3,917
Letters	3,726	3,501
Total	7,819	7,418

During the year, around £230 million (2022-23: £250 million) of revenue was recognised which was previously held as a deferred revenue balance at 26 March 2023 (2022-23: 27 March 2022). This balance largely relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' (see Note 18).

3. People costs and numbers

	53 weeks 2024 £m	52 weeks 2023 £m
Wages and salaries ¹	(4,252)	(3,929)
Social security costs	(438)	(411)
Pension costs	(399)	(677)
Temporary resource	(364)	(355)
Total people costs	(5,453)	(5,372)

¹ Wages and salaries include £12 million (2022-23 £33 million) in relation to voluntary redundancy costs.

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

	Headcount		Average employees	
	At 31 March 2024	At 26 March 2023	At 31 March 2024	At 26 March 2023
Total employees²	125,455	124,545	123,474	130,008

² These people numbers represent permanent employees

Royal Mail Group Limited

4. Other operating costs

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

	53 weeks 2024 £m	52 weeks 2023 £m
Distribution and conveyance costs		
Charges from overseas postal administrations	(242)	(266)
Fuel costs	(146)	(159)
Infrastructure costs		
Depreciation and amortisation	(292)	(428)
Depreciation of property, plant and equipment	(242)	(322)
Amortisation of intangible assets (software)	(50)	(106)
Other costs		
Post Office Limited charges	(313)	(317)
Inventory expensed	(40)	(46)
Intercompany property rent	(14)	(14)

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

Regulatory body costs		
Ofcom administrative charge	(5)	(6)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	(1)	(1)
Total	(6)	(7)

Auditor's remuneration amounted to £345,000 (2022-23: £320,000) for the audit of the statutory Financial Statements and £169,000 (2022-23: £158,000) for other non-audit services relating to regulatory reporting.

5. Operating specific items

	53 weeks 2024 £m	52 weeks 2023 £m
Impairment of Royal Mail excluding Parcelforce Worldwide	(48)	(535)
Royal Mail damages award	-	35
Regulatory and legal charges	(37)	-
Legacy/other items	3	13
(Impairment)/reversal of impairment of investment in subsidiary	(44)	5
Total	(126)	(482)

In reassessing the prior year impairment of the Royal Mail excluding Parcelforce Worldwide CGU, the carrying value of the CGU of £1,925 million (2022-23: £1,439 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 the FVLCD methodology resulted in a further impairment charge of £48 million (2022-23: £535 million). See Note 1 for further details.

Regulatory and legal charges of £37 million represent the best estimate of costs to settle present obligations for Royal Mail in relation to regulated quality of service and legal claims.

Legacy/other items mainly comprise a £10 million credit (2022-23: £nil) for court awarded compensation resulting from the recovery of assets (£1 million received, £9 million receivable), following an investigation in 2016 and 2017 into an under declaration of mail fraud, mainly offset by £5 million specific intangible asset write-offs. The prior year credit of £13 million largely comprised a £10 million release of the industrial diseases provision.

The prior year £35 million 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.

5. Operating specific items (continued)

The £44 million impairment has resulted from a decrease in the net assets of the Company's subsidiary Royal Mail Estates Limited ('RMESL') to below the carrying value of the Company's investment in RMESL. The investment held by the Company in RMESL was impaired to its recoverable amount of £309 million, which represents the fair value of its properties (external RICS valuations) and its other net assets (fair value assumed to equal carrying value).

6. Directors' emoluments

	53 weeks 2024	52 weeks 2023
Short-term employee benefits	(2,042)	(1,839)
Post-employment benefits	-	(5)
Share-based payments	(512)	(1,044)
Total	(2,554)	(2,888)

There were no Directors in the Company's defined benefit pension scheme (2022-23: none) and two Directors (2022-23: two) in the Company's defined contribution pension scheme during the year.

The total amount payable to the highest paid Director in respect of emoluments was £882,371 (2022-23: £760,907), which includes base salary, benefits, pension cash allowance and short-term incentive.

7. Income from investments

	53 weeks 2024	52 weeks 2023
Royal Mail Estates Limited	64	-
Royal Mail Property and Facilities Solutions Limited	12	11
Royal Mail Courier Services Limited	23	-
Storefeeder Ltd	4	-
Intersoft Systems and Programming Limited	-	1
Total	103	12

8. Net finance costs

	53 weeks 2024	52 weeks 2023
Interest payable on finance leases	(30)	(24)
Net interest payable to ID5 Group entities	(7)	(17)
Other miscellaneous interest payable	(7)	(8)
Finance costs	(44)	(49)
Finance income	27	14
Total	(17)	(35)

9. Taxation

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

	53 weeks 2024	52 weeks 2023
Tax credited/(charged) in the income statement:		
Corporation tax credit for the year	-	4
Tax over-provided in previous years	10	10
Total current tax credit	10	14
Deferred tax:		
Derecognition of deferred tax asset	-	(131)
Amounts under-provided in previous year	-	(14)
Total deferred tax charge	-	(145)
Total tax credit/(charge)	10	(131)

Royal Mail Group Limited

9. Taxation (continued)

Tax credit on items taken to other comprehensive income:

	53 weeks 2024 £m	52 weeks 2023 £m
Deferred tax:		
Tax credit in relation to remeasurement gains of the defined benefit pension schemes	-	6
Tax credit on revaluation of cash flow hedges	-	18
Total deferred income tax credit	-	24
Total tax credit in the statement of other comprehensive income	-	24

Tax credit on items taken directly to equity:

	53 weeks 2024 £m	52 weeks 2023 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	-	(1)
Total deferred income tax charge recognised directly in equity	-	(1)

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

A reconciliation of the tax credit/(charge) in the income statement and the UK rate of corporation tax applied to accounting profit for the 53 weeks ended 31 March 2024 and 52 weeks ended 26 March 2023 is shown below:

	53 weeks 2024 £m	52 weeks 2023 £m
Loss on ordinary activities before tax	(93)	(976)
At UK statutory rate of corporation tax of 25% (2022-23: 19%)	23	185
Tax over/(under)-provided in previous years	10	(4)
Non-deductible expenses	(7)	(2)
Tax reliefs and incentives	9	5
Tax effect of property disposals	3	2
Tax effect of closure of Royal Mail Pension Plan to future accrual	(2)	(2)
Net pension interest credit	36	22
Impairment (loss)/gain of investment in subsidiary and associate	(11)	1
Regulatory and legal charges	(5)	-
Derecognition of brought forward deferred tax assets	-	(131)
Net increase in tax charge resulting from non-recognition of certain deferred tax assets and liabilities	(72)	(214)
Group relief surrendered to other Group companies for no payment	-	(2)
Non-taxable dividend received	26	2
Super deduction enhanced capital allowances	-	7
Tax credit/(charge) in the income statement	10	(131)

Royal Mail Group Limited

9. Taxation (continued)

(c) Net deferred tax assets

There has been no movement on deferred tax in the reporting year.

The Company assesses the recoverability of deferred tax assets at each reporting date. In order to recognise a deferred tax asset, it must be probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised. 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 whilst for the next three years this shows taxable profits, there are negligible taxable profits in the early years. Therefore, there remains sufficient uncertainty that future taxable profits will be generated. As a result, management continues to not recognise any deferred tax asset in respect of the Company's losses or other temporary differences.

(d) Unrecognised temporary differences

At 31 March 2024, the Company had the following unrecognised tax losses and temporary differences:

	At 31 March 2024		At 26 March 2023	
	£m		£m	
	Unused losses and deductible temporary differences	Tax value	Unused losses and deductible temporary differences	Tax value
Losses available for offset against future taxable income	1,165	291	683	171
Pensions temporary differences	76	19	158	40
Deferred capital allowances	251	63	361	90
Provisions and other	48	12	43	11
Total	1,540	385	1,245	312

The Company has not recognised these deferred tax assets on the basis that there is not sufficient certainty of its capacity to utilise them in the future. The losses available for offset against future taxable income have no expiry date. The Company also has temporary differences of £187 million (2022-23: £173 million) in respect of capital losses, the tax effect of which is £47 million (2022-23: £43 million) in respect of assets previously qualifying for industrial buildings allowances. These losses have no expiry date. Further temporary differences exist in relation to £297 million (2022-23: £297 million) of gains for which rollover relief has been claimed, the tax effect of which is £74 million (2022-23: £74 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Royal Mail Group Limited

10. Property, plant and equipment

	Land and buildings £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost					
At 27 March 2023	3,483	958	1,072	328	5,841
Reclassification	(1)	-	-	(2)	(3)
Modifications	26	(14)	-	-	12
Additions	76	78	40	21	215
Disposals	(12)	(150)	(10)	(13)	(185)
Disposals to Royal Mail Estates Limited	(1)	-	-	-	(1)
At 31 March 2024	3,571	872	1,102	334	5,879
Depreciation					
At 27 March 2023	2,044	729	911	271	3,955
Charge for the year (see Note 4)	173	32	22	15	242
Impairment (see Note 5)	1	(3)	11	6	15
Disposals	(13)	(65)	(10)	(13)	(101)
At 31 March 2024	2,205	693	934	279	4,111
Net book value					
At 31 March 2024	1,366	179	168	55	1,768
At 26 March 2023	1,439	229	161	57	1,886

Modifications mainly relate to IFRS 16 lease modifications.

Depreciation rates are disclosed within the accounting policies Note 1. No depreciation is provided on land, which represents £124 million (2022-23: £124 million) of the total cost of properties.

The net book value of the Company's property, plant and equipment includes £38 million (2022-23: £159 million) in respect of assets in the course of construction. The net book value of the Company's land and buildings includes £292 million (2022-23: £266 million) in respect of building fit-out.

The £215 million (2022-23: £234 million) additions include £1 million (2022-23: £3 million) borrowing costs capitalised at a rate of 3.52% (2022-23: 2.67%) in relation to specific qualifying assets.

11. Leases

The Company primarily leases office buildings and letter and parcel processing facilities. At 31 March 2024 the Company held approximately 641 land and building leases (2022-23: 658). The Company also has leases for some of its vehicle fleet and plant and equipment used in the operations. Leases are negotiated on an individual basis and may include extension or termination options.

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

	At 31 March 2024	At 26 March 2023
	Present value of lease payments £m	Present value of lease payments £m
Lease liabilities		
Current liabilities		
Lease liabilities due within one year	(156)	(142)
Non-current liabilities		
Lease liabilities due between one and five years	(498)	(450)
Lease liabilities due beyond five years	(274)	(334)

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

Royal Mail Group Limited

11. Leases (continued)

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
31 March 2024					
Cost	1,141	148	498	16	1,803
of which additions	30	4	77	12	123
Accumulated depreciation and impairment	(430)	(136)	(396)	(10)	(972)
Depreciation charge	(100)	(3)	(18)	(1)	(122)
Impairment (see Note 5)	-	(1)	(24)	(5)	(30)
Carrying amount	711	12	102	6	831

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
26 March 2023					
Cost	1,096	145	477	4	1,722
of which additions	19	3	24	-	46
Accumulated depreciation and impairment	(341)	(133)	(392)	(4)	(870)
Depreciation charge	(108)	(6)	(35)	(1)	(150)
Impairment charge (see Note 5)	-	(11)	(73)	-	(84)
Carrying amount	755	12	85	-	852

Leases are presented in the income statement as detailed below.

	53 weeks 2024 £m	52 weeks 2023 £m
Lease income/(costs)		
Other operating income		
Sublease income	3	4
Material expenses		
Expenses from short-term/low-value leases	(21)	(35)
Depreciation and impairment losses		
Depreciation on right-of-use assets	(122)	(150)
Net finance costs		
Interest expense on lease liabilities	(30)	(24)

12. Intangible assets

	£m
Cost	
At 27 March 2023	1,096
Additions	90
Disposals	(3)
Reclassifications	3
At 31 March 2024	1,186
Amortisation and impairment	
At 27 March 2023	929
Charge for the year (see note 4)	50
Impairment (see Note 5)	40
Disposals	(3)
At 31 March 2024	1,016
Net book value	
At 31 March 2024	170
At 26 March 2023	167

Royal Mail Group Limited

12. Intangible assets (continued)

The intangible assets outlined above relate to software, have finite lives and are being written down on a straight-line basis. The £90 million (2022-23: £75 million) additions include £1 million (2022-23: £nil) borrowing costs capitalised at a rate of 3.52% (2022-23: 2.67%) in relation to specific qualifying assets.

13. Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
Cost			
At 27 March 2023	530	1	531
At 31 March 2024	530	1	531
Impairment			
At 27 March 2023	156	-	156
Impairment (see note 5)	44	-	44
At 31 March 2024	200	-	200
Net book value			
At 31 March 2024	330	1	331
At 26 March 2023	374	1	375

Investments in subsidiaries

The £330 million investment in subsidiaries mainly relates to the Company's investments in Royal Mail Estates Limited (£309 million) and RM Property and Facilities Solutions limited (£14 million).

The Company's subsidiaries and associates are listed in Note 32.

14. Financial assets - pension escrow investments

The pension escrow investments of £102 million at 31 March 2024 (2022-23: £208 million) comprise Royal Mail Pension Plan (RMPP) investments of £89 million (2022-23: £195 million) and Royal Mail Collective Pension Plan (RMCPP) investments of £13 million (2022-23: £13 million).

15. Inventories

	At 31 March 2024 £m	At 26 March 2023 £m
Supplies, equipment and materials	14	24
Merchandise	7	8
Total	21	32

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

16. Trade and other receivables

	At 31 March 2024 £m	At 26 March 2023 £m
Trade receivables	814	642
Prepayments and accrued income	64	74
Interest	2	2
Amounts owed by IDS plc Group entities	-	6
Total	880	724

Royal Mail Group Limited

16. Trade and other receivables (continued)

	At 31 March 2024 £m	At 26 March 2023 £m
At 27 March 2023 and 28 March 2022	(23)	(34)
Receivables provided for during the year	(24)	(9)
Release of allowance	13	13
Utilisation of allowance	9	7
At 31 March 2024 and 26 March 2023	(25)	(23)

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

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

	At 31 March 2024 £m	At 26 March 2023 £m
Not yet overdue	745	591
Past due not more than one month	59	37
Past due more than one month and not more than two months	4	3
Past due more than two months	6	11
Total	814	642

17. Cash and cash equivalents

	At 31 March 2024 £m	At 26 March 2023 £m
Cash at bank and in hand	1	18
Cash equivalent investments: Short-term bank and money market fund investments	208	431
Total cash and cash equivalents in the balance sheet before overdrafts	209	449

18. Trade and other payables

	At 31 March 2024 £m	At 26 March 2023 £m
Trade payables and accruals	(890)	(824)
Advance customer payments (mainly for stamps held, not yet used by customers)	(227)	(250)
Social security	(87)	(72)
Amounts due to IDS plc Group entities	(672)	(664)
Capital expenditure payables	(19)	(27)
Total	(1,895)	(1,837)

Amounts due to IDS plc Group entities include £616 million (2022-23: £130 million) loaned to the Company by its parent company IDS Holdco Limited. The increase in this loan is due to the novation to IDS Holdco Limited of the €550 million loan (related to the issue of a €550 million Bond in October 2019) from IDS plc to the Company (2022-23: £486 million).

The €550 million bond related loan was fully hedged by the Company for foreign currency risk, prior to novation, by a cross-currency swap. During the year, foreign currency exchange gains on the euro-denominated loans from IDS plc Group entities amounted to £12 million (2022-23: £52 million gain) although these were offset by foreign exchange losses of £12 million on the cross-currency swap (2022-23: £26 million loss) and in 2022-23 by foreign exchange losses of £26 million on the related loan to IDS Holdco Limited.

The £616 million loan is repayable on demand by IDS HoldCo Limited. The IDS plc Board has indicated that they do not intend to (and will not instruct IDS Holdco Limited to) seek repayment of the loans in the next 12 months. Intergroup trading balances also exist with Royal Mail Estates Limited £44 million (2022-23: £28 million) and RM Property and Facilities Solutions Limited £16 million (2022-23: £11 million).

Royal Mail Group Limited

18. Trade and other payables (continued)

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

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

The balance owed on the facility at 31 March 2024 was £18 million (26 March 2023: £24 million).

19. Bank overdrafts

	At 31 March 2024 £m	At 26 March 2023 £m
Bank overdrafts	(63)	(95)
Total	(63)	(95)

The overdrafts of £63 million consist of £56 million (2022-23: £89 million) overdrafts within a cash pool (offsetting other Group companies cash balances within the pool leaving a net credit balance on the pool at year end) and £7 million (2022-23: £6 million) of accounting overdrafts related to payments being processed but which have not cleared the bank account at the balance sheet date.

20. Provisions

	Specific items £m	Other £m	Total £m
At 27 March 2023	(47)	(131)	(178)
Arising during the year:			
- charged in operating specific items	(31)	-	(31)
- charged in other operating costs	-	(52)	(52)
- released in other operating costs	-	9	9
Reclassification to accruals	-	55	55
Utilised in the year	6	58	64
Unwinding of discount - industrial diseases claims	(1)	-	(1)
At 31 March 2024	(73)	(61)	(134)
Disclosed as:			
Current	(23)	(44)	(67)
Non-current	(50)	(17)	(67)
At 31 March 2024	(73)	(61)	(134)
Disclosed as:			
Current	(10)	(112)	(122)
Non-current	(37)	(19)	(56)
At 26 March 2023	(47)	(131)	(178)

Specific items provisions

Industrial diseases

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

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

Royal Mail Group Limited

20. Provisions (continued)

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 2024-25 and later years are based on recent levels of reporting, net of estimated levels of repudiation in more recent historical periods.

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

The Company has a rigorous process for ensuring that only valid claims are accepted. During the year, the rate by which liabilities are discounted increased by 53 bps to 4.39%, which resulted in a £2 million decrease of the provision at 31 March 2024 offset by a £2 million charge, leaving £39 million carried forward. £7 million of this provision is expected to be utilised in 2024-25 which relates to ongoing cases.

Regulatory and Legal

The regulatory and legal provisions are pertaining to obligations for Royal Mail in relation to regulated quality of service and legal claims.

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

Other provisions

During the year, settlements for the remaining voluntary redundancies relating to the right-sizing of the operational frontline were made, along with a number of current year, small ad-hoc voluntary redundancy schemes. £3 million of the provision was reclassified as accruals during the year due to more certainty and timing of the liability. £3 million of the provision remains at 31 March 2024.

The remainder of the provisions consists of property decommissioning obligations of £19 million, of which £2 million is expected to be utilised in 2024-25, £2 million within one to two years, £9 million within two to five years, and £6 million over a period greater than five years, and exposures resulting from legal claims incurred in the normal course of business of £39 million, expected to be utilised in 2024-25.

The prior year included £61 million in relation to the costs of a one-off payment of £500 per person to frontline employees as part of the pay agreement with the CWU, £55 million of this was reclassified as an accrual prior to payment.

21. Retirement benefit plans

Summary pension information

	53 weeks 2024 £m	52 weeks 2023 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs) ¹	(254)	(383)
Past service credit ²	172	-
UK defined contribution plan	(131)	(121)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions ³	(186)	(173)
Total	(399)	(677)
	At 31 March 2024 '000	At 26 March 2023 '000
UK pension plans – active membership		
UK defined benefit plan	59	65
UK defined contribution plan	57	57
Total	116	122

1. These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 14.8% (2022-23: 22.9%)) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high-quality corporate bonds and inflation) at the beginning of the reporting year. Also included are pensions administration costs for the RMPP of £9 million (2022-23: £11 million) and the DBCBS of £4 million (2022-23: £5 million).

2. During the year the constructive obligation to award annual increases to DBCBS members was revised from CPI plus 2% to CPI plus 1.2%, resulting in the recognition of a past service credit of £172 million (see Note 1 for more details).

3. 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.

In the period, the Company operated the following plans.

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.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

Defined Benefit plans

Royal Mail Pension Plan (RMPP)⁴ 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 as shown below.

	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.

4. 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 the asset values had recovered. The Company would be obligated to make the necessary contributions to ensure that members received at least the guaranteed lump sum amount. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the increases granted to date, management is however of the view that there is a requirement to recognise a constructive obligation to provide an increase to the lump sum for accounting purposes. The increase awarded from 1 April 2024 is CPI (at 6.7%) plus 0%. The liabilities of the scheme have been calculated assuming future increases of CPI plus 1.2%, although the nature of the scheme means that actual increases could be lower or higher than this amount.

The Company signed an updated Schedule of Contributions on 13 March 2024. This covers a period of five years from the date of certification of the schedule, i.e. until May 2029. In accordance with this schedule, the Company is required to make payments totalling 15.6% of pensionable payroll in respect of DBCBS. Contributions are payable in respect of periods prior to 1 February 2024 or after 30 June 2024. In the period between these two dates, employer contributions are paid instead into the RMPP Escrow per an agreement with the Pension Trustee. 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 assets.

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 who 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.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

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 Company makes no regular future service contributions.

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

The 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 of the Company's obligations under the plan have now been fully extinguished and the Company has therefore de-recognised all liabilities under the scheme as well as the corresponding assets that had previously represented the value of the bulk of annuity policies.

The Company's obligations under the RMSEPP have now been fully extinguished and the Plan was wound up in April 2024. The residual assets were returned to the Company after the remaining closure expenses and the deduction of withholding tax.

Unfunded pension

A liability of £1 million (2022-23: £1 million) has been recognised for future payment of pension benefits to a past Director.

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

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

The difference between the funding and accounting valuations for the DBCBS arises from the different financial assumptions used for the calculations of each, in particular the discount rates used and the assumptions for discretionary increases to the lump sum benefits. The discount rate used for funding purposes is higher than that used for accounting purposes. In addition, as described above, under IAS 19, the Company recognises a constructive obligation in respect of future increases to benefits until retirement, currently CPI plus 1.2% (see Note 1 for further details) 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.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

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 has been performed as at 31 March 2021 and was agreed on 17 May 2022
Valuation	The triennial valuation was calculated on a self sufficiency basis. The surplus calculated for the purposes of the March 2021 triennial valuation was £661 million. Based on a set of assumptions which form the basis for the March 2021 valuation and then rolled forward, the actuarial surplus at 31 March 2024 was estimated to be around £1,025 million.	An estimated funding position at 31 March 2024 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 £47 million at 31 March 2024.

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

	DBCBS		RMPP		RMSEPP	
	At 31 March 2024 £m	At 26 March 2023 £m	At 31 March 2024 £m	At 26 March 2023 £m	At 31 March 2024 £m	At 26 March 2023 £m
Fair value of plans' assets (21(b) below)	1,891	1,642	6,963	7,584	7	8
Present value of plans' liabilities ⁵	(1,951)	(1,787)	(4,501)	(4,581)	-	-
(Deficit)/surplus in plans (pre-withholding tax payable)	(60)	(145)	2,462	3,003	7	8
Withholding tax payable ⁶	n/a	n/a	(616)	(1,051)	(2)	(3)
(Deficit)/surplus in plans	(60)	(145)	1,846	1,952	5	5

5. The 2024 DBCBS liabilities have been reduced by a one-off past service credit of £172 million which has arisen from the change in constructive obligation.

6. Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus. Withholding tax was 35% in the prior year and has changed to 25% in the current year.

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

This surplus is presented on the balance sheet net of a withholding tax adjustment of £616 million (at 26 March 2023: £1,051 million) in respect of the RMPP, which represents the tax that would be withheld on the surplus amount. Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

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

Guaranteed Minimum Pensions (GMP)

Pension schemes are now under an obligation to address the issue of unequal Guaranteed Minimum Pensions (GMPs). 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 GMPs 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 GMPs 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 were transferred to another scheme before April 2012. The Trustee considers that the Lloyds judgment is likely to give rise to a residual liability for statutory transfers out which included GMP benefits between May 1990 and March 2012 and expects that this will require top-up payments to be made for affected former members. The Trustee is still reviewing historic data to calculate the exact expected impact, which will take some time to complete, but the Company's Corporate Actuary provisionally estimated the cost to be c.£6 million, based on historic values of transfers out of the scheme. This was charged to the income statement in the year ended 27 March 2022 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.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

Virgin Media Case

The Company is aware of the 2023 high court case that considered the validity of deeds where no Section 37 certificate (confirming that the minimum level of benefits had not been breached) was attached to the deed; and further understands that the case is being appealed with judgment expected in June 2024. The RMPP Trustees are of the view that the liabilities prior to 2012 have been discharged and the important rules changes since 2012 occurred in 2017 and 2018. Given that the ruling relates to contracted out benefits between 1997 and 2016, it is unlikely that these changes would be affected by the judgment. The Company will await the outcome of the appeal prior to assessing what, if any, impact there might be on the scheme balances. The Company considers this approach reasonable and appropriate.

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

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

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. No assumptions have been derived for RMSEPP at 26 March 2023 and 31 March 2024 since the scheme has now been fully bought out and the liabilities extinguished.

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

	At 31 March 2024	At 26 March 2023
Retail Price Index (RPI) – RMPP ^{7,11}	3.2%	3.2%
Retail Price Index (RPI) – DBCBS ^{7,11}	3.3%	3.2%
Consumer Price Index (CPI) – RMPP ^{7,11}	2.9%	2.9%
Consumer Price Index (CPI) – DBCBS ^{7,11}	2.9%	2.8%
Discount rate – RMPP ^{7,8}		
– nominal	4.9%	4.7%
– real (nominal less RPI)	1.7%	1.5%
Discount rate – DBCBS ⁹		
– nominal	4.8%	4.7%
– real (nominal less RPI)	1.5%	1.5%
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 – DBCBS benefits	CPI + 1.2%	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. 31 March 2024 assumptions are derived for RMPP and DBCBS only since the RMSEPP scheme was fully bought out in the year.

8. The discount rate reflects the average duration of the RMPP benefits of around 19 years (2022-23: 20 years). The reduction in duration is due to the increase in the liability discount rate and rounding.

9. The discount rate reflects the average duration of the DBCBS benefits of 11 years (2022-23: 13 years). The pension service cost applicable from 27 March 2023 is based on 27 March 2023 assumptions. The reduction in duration is due to the increase in the liability discount rate and rounding.

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), 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 heavy version of 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 CMI 2022 core projections (smoothing factor 7.5 with a long-term trend of 1.5% per annum, and weightings to experience in 2020, 2021 and 2022 of 0%, 0% and 25% respectively). The choice of the non-zero weighting to 2022 experience is driven by the fact that mortality was persistently higher for most of 2022 when compared to 2019, which was not solely due to COVID, suggesting that experience in 2022 may to some extent be indicative of future mortality.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

Sensitivity analysis for RMPP and DBCBS liabilities

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

Key assumption change	At 31 March 2024		At 26 March 2023	
	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	-	150	-	140
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% per annum	20	90	20	90
Decrease in discount rate of 0.1% per annum	20	90	20	90
Increase in CPI assumption (assuming RPI remains constant) of 0.1% per annum	20	20	20	20
Increase in constructive obligation of 0.1% per annum	20	-	20	-
Increase in inflation rate (both RPI and CPI simultaneously) of 0.5% per annum	100	470	110	480
Decrease in discount rate of 0.5% per annum	100	470	100	420
Increase in CPI assumption (assuming RPI remains constant) of 0.5% per annum	100	110	110	110
Increase in constructive obligation of 0.5% per annum	100	-	110	-

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 31 March 2024 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2024. 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.

The pension assets and liabilities of RMPP and DBCBS pension scheme in these financial statements represent 99.6% (2022-23: 99.7%) of the pension assets and liabilities as disclosed in the 2023-24 IDS plc Group Annual Report and Financial statements. The remaining pension assets and liabilities of 0.4% (2022-23: 0.3%) relates to RM Property and Facilities Solutions Ltd and are recognised in their financial statements, based on that Company's employees' membership in the RMPP and DBCBS pension schemes.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

b) RMPP, RMSEPP and DBCBS assets

	At 31 March 2024			At 26 March 2023		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	9	1	10	1	-	1
Overseas	60	8	68	17	10	27
Bonds						
Fixed interest – UK	107	49	156	129	51	180
– Overseas	579	140	719	484	162	646
Pooled investments						
Absolute return	-	232	232	-	381	381
Equity ¹²	60	-	60	84	-	84
Private equity ¹²	-	260	260	-	227	227
Fixed interest	-	35	35	171	106	277
Private debt	-	441	441	-	502	502
Property	-	78	78	-	51	51
Liability-driven investment ¹³	5,541	21	5,562	5,958	(42)	5,916
Property (UK)	-	466	466	-	531	531
Cash and cash equivalents	734	124	858	421	-	421
Other¹⁴	-	93	93	-	(5)	(5)
Derivatives	-	(177)	(177)	-	(5)	(5)
Total plans' assets	7,090	1,771	8,861	7,265	1,969	9,234

12. The equity and private equity assets in 2022-23 have been re-presented due to new information becoming available in the current year.

13. 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 31 March 2024 it included £6,044 million (26 March 2023: £5,435 million) of index-linked gilts and £213 million (26 March 2023: £553 million) in short-term money market funds, offset by negative fair value investments of £639 million (26 March 2023: £756 million) in repurchase agreements, £26 million (26 March 2023: £706 million) of bonds, £31 million (26 March 2023: £68 million asset) in cash and similar instruments and £nil million of swaps (26 March 2023: £90 million).

14. At 31 March 2024, funds amounting to £92 million had been redeemed but the cash has not yet been received and reinvested. These funds have therefore been classified as other assets.

Included within the Company's defined benefit pension scheme assets are assets with a fair value estimated to be £217 million that are based on non-observable inputs at 31 March 2024. 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 31 March 2024 (2022-23: £nil). £6.1 billion (2022-23: £5.4 billion) of HM Government bonds are primarily included in the liability-driven investments balance above. The plans' assets do not include property or other assets used by the Company or shares of International Distribution Services plc at 31 March 2024 (2022-23: £nil).

Royal Mail Group Limited

21. Retirement benefit plans (continued)

Risk exposure and investment strategy

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

Investment market movements	The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options), from time to time to manage risks whilst maintaining expected investment returns.
Interest rates and inflation changes	<p>The legacy RMPP section's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the liabilities. It has done this predominantly through investment in index-linked gilts and derivatives.</p> <p>The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than the RMPP.</p> <p>In the RMPP section, many of the inflation linked increases that apply are restricted to a maximum increase of 5% in any year. The scheme's rules therefore give some protection from the risk of significantly high levels of inflation.</p>
Equity exposure	Equity holdings totalling £95 million (2022-23: £61 million) were held at the discretion of the relevant investment managers under the terms of their mandates. These were held in the DBCBS.
Changes in life expectancy	<p>The RMPP's liabilities could be impacted by longer than expected life expectancy, resulting in higher than expected pay-out levels.</p> <p>Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.</p>
Changes in corporate and Government bond yields	<p>An increase in yields on AA-rated corporate bonds, used to set the IAS 19 discount rates, has led to a decrease in the IAS 19 liabilities.</p> <p>The legacy RMPP's assets include corporate bonds, HM Government bonds and interest rate derivatives to partly offset the impact of movements in the discount rate. The RMPP section is hedged against gilt movements to limit the impact on funding (and therefore cash) but, to the extent that gilts move differently to corporate bonds, the accounting liability is more exposed.</p>

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

Royal Mail Group Limited

21. Retirement benefit plans (continued)

c) Movement in RMPP assets, liabilities and net position

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Retirement benefit surplus (before withholding tax payable) at 27 March 2023 and 28 March 2022	7,584	11,122	(4,581)	(6,940)	3,003	4,182
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(9)	(11)	-	-	(9)	(11)
Pension interest income/(cost) ¹⁵	356	311	(214)	(194)	142	117
Total included in profit before tax	347	300	(214)	(194)	133	106
Amounts included in other comprehensive income - remeasurement (losses)/gains						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	178	2,668	178	2,668
Demographic assumptions	-	-	103	-	103	-
Experience assumptions	-	-	(81)	(196)	(81)	(196)
Return on plans' assets (excluding interest income)	(856)	(3,757)	-	-	(856)	(3,757)
Total remeasurement (losses)/gains of the defined benefit surplus	(856)	(3,757)	200	2,472	(656)	(1,285)
Other						
Benefits paid	(94)	(81)	94	81	-	-
Transfer between sections	(18)	-	-	-	(18)	-
Total other movements	(112)	(81)	94	81	(18)	-
Retirement benefit surplus (before withholding tax payable) at 31 March 2024 and 26 March 2023	6,963	7,584	(4,501)	(4,581)	2,462	3,003
Withholding tax payable	n/a	n/a	n/a	n/a	(616)	(1,051)
Retirement benefit surplus (net of withholding tax payable) at 31 March 2024 and 26 March 2023	n/a	n/a	n/a	n/a	1,846	1,952

15. Pension interest income for the current year results from applying the plans' discount rate at 26 March 2023 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 26 March 2023 to the plans' liabilities at that date.

d) Movement in RMSEPP assets, liabilities and net position

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Retirement benefit surplus (before withholding tax payable) at 27 March 2023 and 28 March 2022	8	320	-	(312)	8	8
Amounts included in the income statement						
Pension interest income/(cost) ¹⁶	-	2	-	(2)	-	-
Total included in profit before tax	-	2	-	(2)	-	-
Amounts included in other comprehensive income - remeasurement (losses)/gains						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	-	64	-	64
Demographic assumptions	-	-	-	-	-	-
Return on plans' assets (excluding interest income)	(1)	(64)	-	-	(1)	(64)
Total remeasurement (losses)/gains of the defined benefit surplus	(1)	(64)	-	64	(1)	-
Other						
Transfer to insurer	-	(8)	-	8	-	-
Benefits paid	-	(242)	-	242	-	-
Total other movements	-	(250)	-	250	-	-
Retirement benefit surplus (before withholding tax payable) at 31 March 2024 and 26 March 2023	7	8	-	-	7	8
Withholding tax payable	n/a	n/a	n/a	n/a	(2)	3
Retirement benefit surplus (net of withholding tax payable) at 31 March 2024 and 26 March 2023	n/a	n/a	n/a	n/a	5	5

16. Pension interest income for the current year results from applying the plans' discount rate at 26 March 2023 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 26 March 2023 to the plans' liabilities at that date.

Royal Mail Group Limited

21. Retirement benefit plans (continued)

e) Movement in DBCBS assets, liabilities and net position

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Retirement benefit at 27 March 2023 and 28 March 2022	1,642	1,528	(1,787)	(1,918)	(145)	(390)
Amounts included in the income statement						
Ongoing UK defined benefit pension plan service cost including administration costs (included in people costs)	(4)	(5)	(327)	(449)	(331)	(454)
Past Service Credit	-	-	172	-	172	-
Pension interest income/(cost) ¹⁷	84	45	(91)	(57)	(7)	(12)
Total included in profit before tax	80	40	(246)	(506)	(166)	(466)
Amounts included in other comprehensive income - remeasurement gains/(losses)						
Actuarial gains/(losses) arising from:						
Financial assumptions	-	-	4	662	4	662
Experience assumptions	-	-	(32)	(89)	(32)	(89)
Return on plans' assets	(31)	(195)	-	-	(31)	(195)
Total remeasurement gains/(losses) of the defined benefit deficit	(31)	(195)	(28)	573	(59)	378
Other						
Employer contributions ¹⁸	292	333	-	-	292	333
Employee contributions	7	10	(7)	(10)	-	-
Benefits paid	(117)	(74)	117	74	-	-
Transfer between sections	18	-	-	-	18	-
Total other movements	200	269	110	64	310	333
Retirement benefit deficit at 31 March 2024 and 26 March 2023	1,891	1,642	(1,951)	(1,787)	(60)	(145)

17. Pension interest income results from applying the plans' discount rate at 26 March 2023 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 26 March 2023 to the plans' liabilities at that date.

18. Includes PSE contributions of £94 million (2022-23: £88 million).

22. Non-current other receivables

	At 31 March 2024 £m	At 26 March 2023 £m
Amount owed by IDS plc Group entities	-	1
Other	12	5
Total	12	6

The £12 million 'Other' receivables balance mainly relates to £7 million (2022-23: £nil) expected proceeds from court awarded compensation (see Note 5) and £3 million (2022-23: £3 million) in respect of the recovery of costs incurred relating to the implementation of the new Royal Mail Collective Pension Plan.

23. Assets held for sale

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

	At 31 March 2024 £m	At 26 March 2023 £m
Property assets held for sale	3	4
Total	3	4

The £3 million property assets held for sale at the balance sheet date mainly comprise the Parcelforce Worldwide depot at Royal College Street, Camden, London. This property is expected to be sold within 12 months of the balance sheet date. Property assets with a carrying value of £nil (2022-23: £7 million) were reclassified as held for sale in the year, of which £nil (2022-23: £3 million) were subsequently sold before the balance sheet date.

Royal Mail Group Limited

24. Share-based payments

Employee Free Shares

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

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

Partnership and matching shares

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

At 31 March 2024, there had been 66 (2022-23: 54) such monthly awards and a total of 2,073,822 (2022-23: 1,709,034) Matching Shares had been awarded to eligible staff members at a weighted average market price of 291.0 pence (2022-23: 300.7 pence). The vesting period for each award is three years from the award date, with all allocated shares to be equity-settled.

A charge to the income statement of £1 million (including a £nil National Insurance charge) has been made for the period ended 31 March 2024 (2022-23: £1 million charge including a £nil million National Insurance charge) for all SIP allocations.

A reconciliation of the ordinary shares held in the SIP at 31 March 2024 and 23 March 2023 is shown below.

	Number of shares
Total shares remaining in SIP at 27 March 2023	37,600,824
Shares sold/transferred out of SIP during the reporting year (fully vested)	(1,236,159)
Shares transferred out of SIP during the reporting year ('good leavers') ¹	(3,526,443)
Total shares remaining in SIP at 31 March 2024	32,838,222

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

Of the total shares remaining in the scheme, 31,587,436 (2022-23: 36,114,161) have been allocated to current employees. The remaining 1,250,786 (2022-23: 1,486,663) shares are unallocated and have arisen as a result of forfeitures.

Award of shares under the Long-Term Incentive Plan

Award year	Grant date	Shares vest from	Fair value/share (pence) Monte-Carlo simulation		Maximum number of potential shares to vest
			Market based conditions	Non-market based conditions	
2021	12/08/2021	12/08/2024	305.6	500.7	536,000
2022	01/09/2022	01/09/2025	100.1	272.6	1,340,429
2023	31/07/2023	31/07/2026	179.0	269.8	4,693,710

A charge to the income statement of £3 million (including £nil National Insurance) has been made for the period ended 31 March 2024 in relation to all LTIP schemes (2022-23: £1 million, including £nil for National Insurance).

Royal Mail Group Limited

24. Share-based payments (continued)

Award of shares under the Deferred Shares Bonus Plan

Award year	Grant date	Shares vest from	Fair value/ share (pence)	Maximum number of potential shares to vest
2022	29/03/2022	29/03/2025	358.6	107,816
2022	28/07/2022	28/07/2025	290.2	190,832
2022	28/07/2022	28/07/2024	290.2	203,797
2023	02/03/2023	02/03/2024	232.3	29,061
2023	02/03/2023	02/03/2025	232.3	29,061
2023	31/07/2023	01/09/2025	272.6	62,707
2023	31/07/2023	31/07/2026	269.8	137,132
2023	31/07/2023	31/07/2025	269.8	30,317
2023	30/11/2023	30/11/2025	269.8	17,310

A charge to the income statement of £1 million (including Enil National Insurance) has been recognised for the period ended 31 March 2024 in relation to all DSBP schemes (2022-23: Enil, including Enil for National Insurance).

25. Issued share capital

	At 31 March 2024 £	At 26 March 2023 £
Authorised and issued		
50,000 ordinary shares of £1 each	50,000	50,000
Total	50,000	50,000

Hedging reserve

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

26. Dividends

	53 weeks 2024 pence per share	52 weeks 2023 pence per share	53 weeks 2024	52 weeks 2023
Paid interim dividend	-	-	-	-
Total dividend paid	-	-	-	-

The Directors do not recommend a dividend (2022-23: no dividend).

27. Commitments

Capital commitments

The Company has commitments of £18 million (2022-23: £28 million) for property, plant and equipment, Enil (2022-23: Enil million) for vehicles and £6 million (2022-23: £5 million) for intangible assets, which are contracted for but not provided for in the Financial Statements.

Lease commitments

The Company has £22 million of lease commitments (2022-23: £20 million) relating to leases that have been signed but not yet commenced at the year-end date. These commitments have not been provided for in the Financial Statements.

28. Contingent liabilities and contingent assets

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

Royal Mail Group Limited

28. Contingent liabilities and contingent assets (continued)

Contingent liabilities

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. There have been two case management conferences (in December 2023 and April 2024) at which a trial date has been set for November 2025, plus significant milestones leading to the trial. Royal Mail believes Whistl's claim is without merit and will defend it robustly.

On 29 May 2024 an additional claim related to the Ofcom finding above was issued in the Competition Appeal Tribunal by Bulk Mail Claim Limited (BMCL), seeking a Collective Proceedings Order against the Company's ultimate parent company International Distribution Services plc. Management continue to assess the documentation received, however it is believed the success of this claim would only follow on from the success of the Whistl damages claim, and in Management's view logically should not be any more meritorious than the Whistl claim.

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 (see Note 5) and interest. Royal Mail has received this amount in full.

DAF unsuccessfully appealed the CAT decision to the Court of Appeal (CoA), which issued its judgment dismissing the appeal on 27 February 2024. DAF is now seeking permission to appeal to the Supreme Court. Permission has already been refused by the CoA, and the final decision now rests with the Supreme Court, which is expected later this calendar year. If the Supreme Court grants permission, there remains a risk that Royal Mail may have to return some of the £35 million damages and costs to DAF.

Contingent asset

Court-awarded compensation

In 2016 and 2017, Royal Mail investigated a group of companies and individuals suspected of a long-running under-declaration fraud. A number of individuals were charged for conspiracy to commit (statutory) fraud and a further charge of conspiracy to commit false accounting.

Work is ongoing regarding the recovery of certain identified assets and at the balance sheet date, assets with a value of £10 million have been recognised as a specific item (see Note 5) in the income statement (£1 million received and a further £9 million for which management considers the recovery of assets of this value to be virtually certain). In addition, management also considers that further assets with a value of up to £10 million could potentially be recovered over the next two to three years, although there is not sufficient certainty at the balance sheet date.

29. Related party information

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

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

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

A full list of the Company's related undertakings is included in Note 32.

Related party transactions

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

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

Royal Mail Group Limited

29. Related party information (continued)

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	53 weeks	52 weeks	53 weeks	52 weeks	At 31 March	At 26 March	At 31 March	At 26 March
	2024	2023	2024	2023	2024	2023	2024	2023
	£m	£m	£m	£m	£m	£m	£m	£m
RMPP (administration and investment service recharge)	7	7	-	-	-	-	-	-

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

30. Events after the reporting period

On 29 May 2024, IDS plc, the Company's ultimate parent company, announced that it was recommending an offer of 370 pence per IDS share from EP Group for the entire issued share capital of IDS plc not already owned by EP Group and its affiliates, namely VESA Equity Investment S.a r.l. (Vesa Equity). That offer followed significant negotiation including a number of earlier proposals from EP Group (the first of which was made on 9 April 2024 at a price of 320 pence per share in cash).

On 29 May 2024 an additional claim related to the Ofcom finding as set out in note 28 was issued in the Competition Appeal Tribunal by Bulk Mail Claim Limited (BMCL), seeking a Collective Proceedings Order against the Company's ultimate parent company International Distribution Services plc. Further details are provided in note 28.

The Directors considered the implications on the Financial Statements for Royal Mail Group Limited for the 53 week ended 31 March 2024 should the EP Group acquire the IDS plc Group, in particular the implications in relation to the Group's financing arrangements as set out in the going concern assessment.

31. Immediate and ultimate parent company

At 31 March 2024, the Directors regarded IDS Holdco Limited (previously RMGLS Holdco Limited) as the immediate parent company and International Distribution Services plc as the ultimate parent company. The results of the Company form part of the International Distribution Solutions plc Annual Report and Financial Statements 2023-24, which are available from www.internationaldistributionservices.com/results or the Company Secretary, 185 Farringdon Road, London, United Kingdom, EC1A 1AA.

Royal Mail Group Limited

32. Related undertakings of Royal Mail Group Limited

In accordance with section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 31 March 2024 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail Group Limited.

Subsidiary undertakings

Company name	Share class	% held by Company
China		
Suite 2447, within Suite 2401, 24F, No.77, Jian Guo Rd, Chao Yang District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	-	100.000
United Kingdom		
185 Farringdon Road, London, EC1A 1AA		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
International Distribution Services Limited	£1.00 Ordinary shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited ¹	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RMCPP Trustees Limited	£1.00 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
RMSEPP Pensions Trustees (2050) Limited ²	£1.00 Ordinary shares	100.000
RM 2022 Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000

Royal Mail Group Limited

32. Related undertakings of Royal Mail Group Limited (continued)

Associate undertakings

Company name	Share class	% held by Company
United Kingdom		
March Studios Peills Yard, Bromley, Kent, BR2 9NS, United Kingdom		
Charac Limited	B Ordinary shares	29.580
Lynton House, 7-12 Tavistock Square, London, WC1H 9LT, United Kingdom		
JICMAIL Limited ¹	-	20.000

Investments

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

¹ Limited by guarantee.

² Member managed company.

Royal Mail Group Limited

Corporate information

Registered Office and Company Head Office

Royal Mail Group Limited

185 Farringdon Road

LONDON

EC1A 1AA

Registered No: 04138203