

Registered Number 04138203

Royal Mail Group Limited
Annual Report and Financial Statements
For the 52 weeks ended 27 March 2022



Royal Mail Group Limited

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Royal Mail Group Limited

Strategic report

Royal Mail Group Limited (the Company) is a wholly owned subsidiary of RMGLS Holdco Limited. In the prior year and part of the current reporting year, the Company was a wholly owned subsidiary of Royal Mail plc, until an internal organisation restructure was undertaken to align the legal entity structure with Royal Mail plc Group's new governance structure. This restructure is referenced throughout this Annual Report and Financial Statements. The Company's ultimate parent company, Royal Mail plc, is listed on the London Stock Exchange.

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

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

Results and dividends

The Company's revenue for the 52 weeks ending 27 March 2022 was £8,525 million (2020-21: £8,658 million). The profit after tax for the same period was £999 million (2020-21: £285 million). The increase in the profit after tax of £714 million mainly comprises; an increase in income from investments of £826 million, a decrease in the tax charge of £76 million, offset by an increase in operating specific items of £184 million.

Revenue was £133 million lower than the prior year, driven by a decline in parcel revenue as a result of the strong comparative period which included several months of national and local lockdowns. This was partially offset by an increase in letter revenue which recovered from the sharp declines experienced during the pandemic. Revenue from parcels accounted for 56% of total revenue (2020-21: 59%).

People costs increased by £77 million, driven largely by the increase in pension costs partially offset by a decrease in voluntary redundancy costs. Excluding the effect of the pension and voluntary redundancy costs, people costs were broadly flat. Efficiencies delivered through the Pathway to Change agreement and reduced COVID-19 costs largely offset the decline in productivity and the increased pay costs associated with the 1% pay award for frontline staff, costs for the 1-hour reduction related to the shorter working week, costs related to working time regulation holiday pay and managerial pay awards.

Other operating costs decreased by £196 million, driven largely by savings achieved through our two-year non people cost savings plan. Distribution and conveyance costs decreased largely as a result of lower International volumes; infrastructure costs also decreased driven by the comparative including accelerated depreciation and amortisation. Other operating costs decreased due to a reduction in COVID-19 related costs. The prior year COVID-19 non-people costs mainly related to the purchase of protective equipment to safeguard our frontline employees. In the current year, costs have been incurred in order to maintain social distancing measures, including investment in additional vehicle hires and fuel to support the increased vehicle fleet.

This resulted in an operating profit before specific items of £186 million (2020-21: £200 million). Operating specific items of £158 million (2020-21: £12 million credit) largely relate to a £161 million impairment of an investment in a subsidiary, partially offset by an £11 million release (2020-21: £16 million release) of the provision for industrial diseases claims.

At 27 March 2022, cash and cash equivalents were £831 million (2020-21: £1,272 million) including a £872 million (2020-21: £895 million) loan from its ultimate parent company Royal Mail plc. Net assets increased £561 million to £4,293 million, largely due to: profit after tax for the year of £999 million; an increase in the Company's retirement benefit surplus of £334 million and cash flow hedge gains of £83 million; offset by £158 million dividend paid and £781 million distribution of RMGLS Holdco to Royal Mail plc.

The Directors do not recommend a dividend (2020-21: no dividend).

Our strategy

Royal Mail will drive sustainable growth and at all times meet changing customer needs through the following objectives:

- **Customer:** Improve and simplify our customer offering through great quality of service and easy to understand and simple to use products.
- **Trust:** Rebuilding trust with our people and unions.
- **Growth:** Grow our business, our share, and the market through greater capacity and new innovative products and services.

Productivity is also important and our "ticket to play", delivering the change that we need such as our new parcel delivery model and increasing our parcel automation, so we can compete on cost and quality.

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Strategic report (continued)

Our mission is to own trust at the doorstep

We believe that trust in our people, our brand, and our nationwide hyper-local network is a platform for profitable growth. We are focused on transforming our network as quickly as possible to ensure we are operating efficiently and profitably, to make the most of the opportunity we have in front of us. At the same time as improving our efficiency, we are becoming a more agile, customer-focused business. We will compete on quality and cost, win with people and CO₂, and once we have transformed and completed our new pay deal with the union, our ambition over the medium term is to deliver a sustainable operating profit margin.

Performance in 2021-22 has highlighted the need for more wide-ranging change and to accelerate the pace of our transformation to adapt our business to a post pandemic world and deliver significant benefits to all our stakeholders. Our change agenda is now even more urgent and important than it was a year ago – this forms the basis of our pay discussions with the CWU and we want to work together to deliver this change which will secure growth and jobs for the future.

Progress against strategic priorities this year

In May 2021 we outlined the following six strategic priorities for FY 2021-22:

- Achieve our quality of service targets and being number one on NPS (Net Promoter Score).
- Deliver the CWU agreement on time and realise £100+ million benefits.
- Continue to increase our own internal Trust score.
- Rapidly reduce managers' daily activities and policies.
- Achieve 50%+ parcel automation by the end of the financial year.
- Deliver £110 million of non-people cost savings.

Despite the operational challenges of the past year, we have achieved the majority of the targets we set ourselves. Royal Mail is number one in the industry for Net Promoter Scores. Our internal Trust Score has seen a significant increase from 62 to 68 in a year, with participation in the survey growing from 48% to 69%. Through our 'Day in the Life of' programme we have significantly reduced the number of policies for managers and repurposed 1.6 million hours of operational management time from daily administrative tasks, allowing them to focus on their teams and their customers. We reached 50% parcel automation as at end of March 2022, up from 33% a year earlier.

However, there is much more to do and there were some areas where our performance last year was not as we would have wished, namely in delivering Pathway to Change efficiencies, and service quality.

Customer

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

At the start of the year we set out plans to get back to consistently achieving our regulatory quality of service targets, which had been suspended for part of the pandemic in recognition of the challenges Royal Mail had to face with COVID-19 related absence, and the introduction of more social distancing across our operation. We were disappointed to have not achieved this. COVID-19 had a more prolonged impact on our business than we had expected, with high levels of absence during the 'pingdemic' in July and the rise of Omicron in particular later in the year. Further, we have faced challenges in recruitment due to a buoyant job market as well as coping with the change of traffic mix in our operation, with more parcels and fewer letters versus pre-pandemic.

At the peak of Omicron, absence levels were double what we would expect to see at that time of the year pre-pandemic, with over 15,000 people off sick in January 2022. Although we took immediate steps to restore a comprehensive service, which involved recruiting additional temporary staff and establishing a specialised dedicated Delivery task force to provide targeted support to the most impacted offices, our Full Year Quality of Service results were disappointing, at 81.8% for First Class mail and 95.4% for Second Class mail.

We are delivering a good service in most delivery offices, but there are a small number where the quality performance is disproportionately impacting overall numbers. We have over 1,200 delivery offices, and around 4% are responsible for around 23% of delayed items.

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Strategic report (continued)

The experience of the past 12 months has shown that we need to change our model in Delivery. In recent months, we have reduced the leadership layers from eight to five to push decision making close to the customer so we can act with speed. This has reduced the maximum team size from 56 to 44, with two thirds of delivery offices having average team sizes under 35.

During the year we launched or improved a number of new products and services and scaled some of our existing ones:

- **Parcel Collect:** Demand for our doorstep collection service, Parcel Collect, continues to grow. We have collected around 5 million parcels since its launch in October 2020. During the year we launched enhancements including offering customers pre-printed labels and improving the booking process through the new and improved Royal Mail App to eight steps and less than 60 seconds.
- **Improved Royal Mail App:** On the upgraded app, customers can now easily track, send and collect items, and check the estimated carbon emissions from their deliveries. Products have been categorised into three tiers, making it easier for customers to find the right postage for their needs online. The number of users has grown from 4 million users to nearly 7 million (end of March 2021 to end of March 2022), and with an iOS rating of 4.7 on the app store, it ranked in the top three within the "Lifestyle" category.
- **Sunday services:** Demand from our major commercial retail customers for Sunday deliveries continues to grow. Around 75 of our major commercial retail customers now use this service, including Moonpig and Bloom & Wild, compared to 45 customers in November 2021, with an exit rate in 2021-22 of around 12 million items. We have set out plans to scale up our Sunday services so that all customers – including businesses large and small – can benefit from the e-commerce revolution.
- **Barcoded stamps:** As part of our modernisation drive, we are rolling out unique barcodes on stamps to facilitate operational efficiencies, enable the introduction of added security features and pave the way for innovative services for customers. The new barcoded stamps have a digital twin and the two are connected by the Royal Mail App. Barcoded stamps currently give customers the ability to watch and share exclusive videos by scanning the barcode in the Royal Mail App, and further developments are planned.

Accelerating our sustainability initiatives: We know when speaking with our customers that they are increasingly looking for less environmentally impacting delivery options. Thanks to our 'feet on the street' delivery model, powered by over 90,000 postwomen and men, Royal Mail already has the lowest reported CO₂e grams per parcel amongst major UK parcel operators¹. But there is much more to do and reflecting our sustainability commitment we have set an ambitious target for Royal Mail to reduce average emissions per parcel from 205g CO₂e in 2021-22 to 50g CO₂e on our journey to net zero. We now aim to be a net zero business by 2040, ten years earlier than our previous target date. In the past year we have announced plans to introduce around 3,000 additional electric vans, have introduced low emission gas powered trucks and trialed micro-electric vehicles in our network, and announced that all our employee company cars will be electric by 2030. We are also planning to significantly increase rail transportation and reduce our use of domestic flights to reduce our environmental impact further.

¹ Based on competitors' 2020 and 2021 published reports.

Changing our culture and working practices

Initiatives to improve working practices are being embedded across Royal Mail. To allow delivery office managers to spend more time with their teams, our 'Day in the Life Of (DILo) programme is now operating in all delivery offices. To date, this programme has removed significant amounts of reporting requirements and administration, reducing the number of policies from over 200 to 16. 1.6 million hours of managers' time has been repurposed and is now being spent focusing on more effective team management and customer service.

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Strategic report (continued)

Consumer workshops on the future of post and the Universal Service (USO): We are proud to deliver the Universal Service and remain committed to providing an affordable and sustainable 'one price goes anywhere' service to all households across the UK. But as customer needs change, so must we. The demand for parcels continues to increase, while letter volumes are down by more than 60% since their peak in 2004–05. Given these significant changes we continue to believe the best way to ensure that the Universal Service remains relevant and meets customers' needs is to rebalance more towards parcels. To inform our thinking, we ran a series of 15 consumer roadshows and a series of stakeholder roundtables throughout February and March to explore what people want from postal services in future. This showed that there is support for Royal Mail to deliver parcels seven days and – similarly to Ofcom's User Needs research in 2020 – that a five day a week letter service would meet the needs of most people. It also highlighted the importance of tracking, safeplaces and reducing the need for people to go to a Customer Service Point to pick up undelivered parcels. We are currently considering these findings, and look forward to working constructively with all our stakeholders to ensure the Universal Service remains relevant and sustainable for us all, now and in the future.

Trust

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

- **Delivering a positive step change in our relationship with our people:** We operate a monthly listening programme that enables us to measure sentiment across our employee base. Feedback through the year showed we are making progress and we have seen trust scores improve across all our operational areas. In total, trust scores have improved by 6 points, from 62 in April 2021 to 68 in April 2022, with 69% now taking part in the survey compared with 48% a year ago. But there is still too much variation unit to unit and we are actively working on levelling performance up across our organisation.
- **Enable direct conversations between all our people:** Building a genuine two-way dialogue with our people is a key part of rebuilding trust. Over 45,000 colleagues are now on Workplace and are using it to recognise great work, share ideas and best practice, access information and problem solve issues. Weekly Q&A and regular Live events are held, where we engage with employees directly on issues that really matter to them.
- **Putting in place the next generation of apprentices:** During the year we launched our Postal Apprenticeship programme. This is one of the largest programmes of its kind in the UK.
- **Royal Mail Academy:** A Royal Mail Academy has been set up to train and invest in managers, starting with frontline operational managers, by equipping them with the right suite of skills to do the job effectively.
- **Driver Academy:** Earlier this year we launched a new Driver Academy, in partnership with the CWU, to train and develop future LGV and MGV drivers. The Driver Academy is comprised of four training pathways, including an apprenticeship scheme with an initial cohort of around 20 people, who will train to become road ready category C+E qualified drivers within 13 months.
- **Strengthening our operational leadership team:** In March 2022 Grant McPherson joined as Chief Operating Officer from Jaguar Land Rover where he was Executive Director of Global Manufacturing. At the same time Angela Noon was appointed as our new Chief Financial Officer, having joined from Siemens UK & Ireland where she was the CFO and Executive Director of Siemens plc and Siemens Holdings Group companies. Mark Briers joined earlier this year as Chief Analytics and Data Officer, a newly created role that underlines the importance of turning data into insight which can be used to improve our performance and drive growth in our business. Mark previously worked at the Alan Turing Institute, the UK's national institute for data science and artificial intelligence. Zareena Brown joined in October 2021 as our new Chief People Officer. Her prior role was at Britvic where she was Chief Human Resources Officer. Zareena's role focuses on scaling our trust agenda, engagement with our trade unions, championing diversity and inclusion, and training and support.

Industrial relations

We have entered into pay discussions with the CWU and have tabled what we believe is a fair pay offer that recognises current inflationary pressures whilst enabling the transformational change which will secure growth and jobs for the future. We need to ensure that any deal sets us up for tomorrow, and not just today. So as part of our negotiations we want to agree a series of changes to our delivery model and ways of working to ensure we can compete and adapt more quickly to changing customer needs. On 21 June 2022, the CWU provided formal notification to ballot its members for industrial action with a result expected in mid/late July.

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Strategic report (continued)

In January 2022, as part of our transformation programme we entered into a formal consultation with Unite/CMA to reorganise our operational management and reduce management layers from eight down to five. The proposals we put forward were designed to simplify and streamline our operational structures to ensure an improved focus on local performance and devolve more accountability and flexibility to frontline operational managers. On 29 June 2022, Unite/CMA members voted in favour of both industrial action and industrial action short of a strike. They have subsequently given notice of two periods of industrial action: work to rule from 15 to 19 July 2022 and a strike from 20 to 22 July 2022.

We want to reach agreement with the CWU and to continue to work with Unite/CMA as we implement structural change. Any industrial action, or the threat of it, would be damaging for our business and undermines the trust of our customers.

Delivering the Pathway to Change agreement

We implemented around 1,800 revisions across our operations; defined and rolled out a new productivity standard with a three-year flightpath to achieve in all units; introduced new Scan-in, Scan-Out technology at 43 sites, including all Mail Centres and Regional Distribution Centres to improve operational efficiency; rolled out our new delivery to specification technology, an algorithm to deliver mail as per the product specification and therefore reduce costs; and agreed a new dispute resolution process which has reduced the number of disagreements from 595 in November 2019, with an average resolution time of 80 days, to 151 disagreements as of the end of March, with an average resolution time of 36 days.

However, it was disappointing that we only delivered £59 million of benefits, at the low end of our revised January 2022 guidance range and less than the £100+ million we had originally targeted. Following a pilot, the delivery resourcing technology was not as user friendly as expected so we are working to improve it. We plan to recommence trials of an enhanced tool in the second half of 2022-23. And on revisions, whilst we made good progress in Processing, in Delivery we fell short of our target. Whilst 886 table top revisions delivered 2.1% productivity, and 166 structural or major change revisions delivered 5.8% productivity, 203 structural revisions did not go well and had a negative productivity impact of 7.2%.

We have been working closely with the CWU to understand lessons learnt into next year and beyond. There are three things that need to be in place to ensure revisions go well; the operation must be stable before deployment; leaders must be skilled at a revision and must involve the frontline in all of the change; and it is important that everyone is embracing the change and is committed to making it work from day one. Going forwards the learnings from last year will enable us to improve implementation.

Growth

Transforming our network

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

- **Two new hubs on their way:** We are making great strides in transforming our network into a more modern, efficient and technology-enabled operation capable of handling larger parcels more efficiently. Our state-of-the-art North West hub opened in June 2022. The size of 4.5 football pitches, the new Warrington-based plant will have the capacity to sort over 800,000 parcels a day. Our Midlands hub, based in Daventry, is on track to open in Summer 2023.
- **A step change in parcel automation:** In addition to the new hub, this year we have also installed five parcel sorting machines in mail centres across the country, including in Nottingham, Chester and Cardiff. As at 31 March 2022, the total number of machines in operation was 25. This number will increase to around 39 by the end of 2022-23. As a result of these initiatives we have achieved the major milestone of 50% automation in parcel sortation – the target we set last year. Furthermore, we are well on track to reach 70% automation in parcels sortation by 2022-23 and 90% by 2023-24.
- **Expanding our healthcare offering:** Royal Mail has played a key role during the pandemic supporting the delivery of test kits and Personal Protective Equipment (PPE) for the nation and already deliver the majority of prescriptions ordered online. We scaled our operation rapidly during the pandemic, and have built the expertise and capability to play a leading role in the growing market for online prescriptions and healthcare deliveries. We will capitalise on the growth in this market through a new dedicated healthcare offering, Royal Mail Health.

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Strategic report (continued)

The future

As we enter 2022-23, the financial tailwinds from COVID-19 have receded. Wage inflation in tight labour markets, sharp increases in energy and fuel cost exacerbated by the war in Ukraine, and the cost of living squeeze are resulting in an uncertain outlook for GDP and consumer spending and creating significant headwinds. Against that backdrop, our focus is on delivering cost savings of over £350 million and continued investment in the business.

Ongoing investment in our network will be around £350 million, on hubs, technology advancements and best in class parcel processing.

In the medium term, we still see potential for a 5%+ adjusted operating profit margin if we can complete our new pay deal with the union and successfully deliver our change agenda.

But we must change how we work. Our change agenda is now urgent and important and it cannot happen fast enough.

Transforming our operations to drive growth

In June 2022, we opened our first super hub in Warrington. The size of 4.5 football pitches, the North West hub has the capacity to sort over 800,000 parcels a day. Parcel sortation is 100% automated at the hub, with parcels being processed at a rate of around 40,000 an hour. During the year, new parcel sorting machines were installed at five sites. Automated processes sort parcels up to four times more quickly than manual sorting and these developments put us well on track to achieve our target of 70% automation in our UK parcels business by 2022-23 and 90% by 2023-24.

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Strategic report (continued)

Measuring performance

The Company's financial performance is measured as part of the KPIs within the Royal Mail plc Group consolidated financial statements, using IFRS numbers, but adjusted for specific and underlying items that distort the reported results of the Company. 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 2021-22	Prior year performance
Lost Time Accident Frequency Rate (LTAFR)	<p>Targets a continually improving safety culture for employees, customers and communities.</p> <p>Measured as the total number of accidents resulting in an absence on the next day or shift, per 100,000 hours worked.</p>	<p>LTAFR increased 38.5% compared with 2020-21.</p> <p>Whilst absence associated with accidents increased, the number of most severe incidents decreased by 10% and our total accident frequency rate reduced by 7.2%.</p>	<p>2020-21 Actual: 2.6% increase compared with 2019-20</p>

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Strategic report (continued)

Principal Risks and Uncertainties

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

Risk	Status	Controls and actions to mitigate
<p>1. Failure to reduce our cost base (previously called 'Efficiency') - High risk</p> <p>We must become more efficient and agile to compete effectively in the parcel and letter markets.</p> <p>The success of our strategy relies on the reduction of our cost base whilst managing wider economic pressures and the Industrial Relations environment to deliver productivity benefits across all areas of the business.</p> <p>Failure to reduce costs while at the same time delivering high-quality services could result in a loss of customers, market share and revenue.</p>	<p>In common with many businesses, there are inflationary cost pressures across the Company, exacerbated by the war in Ukraine including labour, energy and other supply costs.</p> <p>While our delivery network in Royal Mail 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.</p> <p>Effective working relationships with our trade unions are key to the delivery of ongoing efficiency benefits (see risk 5. Industrial action).</p>	<p>We have a number of initiatives in place to drive efficiency across the Company, including:</p> <ul style="list-style-type: none"> - Transforming our UK business from a letters-led to a parcels-led operation through network optimisation. - Building dedicated parcel hubs and installing automated parcel sorting machines. - Embedding a range of digitally enabled work tools. - Simplifying products and services and developing customer-focused technology solutions.
<p>2. Economic and political environment - High risk</p> <p>Macro-economic conditions and/or the political environment across our markets may adversely affect the Group's ability to control costs and maintain and grow revenue due to reducing volumes or by driving customers to adopt cheaper products or formats for sending letters and parcels.</p>	<p>We continue to monitor the economic, political and wider external environment across all of our markets.</p> <p>The economic outlook has worsened and is dependent on the extent to which the global economy recovers following the pandemic. A prolonged war in Ukraine could have an adverse effect on our costs, supply chain, business confidence and customer behaviour, which will impact letter and parcel volumes.</p> <p>Prolonged fiscal tightening, including increased business rates, employment taxes, tax policies including subcontractors and a potential online UK sales tax, could increase our costs or impact consumer confidence, which could affect parcel and letter volumes.</p>	<ul style="list-style-type: none"> - Regular review and update of scenarios to inform a range of medium-and long-term economic outcomes and strategic actions to maintain a strong liquidity position, with good levels of cash and limited financial debt. - Hedging exposure to commodity costs and pricing initiatives to offset inflationary cost pressures. - Executing an efficiency programme to build resilience into the operating model and agility to respond to revenue and cost headwinds. - Ongoing monitoring of political and policy changes and regular engagement with politicians and policy makers, as appropriate.

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Strategic report (continued)

Risk	Status	Controls and actions to mitigate
<p>3. Major breach of information security, data protection regulation and/or cyber-attack - High risk</p> <p>Due to the nature of our business, we collect, process and store confidential business and personal information. As a result, we are subject to a range of laws, regulations and contractual obligations around the governance and protection of various classes of data to protect our customers, employees, shareholders and suppliers.</p> <p>In common with all major organisations, we are the potential target of cyber-attacks that could threaten the confidentiality, integrity and availability of data, and trigger material service and/or operational interruption.</p> <p>Also, a major breach of information security, data protection laws and regulations and/or cyber-attack could adversely impact our reputation, resulting in financial loss, regulatory action, business disruption and loss of stakeholder confidence.</p>	<p>Given the evolving nature, sophistication and prevalence of these threats, including those presented by the war in Ukraine, the hybrid workforce driven by the pandemic and an increasing reliance on technology and data for operational and strategic purposes, this continues to be a principal risk.</p> <p>We also recognise that in a business with more than 137,000 people and large quantities of documentation, there is a possibility of human error in the protection of data.</p>	<ul style="list-style-type: none"> - Continually investing in cyber resilience including enhancing our cyber control capabilities across our technology estate to protect our customers, colleagues, services and assets. - Strengthening our preparedness to quickly detect and respond to threats before they become incidents, including ransomware. - Ongoing assurance of organisational and technical measures, including disaster recovery and assessment of third-party supplier controls. - Promoting good behaviours and stressing the importance of maintaining vigilance through regular communication, training and awareness across our workforce. - Encouraging an open and prompt reporting culture so appropriate remedial action can be taken as soon as possible. - Data privacy and protection policies and compliance programme, which includes assessment and monitoring of data risks across the global business.
<p>4. Customer expectations and our responsiveness to market changes - High risk</p> <p>Failure to deliver against existing and changing customer needs and expectations (including quality of service) could impact the demand for our products and services.</p> <p>Our success at growing new areas of business is dependent on identifying profitable and sustainable areas of growth and having in place appropriate structures to support transformation.</p>	<p>The pandemic and, in particular, the rapid growth in online business and increased parcel volumes, has accelerated structural changes in our markets. To remain competitive, it is more important than ever that we meet customers' evolving expectations, such as the increasing importance of ESG (see risk 8. Environmental and sustainability) and continue to harness growth opportunities in a sustainable and profitable way.</p> <p>The economic outlook has worsened as a result of the pandemic and a prolonged war in Ukraine could further affect business confidence and consumer spending, which in turn could adversely affect parcel and letter volumes.</p>	<p>We are becoming more customer centric and we are responding to market changes by:</p> <ul style="list-style-type: none"> - Restoring Royal Mail's quality of service. - Driving new product development based on customer feedback, including increasing the proportion of products that can be tracked and other incentives to encourage reconnection with letters and mail services. - Leveraging our UK footprint as the sole designated Universal Service Provider. - Growing new areas of business and expanding service offerings. - Pricing/surcharge opportunities that do not inhibit value growth.

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Strategic report (continued)

Risk	Status	Controls and actions to mitigate
<p>5. Industrial action – High risk</p> <p>There is extensive trade union representation across our UK workforce, with strong and active trade unions.</p> <p>One or more material disagreements or disputes could result in widespread localised or national industrial action.</p> <p>We may be unable to obtain the necessary legislative changes to enable us to implement the Royal Mail Collective Pension Plan (RMCPP), as agreed with the CWU.</p> <p>Industrial action could cause material disruption to our UK business and likely result in an immediate and potentially ongoing significant loss of revenue. It may also affect Royal Mail's ability to restore quality of service and meet targets prescribed by Ofcom, which may lead to enforcement action, fines and loss of customers.</p> <p>We may be unable to obtain the necessary legislative changes to enable us to implement the Royal Mail Collective Pension Plan (RMCPP), as agreed with the CWU.</p>	<p>The success of Royal Mail is reliant on the dedication of its people and the delivery of its transformation programme. One of our strategic priorities is to rebuild trust and develop positive working relationships with our people and unions. As a result of the increasingly uncertain external environment, competition and growing inflationary costs, the transformation of the Royal Mail business needs to be accelerated. This, together with a rise in the cost of living, is increasing the risk of industrial action.</p> <p>On 21 June 2022, the CWU provided formal notification to ballot its members for industrial action with a result expected in mid/late July.</p> <p>On 29 June 2022, Unite/CMA members voted in favour of both industrial action and industrial action short of a strike. They have subsequently given notice of two periods of industrial action: work to rule from 15 to 19 July 2022 and a strike from 20 to 22 July 2022.</p> <p>The Pension Schemes Bill, of which RMCPP is a part, received Royal Assent in February 2021 and is now allowed by law. However, further regulatory changes and approvals will be required by the Government/Pensions Regulator before our scheme can be established.</p>	<ul style="list-style-type: none"> - Royal Mail CEO, Royal Mail plc Group CFO and members of the Royal Mail Executive Board regularly meet with union leaders. - Joint implementation of the Pathway to Change agreement. - Regular engagement with the CWU and Government to introduce the necessary legislative and regulatory changes for RMCPP. - Engagement with unions on the 2022 pay deal and the operational management restructure. - Use of the dispute resolution procedures to reach agreement. - Operational contingency plans in the event of industrial action. - Continuing to rebuild trust with our employees through engagement, communication and supporting them in the delivery of the business goals.

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Strategic report (continued)

Risk	Status	Controls and actions to mitigate
<p>6. Talent – workforce for the future (previously called ‘Capability – talent and strategic workforce planning’) – Moderate risk</p> <p>Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate skills and expertise across the Company.</p> <p>In Royal Mail, workforce planning could be adversely impacted by an ageing workforce and a reduction in available workforce due to socio-economic factors, demographic change and increasing digitalisation. A high level of employee trust and engagement is essential if we are to deliver Royal Mail’s transformation and growth strategy.</p>	<p>The Royal Mail transformation programme, together with the structural changes in the letter and parcel delivery markets, is changing the nature of some roles and creating the need for new and different skills.</p> <p>We need to upskill and develop our existing workforce, and attract new people with the right capabilities and behaviours to support the delivery of our strategic ambitions.</p>	<ul style="list-style-type: none"> – Regular Senior Management talent reviews and succession planning supported by external recruitment where key skills are required. – Leadership development programmes to support transformation and strengthening performance management. – Diversity, equality and inclusion (DEI) initiatives to accelerate DEI across our teams. – Implementation of a workforce plan aligned with the strategy and commercial outlook. – Generational change initiatives including Postal Apprenticeships and the Royal Mail Academy. – Regular trust and employee engagement surveys, improved communications and use of digital tools.
<p>7. Our UK regulatory framework – Moderate risk</p> <p>The continuing structural decline in addressed letter volumes, and broader changes in the parcels market poses significant risks to the financial sustainability of the Universal Service Obligation (USO).</p> <p>There is a further risk that Ofcom fails to change and modernise the regulatory framework in order to preserve the scale and relevance of the postal USO, or chooses to change the framework in a way which impacts our customer strategy or is commercially disadvantageous to Royal Mail.</p>	<p>Given the scale of our transformation in Royal Mail and the pace of change in the postal sector, we need the right regulatory framework in place to make a reasonable return on our investment and have the commercial flexibility to innovate and keep pace with the market and consumer needs.</p> <p>Ofcom is undertaking a review of postal regulation and published its consultation in December 2021.</p> <p>Ofcom has stated that the current system is generally working well for people and businesses who use postal services, and we support Ofcom’s proposal not to extend Access regulation. However, we are disappointed that Ofcom has not taken this opportunity to allow tracking on USO services as consumers increasingly demand more visibility over their deliveries.</p> <p>We expect the outcome in Q2 2022-23, with any resulting changes likely to take effect from April 2023.</p>	<p>We are engaged in a number of activities that are focused on securing the future sustainability of the USO, including:</p> <ul style="list-style-type: none"> – Active participation in Ofcom’s consultation process, including providing detailed, evidence-based submissions to Ofcom. – Executing the Royal Mail transformation plan to underpin the sustainability of the USO. This will help us become even more efficient and better placed to respond to changing customer demands. – Working with Ofcom, Government and the unions more broadly to ensure that the Royal Mail business is financially sustainable. – Extensive stakeholder engagement programme during the review of postal regulation.

Royal Mail Group Limited

Strategic report (continued)

Risk	Status	Controls and actions to mitigate
<p>8. Environmental and sustainability - Moderate risk</p> <p>Transition risks: As our customers and stakeholders seek to adapt to climate change, demand is increasing for more sustainable products and services. The cost of operations could increase as we adapt to government and regulatory changes in response to a drive to net zero emissions and air quality targets for towns and cities. In common with all major organisations, there is a risk of reputational damage and/or loss of revenue if we do not meet stakeholder expectations for action on climate change.</p> <p>Physical risks: An increase in the frequency of extreme weather events may result in disruption to our operations and impact our ability to meet customer expectations, the USO or other contractual requirements. We may also see price rises as a result of resource scarcity, increased operational costs and required investment to protect the business from extreme weather events.</p>	<p>Demonstrating leadership on ESG issues, including the environmental impact of our activities, is the right thing to do. It is also essential if we are to achieve competitive advantage, create value and deliver our strategy.</p> <p>Delivering a sustainable network has been embedded in Royal Mail strategies for some time. We are increasing our focus in this area. During the year we developed Group ESG Principles and updated Royal Mail environmental strategies.</p> <p>We continue to review our business strategies to address and manage the most important ESG issues, embed these into our processes and seek to comply with the guidelines of the TCFD for environmental risks as appropriate.</p>	<ul style="list-style-type: none"> - Development of a Group-wide ESG framework. - Executing enhanced environmental strategies including accelerated ambitions for decarbonisation. - Investing in zero-and low-emission vehicles and installing efficient equipment across our property estate. - Investing in innovative technologies, such as telemetry, and driver training programmes, to improve operational efficiency and reduce our fuel consumption. - Engaging our people in our efforts to become more efficient and reduce our use of natural resources. - Reducing our energy and water consumption and reducing the amount of waste we generate.

Royal Mail Group Limited

Strategic report (continued)

<p>9. Actual or suspected breaches of material law and/or regulation (previously called Competition Act investigation') – Moderate risk</p> <p>Failure to comply with relevant material laws and regulations that apply to our business, including competition, anti-bribery, Ofcom essential conditions and quality of service targets, trade sanctions and corporate governance. Actual or suspected breaches could result in financial loss, fines, regulatory enforcement action, criminal charges, debarment and/or reputational damage impacting our ability to operate and grow.</p>	<p>This risk previously focused on the competition law investigation relating to the Royal Mail business. It has been broadened and now reflects all the material laws and regulations that the Group must comply with. There has been continued focus on controls in relation to competition law and as such the overall risk to the Group has decreased.</p> <p>In May 2021, the Group's appeal against the Competition Appeal Tribunal's judgement to uphold Ofcom's decision to fine Royal Mail £50 million was rejected by the Court of Appeal (CoA). The Supreme Court has subsequently rejected Royal Mail's request to appeal the CoA's judgment and the appeal process has now concluded.</p> <p>Our Quality of Service results for the 2021-22 year showed that the difficult and exceptional ongoing impact of COVID-19 had impacted our performance and Royal Mail did not meet its regulatory quality targets. On 31 May 2022, Ofcom announced that it had opened an investigation into our performance. We are preparing our response.</p>	<ul style="list-style-type: none"> - Policies, training and guidance to colleagues to raise awareness of risks, required mitigation and expected standards of conduct. - Regular assessment of risks and advice by specialist lawyers. - Horizon scanning to prepare for legislative changes and developing policies and processes to address them. - Monitoring of compliance and provision of assurance. - Fostering a culture where colleagues can speak up so we can promptly address any issues and stop them happening again. - Quality of service monitoring and restoration activity.
<p>10. Business continuity and operational resilience (previously called 'Business continuity and crisis management') – Moderate risk</p> <p>We may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Group, our customers and our supply chain. This could also impact on the ability of Royal Mail to meet its regulatory obligations.</p>	<p>Royal Mail is classified by the Department for Business, Energy & Industry Strategy as critical national infrastructure and also has a responsibility to provide sustained and continued postal services under the USO. The temporary relaxation by Ofcom of some Universal Service requirements during the pandemic has now ended. The pandemic has been a robust test of our business continuity arrangements.</p>	<ul style="list-style-type: none"> - Regular comprehensive reviews of business continuity and crisis management governance including operational contingency plans. - Established functional response teams, comprising Senior Management and executive leadership, embedded across the business. - Tactical arrangements in place to support operational incident management. - Regular testing of disaster recovery plans and alignment with business continuity plans. - Ongoing monitoring of operational processes to minimise disruption related to the pandemic whilst keeping our people and customers safe.

Strategic report (continued)

<p>11. Health, safety and wellbeing – Moderate risk</p> <p>A health and safety incident or global health crisis could result in the serious injury, ill health or death of our people or members of the public. An incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and/or reputational damage.</p> <p>Failure to manage the health and wellbeing of our people could lead to reputational damage, loss of employee goodwill and financial losses through increased sickness absence, lower productivity, and failure to deliver the USO, civil action or criminal prosecution.</p>	<p>The health, safety and wellbeing of our people, customers and members of the public is of paramount importance.</p> <p>We have many employees, including seasonal staff and agency workers. We also operate a very large fleet of vehicles, employ a large number of contractors and interact extensively with members of the public. A large proportion of our people spend most of their time working outdoors, on foot or driving, where the environment is unpredictable and more difficult to control.</p> <p>Due to our wide reach and the number of people affected by the Group's undertakings, the risk of serious harm to people cannot be totally mitigated. We acknowledge that every health and safety incident has a human impact.</p> <p>In common with many businesses, the pandemic has had an adverse effect on short- and long-term employee absence throughout the year with peaks in infection rates, isolation and NHS delays for routine procedures. As a result of these factors, the overall risk has increased.</p>	<ul style="list-style-type: none"> - Policies, procedures, systems and tools, supported by tailored training and awareness programmes to embed a compliance culture and engage our employees in safety improvement. - Monitor health and safety performance metrics and undertake regular audits against our systems and processes. - Extensive employee health and wellbeing policies and programmes to support absence and return to workplace. - Continuing to streamline and simplify the various health and safety systems in place to enhance their effectiveness. - Group-wide measures to protect and support our employees through the pandemic, ensuring necessary safety precautions, in line with Public Health England and World Health Organisation guidance and provision of wellbeing support. - Communications to employees through a dedicated, comprehensive multi-media campaign.
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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 27 March 2022, there was no external hedge of interest rate risk (2020-21: 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

Royal Mail is exposed to foreign currency risk due to interest payments on the €500 million and €550 million bonds, certain obligations under Euro-denominated leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency.

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.

Foreign currency translational risk

The Company's functional currency is Sterling (£). The loan from Royal Mail plc relating to the €500 million bond issued in July 2014; the loan from Royal Mail plc relating to the €550 million bond issued in October 2019; €24 million (2020-21: €45 million) Euro-denominated leases; and the €487 million (2020-21: €487 million) loan to RMGLS Holdco Limited (the immediate parent company), are revalued at closing Sterling/Euro exchange rates, and the gains/losses recognised in the income statement.

The proceeds from the €500 million and €550 million bonds issued by Royal Mail plc have been loaned to the Company. The €550 million bond is fully hedged by the Company for foreign currency risk by a cross-currency swap. The gains/losses on this bond are offset by gains/losses on the revaluation of the cross-currency swap. During the year, foreign currency exchange gains on the bonds of £23 million (2020-21: £40 million gains) and foreign exchange gains on the lease payables of £1 million (2020-21: £2 million gains) were largely offset by foreign exchange losses of £11 million (2020-21: £19 million losses) on the loan to RMGLS Holdco and foreign exchange losses of £12 million (2020-21: £21 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 over 150 million litres of fuel per year – and a jet fuel price risk arising from purchasing air freight services. The Company's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses forward commodity price swaps to mitigate this risk by entering into a combination of US Dollar and forward currency purchase or Sterling contracts to manage these exposures as it sees fit.

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

Included within derivative assets as at 27 March 2022 are diesel and jet contracts and gas contracts which have been designated as hedge instruments. The diesel and jet hedges are for 324 million litres of fuel (2020-21: 321 million litres) with a net derivative asset value of £72 million (2020-21: £2 million net liabilities). The gas hedges are for 24 million therms of gas (2020-21: 22 million therms) with a net derivative asset value of £32 million (2020-21: £1 million). The movement in the fair value of these three hedged programmes of £119 million gain (2020-21: £16 million gain) has been recognised in other comprehensive income and hedge ineffectiveness of £4 million gain (2020-21: £nil) 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 27 March 2022, 77% (2020-21: 96%) of financial assets were held with AA or above rated counterparties.

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. In October 2021, the bank syndicate loan facility was extended by one year to September 2026. There are no further extension options in the agreement. The unused committed facilities of the Company at 27 March 2022 of £925 million expire in 2026 (2020-21: £925 million expiring in 2025).

Our ESG approach

We recognise the impact that our operations have on society and the continuing growth in demand for sustainable products and services. We have, in response to this, developed new ESG Principles that are built around the issues that are most relevant to our stakeholders and our businesses. These principles encapsulate our commitment to operate in a sustainable way and support several United Nations Sustainable Development Goals (SDGs). More detailed information about Royal Mail's approach to ESG is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

To ensure that our ESG programmes are relevant to our stakeholders, we take account of the priorities and areas they consider most important via regular materiality assessments. The materiality assessment and process we undertook during the year is described in the Royal Mail ESG Report.

Our ESG Principles will be regularly reviewed to ensure that they continue to align to the key ESG issues that are most material to the Company and its stakeholders.

We deliver our commitment to sustainability by implementing key policies and processes and executing Royal Mail ESG strategies. Reflecting its long heritage, its significant societal role and predominantly UK focus, Royal Mail's ESG programme is well developed and is focused on delivering trust at the doorstep, delivering on environmental and social commitments, and ensuring we foster a culture where an engaged, healthy and diverse workforce can thrive.

Our ESG Principles

- Environment

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

- Social

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

- Governance

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

Environment

During the year the environmental strategy of Royal Mail was comprehensively reviewed and updated. The strategy now includes pathways, targets and mitigating actions that will help us reduce our environmental footprint and achieve our ambition to become a low-carbon business, while offering a wide range of green solutions to our customers.

Decarbonising our business

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

In this context, Royal Mail has set new decarbonisation ambitions that focus on increasing the use of low- and zero-emission transport, decarbonising our operations and reducing the energy usage at our buildings. Our revised ambitions emphasise the need to look beyond our own operations and engage our stakeholders including our customers and suppliers.

Building on its position as the UK's greenest delivery option for letters and parcels¹, Royal Mail is launching a new 'Steps to Zero' environment strategy that brings forward its net zero ambition to 2040. This ambition, which is aligned with the latest climate science and a 1.5°C decarbonisation pathway, will be achieved by reducing the business' scope 1, 2 and 3 emissions.

1. Based on reported CO₂e per parcel.

Royal Mail Group Limited

Strategic report (continued)

As part of this strategy, Royal Mail will leverage the environmental advantages of its final-mile foot delivery model, accelerate the pace of its transition to low- and zero-emission transportation, and reduce emissions from its network and estate. We also aim to transform our operations and behaviours to embrace circularity by enabling reuse models and reducing single-use items. Lastly, we will use our size, scale and reputation to lead and champion change.

Aside from its Net Zero by 2040 goal, Royal Mail aims to reach 50g CO₂e per parcel delivered, a reduction of c.75%. Royal Mail's average reported CO₂e per parcel through its domestic network is currently 205g, compared with the reported emissions of its industry competitors of between c.300-500g per parcel, which is largely as a result of its final-mile foot delivery model.

Our environmental performance

In 2021-22, our total UK carbon footprint decreased by 2% compared with the previous year, due mainly to a reduction in Royal Mail vehicle fuel use. This reduction is a result of lower volumes during the peak period than the previous year and the deployment of almost 1,300 additional electric delivery vans. Normalised per £million revenue emissions also remained the same when compared like-for-like. In the year, Royal Mail also expanded the scope of its emissions reporting.

Royal Mail has increased its value chain scope 3 emissions reporting to cover 100% of emissions across all relevant categories. As a result of this expanded reporting scope, the calculated total emissions of Royal Mail and Parcelforce have increased by 626 KtCO₂e, which accounts for a considerable portion of the total 1,229.6 KtCO₂e reported in the year.

Over a billion steps a day

Our posties make a huge contribution to keeping emissions low, taking over a billion steps a day. By enhancing this unique 'on foot' delivery network and increasing the electrification of our fleet, we will reduce emissions generated during our final-mile deliveries, which currently represent 13% of Royal Mail's emission profile.

Buildings

Energy used by buildings accounted for 13% of Royal Mail's carbon footprint in 2021-22. Meanwhile, electricity and gas use decreased 2%, making it broadly similar to the prior year's consumption.

As parcel automation across the business increases and more electric vehicle charging is introduced, energy management across Royal Mail's large property portfolio is an increasing priority area.

Last year, energy optimisation trials and energy audits identified several opportunities for energy savings across our estate. As a result, Royal Mail entered into a five-year energy performance contract which aims to reduce energy consumption by 180 GWh through the optimisation of existing building services, changing workforce behaviours around energy use and improvements to energy controls.

In April 2022 Royal Mail switched to a 100% renewable (no nuclear) tariff with EDF Energy. Furthermore, solar panels are installed at seven Royal Mail sites and a solar feasibility study undertaken in 2021 identified around 230 additional sites that have the potential to supply around 20% of Royal Mail's current energy use. These findings will be further investigated in the coming year, including identifying funding and leaseholder solutions to secure solar panel installations.

Transport

Royal Mail's domestic and international transport networks represent two-thirds of our emission profile. Our carbon reduction initiatives for transport are critically important if we are to meet our net zero ambitions.

In 2021-22, we saw a 1% reduction in emissions relating to a reduction in fuel usage from vehicle electrification and lower peak volumes compared with last year.

Other key developments included:

- We have continued to add more electric vans to our fleet, and expect to have around 5,500 in operation by spring 2023, compared to around 1,600 in operation at year end 2021-22.

Royal Mail Group Limited

Strategic report (continued)

- Our first all-electric delivery office, which is in Bristol, has reported a 37% reduction in maintenance costs and 73% reduction in fuel costs (diesel versus electric), which is estimated will reduce fleet emissions by c.29t CO₂ per annum. Including Bristol, 17 of our new and planned electric delivery offices will be 'all-electric' by August 2022 as diesel vehicles are removed from service. These 17 sites include Glasgow, Oxford, Newport, Watford and Stevenage.

Working towards mass deployment of low- or zero-emission HGVs is an essential part of Royal Mail's plans to decarbonise its business.

Rail currently accounts for around 3-4% of Royal Mail's distribution network and the business is exploring ways to significantly increase rail transportation and reduce its use of domestic flights. The new Daventry-based Midlands Parcel hub, which is due to open in June 2023, has its own rail terminal, which will enable increasing volumes of mail to be transported efficiently and sustainably.

Collaborating with strategic partners to unlock innovation

We collaborate and partner with external organisations that can help us to accelerate and deliver on our sustainability ambitions. In the year Royal Mail joined the Steering Committee of the UK Electric Fleet Coalition, a group of more than 30 leading businesses advocating a switch to electric vehicles. We have also joined the EV Fleet Accelerator group, which aims to use electric fleets as a catalyst to help accelerate the transition to electric vehicles across the UK.

Responsible consumption

Royal Mail is committed to reducing waste and driving behaviours to a circular economy approach and is targeting:

- A 25% reduction in the volume of waste generated by 2030.
- To undertake a complete review of packaging and single-use resources by 2023.

Throughout the year, Royal Mail has been reviewing the packaging it provides to its customers. Parcelforce will trial a plastic bag made from 84% recycled content. The bag can be fully recycled and will include guidance to help the recipient. This product significantly reduces the volume of new plastic required in its manufacture.

Further information about our Royal Mail business' waste and water consumption is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

Providing sustainable solutions for customers and communities

To strengthen our competitive advantage and support our customers' ambitions to reduce their own carbon footprint, Royal Mail aims to reduce the emissions associated with parcel delivery to 50g CO₂e per item (a reduction of 75% on our current emissions per parcel of 205g CO₂e). Our average per parcel emissions is currently around half the reported emissions of our key competitors.

During the year, the Royal Mail App was enhanced to include an innovative feature that enables customers to see the estimated CO₂e emissions footprint associated with the delivery of their parcel.

Social

We positively impact society by connecting customers, countries and companies, and aim to be an integral, valued and trusted part of every community that our service reaches. Social issues are also important to our stakeholders, including our approach to health, safety and wellbeing, engagement, diversity and inclusion.

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

We recognise the impact of the pandemic on our people and have provided ongoing and evolving support. Throughout 2021-22, we kept our policies and COVID-19 risk controls under constant review to ensure that we maintained compliance with government guidance and minimised the risk to colleagues, particularly during the peak period of December 2021.

A strong health and safety culture is key to safeguarding our people. Our Health and Safety policy outlines our commitment to our people and is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

Royal Mail Group Limited

Strategic report (continued)

We implement the policy through our 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.

Empowering our managers to manage their health and safety risks is also a focus. For example, in the year we launched a new managerial upskilling programme within our delivery function in which 155 of our delivery managers participated. The programme included training on key safety topics such as risk management, culture, inspections and accident investigations.

Following a successful trial in November 2021, we have invested in a new off-site risk assessment system that enables hazard information to be displayed on our posties' handheld scanners. As we execute our strategy to transform Royal Mail, the deployment of technology throughout the business will play an increasingly important role.

Royal Mail currently operates three core health, safety and wellbeing programmes:

- 'Feeling First Class' encourages greater proactive ownership around health issues. We now operate on-site flu clinics at 110 of our larger facilities.
- 'Stamp Out Aches and Pains' helps our people improve their awareness of musculoskeletal health.
- 'Because Healthy Minds Matter' aims to reduce stigma and normalise conversations around mental health. In October 2021, we added a stress risk assessment tool to our 'Stress toolkit' and launched a second mental health e-learning product to help managers better support their teams.

At the beginning of 2022, we launched our 'Let's Talk Menopause' programme, which is designed to improve access to support, help share experiences and normalise menopause conversations. In March 2022 we also signed the Menopause Workplace pledge. For further information on how we are supporting the pledge, please see the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

Health and safety performance

We strive to continuously improve our health and safety performance, and monitor and report our key safety metrics regularly to the Board and the ESG Committee.

Our safety performance is set out in the table below. In 2021-22, our Lost Time Accident Frequency Rate (LTAFR) increased by 38.5% when compared with the previous year. Whilst absence associated with accidents increased, the number of most severe incidents decreased by 10% and our total accident frequency rate reduced by 7.2%.

Royal Mail also monitors and reports its road traffic collisions frequency rate (RTCFR) as a key safety performance metric. This year, we reduced our RTCFR by 2.7% compared with 2020-21. In the year, we ran 16 comprehensive road safety campaigns for our drivers and developed the 'Drive 360' driver behaviour programme, which focuses on the use of telemetry and driver coaching to encourage safer and more fuel-efficient driving styles.

We regret to report that three people tragically lost their lives in accidents involving Royal Mail vehicles over the last year.

An employee died in a road traffic collision and two third parties died in two other incidents. All accidents are thoroughly investigated to determine root causes and identify the lessons learnt. All investigations and findings are shared with relevant Board members.

This year Royal Mail's level of sickness absence was 8.0% compared to 8.5% in the prior year. While this slight reduction was due to a lower level of COVID-19 related absences, very high absence levels as a result of the pandemic continued through the year, particularly in January 2022 due to the rise in Omicron cases.

Promoting a fair, inclusive and diverse workplace

We want to own 'Trust at the Doorstep' by being brilliant for customers, having trusted relationships everywhere and by growing our business. Our values - 'Be Positive, Be Brilliant, Be Part Of It' - represent the way we do things at Royal Mail and help share our engagement strategy. Culture and engagement are key focus areas for the Board and are standing items on the agenda for each ESG Committee.

Royal Mail Group Limited

Strategic report (continued)

The last 12 months has seen us continue to build on our agenda of Trust. Owning trust at the doorstep is our mission and to achieve this we must continue to build better relationships with our people. We want to create an environment where:

- More of our employees feel valued and respected.
- Employees feel listened to and their feedback is actioned.
- There are direct lines of communication between managers and employees.
- Processes are simpler and easier.
- People have the tools they need to do their job effectively.
- Employees take responsibility and are accountable for their work.
- Performance management is recognised and embraced as a key lever for business success.

We measure our progress across these areas primarily through our Trust Survey, which focuses on questions which build a picture of trust and engagement, both locally and at a company level. The survey is deployed through monthly pulse surveys and our annual Big Trust survey. In 2022, over 97,000 colleagues took part in the survey, representing 69% of our workforce.

Our internal Trust Score has seen a significant increase from 62 to 68 in a year, with participation in the survey growing from 48% to 69%. Key findings from the 2022 Trust Survey were:

- 83% of colleagues said they felt safe at work.
- 83% of colleagues feel trusted to do their job.
- 50% of teams had a trust score of 70 or above.

Too few of our colleagues report that they've seen action taken as a result of their feedback – acting on feedback is what matters most and this is a key area of focus for us.

Our trade union partners play an active role in supporting great local action plans and with their support we have developed additional support and upskilling to ensure conversations happen locally with greater visibility and involvement in making change happen. This will be measured through our monthly Trust Check-in approach that will re-commence in the summer.

Rewarding people fairly

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

In 2021-22, UK postmen and women on average earned 25% more than the UK National Living Wage (NLW). All temporary workers receive the NLW, with the majority receiving hourly pay above the Real Living Wage.

Providing development opportunities

We aim to provide the tools, knowledge and resources for people to have fulfilling careers at Royal Mail, and offer learning and development opportunities to colleagues at all levels of our organisation. In 2021-22, we invested £6 million in training, equating to approximately 23,000 training days compared with 19,000 in 2020-21.

Royal Mail is on an ambitious transformation journey and to reflect this we have rebranded our learning offer as 'The Academy'. The Academy will promote a culture of learning, connection and possibility, and will underpin our change programme. In particular, it will develop the next generation of talent who will continue to re-invent Royal Mail.

In 2021, we launched our new entry level Postal Apprenticeship scheme. The programme is committed to increasing social mobility and helping to provide opportunities to those who have been impacted by the pandemic and the challenging and often difficult circumstances that resulted. Further information about this scheme and our new 'Driver Career Path' programme is included in the Royal Mail ESG Report.

Working with our unions

In the UK we recognise two unions: the CWU and Unite/CMA. Around 89% of our operational and administrative-grade employees are members of the CWU and approximately 65% of our managers are members of Unite/CMA.

Royal Mail Group Limited

Strategic report (continued)

In the UK around 99% of employees are covered by our agreements with these two unions. We work closely with our unions with the aim of maintaining a productive and positive relationship, and our agreements with them are designed to support industrial stability. This year, the key focus of our relationship with our unions has been to ensure colleague safety while delivering customer services. The pandemic brought major changes in customer demand, which had a big impact on every one of our operating sites and required company, colleagues and unions to respond.

At the same time, we have worked with the unions to secure the financial position of the company and create the foundations for future success. With Unite/CMA we negotiated and agreed the Unite/CMA Transformation Agreement which outlined our future ways of working. We also consulted on a substantial restructure of the management team and achieved a significant reduction in numbers via voluntary redundancy schemes.

In 2022–23, we will continue negotiations with both Unite/CMA and the CWU on a future pay deal.

Diversity, Equality and Inclusion (DEI)

We strive to create an inclusive, fair, respectful and accessible working environment and continue to develop and evolve our DEI strategy to achieve this.

DEI strategy, roadmap and ambitions

During the year, Royal Mail reviewed its approach to DEI. As part of this review, we ran a series of 'future focus' workshops to listen to the voices of colleagues at all levels. Their feedback and insights are reflected in our refreshed/enhanced DEI ambition, strategy and roadmap.

Royal Mail's updated DEI strategy and roadmap directly supports our business strategy. It aims to ensure that we have a workforce that reflects the broad diversity of the customers and communities we serve and that we offer an inclusive, fair and accessible workplace where everyone can grow, develop and succeed. Key areas of focus include the recruitment and retention of the best diverse talent and DEI collaborations that benefit society more broadly and the communities in which we operate.

The updated strategy includes the following strategic priorities:

- Increase the diversity of leadership and talent across Royal Mail.
- Transform our generational profile.
- Partner with others to lead the way in social mobility.
- Build an environment of inclusion, fairness and accessibility for all.
- Focus on creating vibrant and inclusive national networks open to everyone.

Diversity profile

In our Royal Mail business, around 11% of our employees are from an ethnic minority background, which is broadly representative of the UK population. Royal Mail is a signatory to Business in the Community's (BITC) Race at Work Charter, and actively participates in BITC's internal and external Mentoring Circles programme. This programme offers our ethnic minority colleagues an opportunity to be mentored by senior colleagues within our organisation and across multiple industries.

National employee networks operate across Royal Mail to galvanise DEI activities across the business. Our One Royal Mail DEI Action Group, which comprises senior leaders and representatives from each network, meets quarterly to coordinate activities across all networks. Information about our employee networks and their activities during the year is included in the Royal Mail ESG Report, which is available at www.royalmailgroup.com/en/responsibility/policies-and-reports.

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

Royal Mail Group Limited

Strategic report (continued)

Gender pay gap

We believe all our people should be rewarded fairly for their work, regardless of gender. We are pleased to report that the total average pay for male and female employees continues to be broadly the same, with the pay gap (on a mean basis) narrowing from the same period in 2020.

Supporting our communities

Royal Mail seeks to be an integral, valued and trusted part of every community in which we operate.

In 2021–22, Royal Mail contributed £3.5 million to good causes and charitable schemes. This included match giving for colleague fundraising and the cost of our Articles for the Blind service. In addition, our colleagues raised £2.1 million for charity.

Earlier this year, in recognition of the trust that was built in its response to the challenge of the pandemic and the steps taken to keep its business safe, Royal Mail won the Resilient Workforce award and the Business Continuity award at the CIR Annual Business Awards.

Community investment

We build on the economic and social impacts of our operations by investing in strategic partnerships and finding ways to use our heritage and business assets to contribute to society. Our community investment strategy is structured into three key areas:

– **Leveraging our national scale:** In response to reported increases in domestic abuse during the pandemic, we launched Online Safe Spaces (OSS) with the charity Hestia. The service continues to provide support, advice and contact numbers for those experiencing, or at risk of, domestic abuse. Since launch, we estimate 1 million users have accessed the service. During the year we also supported the launch of Hestia's 'Fresh Start' initiative to support women and children staying at London refuges in gaining financial independence and the security to flee domestic abuse. As part of this partnership, Royal Mail offers free 'in confidence' redirections to their new accommodation.

– **Using our local presence:** As our people are present in every community across the UK, we are uniquely placed to support the search for missing people. Since 2014, we have posted alerts from the charity Missing People to our postmen and women via their handheld scanners. This year we supported Missing People's Home for Christmas Campaign, which included a 12-hour social media takeover to raise awareness around the issue of missing people.

Our social and economic impacts on communities

7th largest contribution of any UK company to the UK economy ¹	1 in 175 people employed in the UK by Royal Mail ¹	£11.8bn of gross value added by Royal Mail (direct and indirect contributions) ¹
£3.2bn contributed through procurement of goods and services ¹	73,000 jobs indirectly supported by Royal Mail in the wider economy ¹	£3.5m contributed to good causes and charitable schemes

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

Celebrating the heroes of the pandemic

To celebrate the 'heroes of the pandemic', Royal Mail launched a competition for children across the UK to design a stamp. The competition received 606,049 entries and secured a Guinness World Records title for the largest postage stamp design competition. Designs covered a wide range of heroes, including NHS workers, parents, carers, refuse collectors, supermarket workers, public transport staff, and postmen and postwomen. The final eight winning designs, which were selected by His Royal Highness The Prince of Wales, appeared on a new set of stamps that were issued earlier this year.

– **Unlocking potential through education:** Royal Mail supports World Book Day and the National Literacy Trust's Vision for Literacy pledge, which aims to close the national literacy gap and boost social mobility. A key activity in this programme was to working closely with The Postal Museum and Puffin Books to roll out The Postal Museum's Jolly Postman virtual learning sessions to schools across the country for free.

Royal Mail Group Limited

Strategic report (continued)

The pandemic has intensified existing social and economic challenges and created many new ones. We have played an important role in the recovery of local communities and economies, particularly by supporting the health of those affected by the virus.

Royal Mail has supported the Disasters Emergency Committee (DEC) with a dedicated PO Box for over 30 years, providing the UK public with a way to respond to national appeals for overseas disasters. In addition to the ongoing Coronavirus and Afghanistan Crisis appeals, we launched our support for the DEC's Ukraine Crisis Appeal. As of March 2022, £374 million has been donated to the three DEC appeals with an approximate average of 6% of UK public donations made via the Royal Mail PO Box.

In response to the war in Ukraine, Royal Mail has introduced specific programmes and fundraising measures. It launched an internal fundraiser for the British Red Cross, matching all employee donations. To further enhance our support, Royal Mail has been working closely with the Ukrainian Embassy in relation to the provision of logistics support. We have supported vehicles travelling to Poland as part of the Ukrainian Embassy's aid effort and this activity is continuing.

Protecting our customers

As the Universal Service Provider and a responsible business, we have an obligation to support our customers and ensure that our products and services are available and accessible to all. During the year we introduced several new initiatives and cost changes, including a reduction in the cost of our redirection service for customers on Universal Credit. More information can be found in the Royal Mail ESG Report.

Protecting human rights

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

During the year, Royal Mail worked in conjunction with the UK charity Unseen, which is working to stamp out modern slavery, to launch a series of awareness materials and training programmes. For the first time, a bespoke postmark was applied to all UK stamped mail to support and raise awareness of Anti-Slavery Day. In addition, updated modern slavery content has been incorporated in Royal Mail's induction and compliance training, which is mandatory for all managers.

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

Our Modern Slavery Act Statement is available at www.royalmailgroup.com.

Governance

Our stakeholders trust us to deliver for them. Maintaining this trust by operating with integrity is essential if we are to succeed and generate long-term value.

The ESG Committee provides Board level oversight of the implementation of our ESG Principles across the Royal Mail plc Group ('the Group').

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

We assess the risks and opportunities arising from social and environmental issues relevant to the Group at least once a year and use our risk management framework to determine their criticality.

Our ethical standards

We aim to foster a culture based on honesty, integrity, openness and effective debate. The overarching business policies that set out our approach to responsible business conduct, which includes our supply chain, are outlined below.

Royal Mail Group Limited

Strategic report (continued)

Royal Mail employees have access to our policies and guidance via the intranet or our communications channel, MyRoyalMail. Royal Mail operates a comprehensive ethics and compliance training programme. All employees are required to undertake training relevant to their role and our managers are required to complete compliance refresher training annually which includes an attestation of our Business Standards. The completion rate for this annual training for 2021-22 was 99.8%. During the year, Royal Mail provided additional training for colleagues with procurement or supply chain management responsibilities, which covered modern slavery, anti-bribery, and the identification and mitigation of tax risks relating to suppliers. All colleagues are required to complete annual mandatory compliance refresher training, which includes an attestation of our business standards. Colleagues, contractors, agency and casual workers, suppliers and business partners are encouraged to report any suspected policy breaches through our confidential Speak Up process.

Our performance

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

- Included in both World and Europe Indices for the transportation industry.
- Ranked in the 89th percentile of companies. Constituent of both FTSE4Good UK and Europe.
- Rated as AA.
- Scored B rating, ahead of industry average of C.

Royal Mail has set a target to have 50 of its high-risk suppliers and subcontractors reporting self-assessments or third-party sustainability audits via Sedex by end of 2022-23. Currently, 40 suppliers are active on the system and Royal Mail is working with Sedex to expand coverage, including launching an on-boarding support programme to identify and sign-up more suppliers.

Our approach to responsible procurement also covers the timely payment of our suppliers. Our latest Payment Practices report (which was published in October 2021) showed the percentage of invoices paid in 61 days or more fell to 2%, compared to the same period in the prior year when 8% were paid in 61 days or more.

Reporting standards

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

- The disclosure requirement Global Reporting Initiative (GRI) Standards: Comprehensive option.
- The requirements of the EU's Non-Financial Reporting Directive.
- Our obligations as a signatory to the United Nations Global Compact.

Royal Mail Group Limited

Strategic report (continued)

Policy	Scope
Group ESG Policy Statement	Sets out our ESG strategy, governance and commitments, including our support for the United Nations (UN) Global Compact and Universal Declaration of Human Rights.
Royal Mail Business Standards	Outlines the behaviours Royal Mail expects from our employees, and others working on our behalf. The standards are about doing the right thing, following the law, acting honourably and treating others with respect. They help our people to do the best job for our customers, keep our people safe and protect our reputation.
Royal Mail Policy for the Prevention of Bribery, Corruption and the Facilitation of Tax Evasion	Sets out our approach to minimising the risk of bribery and corruption taking place in any part of our business. We have a strict zero-tolerance policy towards bribery and corruption, and our anti-bribery and corruption policies apply to our employees and anyone performing services on our behalf.
Royal Mail Responsible Procurement Code (the Procurement Code)	Outlines the environmental, social and ethical commitments and behaviours we expect from our suppliers and aims to ensure that we only engage suppliers that meet our standards. This code, which is based on the UN Global Compact Principles, requires our suppliers to adhere to the UN Declaration of Human Rights, which is part of our commitment to implementing the UN Guiding Principles on Business and Human Rights. We require our suppliers to communicate the Procurement Code in full to all relevant employees within their organisations. The Procurement Code is available at www.royalmailgroup.com/en/responsibility/policies-and-reports .

Royal Mail Group Limited

Strategic report (continued)

Section 172 statement

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

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

In relation to the decisions taken during the year ended 27 March 2022, and up until 12 July 2022, the Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in section 172 of the Companies Act 2006.

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

Operational management reorganisation

In January 2022, the Royal Mail plc Board approved an operational management reorganisation, subject to formal consultation. In coming to its decision, the Board considered the following matters:

- The reorganisation aims to further streamline operations and improve local-level performance. It supports the Royal Mail transformation programme which is focused on creating long-term value for all stakeholders.
- The impact of the reorganisation on employees and, in particular, the likely resulting job losses were carefully considered. It was decided that in the longer-term interests of the Company, the reorganisation should be approved, however all steps should be taken to ensure that the process was conducted sensitively, working closely with impacted employees and their representatives.
- The need to enhance customer service levels and how implementation of the reorganisation is projected to improve operational performance.
- The cost of implementing the reorganisation and the resulting impact on Royal Mail plc shareholder value. The charge of around £70 million to be taken in the final quarter of 2021-22, was considered and balanced against the annualised cost savings of around £40 million the reorganisation is forecast to deliver.



Mick Jeavons

Director

Royal Mail Group Limited

Registered Number: 04138203

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

12 July 2022

Royal Mail Group Limited

Directors' report

The Directors present the Annual Report and Financial Statements of the Company. These Financial Statements relate to the 52 weeks ended 27 March 2022 (2020-21: 52 weeks ended 28 March 2021).

Directors and their interests

The following have served as Directors of the Company during the year ended 27 March 2022 and up to the date of approval of these Financial Statements, unless otherwise stated:

Mick Jeavons
Mark Amsden
Simon Thompson

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

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

Transfer of undertakings

On 28 June 2021, the Company transferred its subsidiary, RMGLS Holdco Limited (previously known as Royal Mail Investments Limited, which holds the investment in GLS B.V.) to Royal Mail plc. Subsequently, on 31 August 2021, the Company was transferred to RMGLS Holdco Limited in exchange for an issue of shares by RMGLS Holdco Limited to Royal Mail plc. All transactions were undertaken at book value. The primary objective of this internal restructure is to align the legal entity structure with Royal Mail plc Group's new governance structure.

Research and development

During the year the Company continued to develop products and services within the business. An indication of the nature of the activities performed are provided in the Strategic report.

Political donations

There were no political donations during the year (2020-21: £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, Royal Mail 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 Royal Mail Group (the Group), applied the principles of the UK Corporate Governance Code 2018 (the Code) for the financial year ended 27 March 2022.

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 Royal Mail plc Annual Report and Financial Statements 2021-22, which are available on the Royal Mail Group 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, Royal Mail plc (the Group).

An extensive colleague engagement programme exists which includes:

- Two-way dialogue including weekly Q&A sessions with the CEO Royal Mail, or members of the Royal Mail Executive Board, and through the Workplace platform, which was introduced in 2021 to enhance the effectiveness of employee engagement.
- The annual Big Trust survey, regular pulse surveys, Employee Voice Forums and People Panels.
- Face-to-face programmes to enhance colleagues' understanding of our strategy.
- Sharing of information through internal communication channels including Courier magazine, Royal Mail TV and Workplace.

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

Auditor

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

Strategic report

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

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

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

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

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

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

Royal Mail Group Limited

Directors' report (continued)

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.

By Order of the Board



Mick Jeavons

Director

Royal Mail Group Limited

Registered Number: 04138203

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

12 July 2022

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

Opinion

We have audited the Financial Statements of Royal Mail Group Limited ("the company") for the 52 week period ended 27 March 2022 which comprise Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and related notes, including the 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 27 March 2022 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ("the going concern period").

We used our knowledge of the company, its industry, and the general economic environment to identify the inherent risks to its 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 and EBITDA/net debt metrics relevant to debt covenants over this period were:

- The impact of the deteriorating economic and market conditions;
- Increased competition in the UK parcels sector;
- The pace of transformation in the UK business; and
- The potential impact of industrial action or incurring costs to avoid it.

We also considered less predictable but realistic second order impacts, such as the potential outcome of the contingent liabilities and provisions related to regulatory investigations that could affect demand in the company's markets.

We considered whether these risks could plausibly affect the liquidity and covenant compliance in the going concern period by assessing the Directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

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;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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:

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

- Enquiring of Directors, the Audit and Risk Committee, 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.
- Reading Board, audit and risk committee, nomination committee and remuneration committee minutes.
- Considering remuneration incentive schemes (Royal Mail LTIP and Deferred Share Bonus Plan) and performance targets for Management and Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

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 advanced customer payments, and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the low value, high volume nature of transactions reduces the opportunities for fraudulent activity. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance Management, those posted with unusual account combinations, those posted by unauthorised users and unusual journals posted to cash and borrowing accounts.
- Evaluated the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-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.

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 the 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.

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

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 these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 29, 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.

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

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.



Ian Griffiths (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

12 July 2022

Royal Mail Group Limited

Income statement for the 52 weeks ended 27 March 2022 and the 52 weeks ended 28 March 2021

	Notes	52 weeks 2022 £m	52 weeks 2021 £m
Continuing operations			
Revenue	2	8,525	8,658
Operating costs ¹		(8,339)	(8,458)
People costs	3	(5,557)	(5,480)
Other operating costs	4	(2,782)	(2,978)
Operating profit before specific items		186	200
Operating specific items	5	(158)	12
Operating profit		28	212
<i>Profit on disposal of property, plant and equipment (non-operating specific item)</i>		73	11
Profit before interest and tax		101	223
Income from investments	7	842	16
Finance costs	8	(50)	(49)
Finance income	8	1	13
Net pension interest (non-operating specific item)	22 (c)(d)	64	117
Profit before tax		958	320
Tax credit/(charge)	9	41	(35)
Profit for the year		999	285

¹ Operating costs are stated before operating specific items which include: impairment of investments and legacy/other items.

Royal Mail Group Limited

Statement of comprehensive income for the 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021

	Notes	52 weeks 2022 £m	52 weeks 2021 £m
Profit for the year		999	285
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		414	(1,448)
Withholding tax (payable)/receivable on distribution of RMPP and RMSEPP surplus	22	(181)	660
Remeasurement gains/(losses) of the defined benefit surplus in RMPP and RMSEPP	22(c)	457	(1,998)
Remeasurement gains/(losses) of the defined benefit deficit in DBCBS	22(d)	172	(136)
Deferred tax	9	(34)	26
Items that may be subsequently reclassified to profit or loss:			
Designated cash flow hedges		83	30
Gains on cash flow hedges deferred into equity		117	11
(Gains)/losses on cash flow hedges released from equity to income		(24)	23
Losses released from equity to the carrying value of non-financial assets		2	-
Gain/(loss) on cross-currency swap cash flow hedge deferred into equity		2	(2)
Loss on cross-currency swap cash flow hedge released from equity to income – interest payable		8	8
Loss 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	(21)	(7)
Total other comprehensive income/(expense) for the year		497	(1,418)
Total comprehensive income/(expense) for the year		1,496	(1,133)

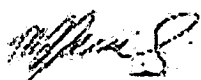
Royal Mail Group Limited

Balance sheet

At 27 March 2022 and 28 March 2021

	Notes	At 27 March 2022 £m	At 28 March 2021 £m
Non-current assets			
Property, plant and equipment	10	2,331	2,024
Intangible assets	12	341	356
Investments in subsidiaries and associates	13	370	1,287
Financial assets – pension escrow investments	14	213	212
Financial assets – derivatives		30	5
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	22	2,723	2,389
Other receivables	23	38	22
Deferred tax assets	9	122	152
		6,168	6,447
Assets held for sale	24	-	23
Current assets			
Inventories	15	26	11
Trade and other receivables	16	1,214	1,023
Income tax receivable		35	5
Financial assets – investments		70	-
Financial assets – derivatives		74	2
Cash and cash equivalents	17	831	1,272
		2,250	2,313
Current liabilities			
Trade and other payables	18	(2,407)	(3,517)
Lease liabilities	11	(146)	(141)
Financial liabilities – derivatives		(8)	(12)
Bank overdraft	20	(78)	(42)
Provisions	21	(171)	(110)
		(2,810)	(3,822)
Net current liabilities		(560)	(1,509)
Total assets less current liabilities		5,608	4,961
Non-current liabilities			
Other payables	19	(2)	(8)
Lease liabilities	11	(819)	(702)
Financial liabilities – derivatives		(36)	(36)
DBCBS retirement benefit deficit	22	(390)	(394)
Provisions	21	(68)	(89)
Net assets		4,293	3,732
Equity			
Share capital	26	-	-
Retained earnings		4,227	3,745
Other reserves	26	66	(13)
Total equity		4,293	3,732

The Financial Statements were approved by the Board of Directors on 8 July 2022 and signed on its behalf by:



Mick Jeavons

Director

Royal Mail Group Limited

Registered Number 04138203

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

Royal Mail Group Limited

Statement of changes in equity

for the 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021

	Notes	Share capital £m	Retained earnings £m	Hedging reserve £m	Foreign currency translation reserve £m	Other reserve £m	Total equity £m
At 29 March 2020		-	4,902	(44)	(3)	5	4,860
Profit for the year		-	285	-	-	-	285
Other comprehensive income for the year		-	(1,448)	30	-	-	(1,418)
Total comprehensive income for the year		-	(1,163)	30	-	-	(1,133)
Transactions with owners of the Company, recognised directly in equity							
Share-based payments in respect of Royal Mail plc	25						
Employee Free Shares issue		-	1	-	-	-	1
Long-Term Incentive Plan (LTIP)		-	1	-	-	-	1
Deferred Shares Bonus Plan (DSBP)		-	3	-	-	-	3
Deferred tax on share-based payments in respect of Royal Mail plc		-	1	-	-	-	1
Settlement of DSBP		-	(1)	-	-	-	(1)
Transfer of realised profit ¹		-	1	-	-	(1)	-
At 28 March 2021		-	3,745	(14)	(3)	4	3,732
Profit for the year		-	999	-	-	-	999
Other comprehensive income for the year		-	414	83	-	-	497
Total comprehensive income for the year		-	1,413	83	-	-	1,496
Transactions with owners of the Company, recognised directly in equity							
Distribution of RMGLS Holdco Limited to Royal Mail plc	13	-	(781)	-	-	-	(781)
Dividends paid	27	-	(158)	-	-	-	(158)
Share-based payments in respect of Royal Mail plc	25						
Employee Free Shares issue		-	1	-	-	-	1
LTIP		-	2	-	-	-	2
DSBP		-	1	-	-	-	1
Transfer of realised profit ¹		-	4	-	-	(4)	-
At 27 March 2022		-	4,227	69	(3)	-	4,293

¹ The 'Other' reserve balance arose from a dividend in specie, relating to the transfer of part of the Nine Elms site from Royal Mail Estates Limited, a subsidiary of the Company. The realised profit of £4 million relates to the proportion of the original Nine Elms site disposed of during the year.

Royal Mail Group Limited

Notes to the Financial Statements

1. Basis of preparation and accounting policies

The following accounting policies apply throughout the Company.

Accounting reference date

The financial reporting year ends on the last Sunday in March and, accordingly, these Financial Statements are made up to the 52 weeks ended 27 March 2022 (2020-21: 52 weeks ended 28 March 2021).

Authorisation of Financial Statements and statement of compliance with FRS 101

The Financial Statements of the Company for the year ended 27 March 2022 were authorised for issue by the Board of Directors on 8 July 2022. 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 Royal Mail plc. The consolidated Financial Statements of Royal Mail plc are available from www.royalmailgroup.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 year ended 27 March 2022.

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 Royal Mail plc.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Going concern

Notwithstanding net current liabilities of £560 million as at 27 March 2022, 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 reviewed both the current business projections and a severe but plausible downside scenario and assessed these against cash and cash equivalents of £831 million, current asset investments of £70 million and the undrawn bank syndicate loan facility of £925 million, at 27 March 2022. The downside scenario included a consideration of deteriorating economic and market conditions, increased competition in the UK parcels sector, a slower pace of transformation in the UK business and the impact this has on cost control, and the potential impact of industrial action or incurring costs to avoid it.

The Royal Mail Group Limited Directors are satisfied that these facilities, coupled with business projections, show that Royal Mail Group Limited will continue to operate for a minimum of twelve months from the date of approval of these Financial Statements. Those projections are dependent on Royal Mail plc not seeking repayment of the loan amount currently due to it from Royal Mail Group Limited, which at 27 March 2022 amounted to £872 million. Royal Mail plc has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. 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.

The severe but plausible downside case indicates that alongside the financial support from Royal Mail plc, the Company would not expect to draw on the bank syndicate loan facility in order to maintain sufficient liquidity and would not breach any of its covenants.

Consequently, the Directors are satisfied that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the Financial Statements and therefore have prepared the Financial Statements on a going concern basis.

Changes in accounting policy

The accounting policies applied in the preparation of these Financial Statements are consistent with those for the year ended 28 March 2021, along with the adoption of new and amended accounting standards with effect from 29 March 2021 as detailed below:

New and amended accounting standards adopted in 2021-22

Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The Company has adopted Phase 2 of the Interest Rate Benchmark Reform with effect from 29 March 2021. The amendments do not have an effect on the Company as it does not have any financial instruments that reference LIBOR. The interest reference rate in the bank syndicate loan facility was amended in the period from LIBOR to SONIA (Sterling OverNight Indexed Average) (SOFR (Secured Overnight Financing Rate) for any drawings in US Dollars). Interest is compounded daily and a credit adjustment spread of between 0.0% and 0.3% is added using the ISDA (International Swaps and Derivatives Association) published five-year historical mean on fixing date 5 March 2021. The bank syndicate loan facility was undrawn throughout the period and therefore is unaffected by the amendment in the period.

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:

Annual improvements to IFRS 2018-20

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

IAS 1 (Amended) – Disclosure of Accounting Policies

IAS 8 (Amended) – Definition of Accounting Estimates

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

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

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

IFRS 3 (Amended) – Reference to Conceptual Framework

IFRS 17 – Insurance Contracts

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Sources of estimation uncertainty and critical accounting judgements

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

Key sources of estimation uncertainty

Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Company's 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 are included within Note 22.

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

- Equities listed on recognised stock exchanges are valued at closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves.
- Pooled investment vehicles are valued using published prices or the latest information from investment managers which includes any necessary fair value adjustments.
- Properties are valued on the basis of open market value as at the year-end date, in accordance with Royal Institute of Chartered Surveyors (RICS) Valuations Standards (under 'Red Book' guidelines adjusted for any capital expenditure and impairments since that valuation
- For exchange-traded derivatives that are assets, fair value is based on bid prices. For exchange-traded derivatives that are liabilities, fair value is based on offer prices.

Non-exchange traded derivatives are valued as follows:

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

The value of the RMSEPP insurance policies held by the Company is equal to the accounting defined benefit obligation of the scheme as at the year-end date.

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

Deferred revenue

The Company recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 18).

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

At 27 March 2022 the Company recognised £160 million (2020-21: £218 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. In 2021-22, stamp sales reverted closer to pre-pandemic levels, which meant that some of the build-up in holdings seen in 2020-21 was utilised. The primary sources of data used to derive this estimate are as follows:

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

Stamp holding days implied by applying the above methodology, fell year on year to 31 days (2020-21: 39 days).

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.

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, which incorporates independent expert actuarial advice.

The Institute and Faculty of Actuaries (UK Asbestos Working Party), on whose modelling actuaries rely for their calculations for asbestos-related ill-health claims, confirmed during this reporting year that the provisional guidance that they issued in February 2021 is supported by the subsequent revision of all the different models it maintains. This now established guidance indicates a significant reduction in future liabilities for such claims.

In view of the above, Management has applied a consistent approach to that of previous years and recognised a provision at 27 March 2022 between the medium and high estimates provided by the actuarial consultant. This has resulted in a release of £11 million (2020-21: 16 million), recognised in the income statement as an operating specific item (see Note 5). The closing provision balance at 27 March 2022 was £56 million (2020-21: 69 million) (see Notes 5 and 21).

A 50 basis points decrease to the 1.77% discount rate used at 27 March 2022 would result in a £3 million increase in the overall provision. Any income statement movements arising from a change in accounting estimate are disclosed as an operating specific item.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Accounting policies

Revenue

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

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

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

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

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

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

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

People costs

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

Distribution and conveyance costs

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

Infrastructure costs

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

Other operating costs

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

Operating specific items

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

Legacy/other items

Legacy items are unavoidable ongoing costs arising from historical events e.g. industrial diseases provision or Employee Free Shares costs.

Amortisation of intangible assets in acquisitions

These charges, which arise as a direct consequence of the application of IFRS 3 'Business Combinations', are separately identified as Management does not consider these costs to be representative of the trading performance of the Company.

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.

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

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

Net pension interest

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

Share-based payments

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

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

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

Income tax and deferred tax

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

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

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

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

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

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

At 27 March 2022, the carrying value of this CGU was £1,366 million (2020-21: £1,174 million). The CGU has been assessed for impairment by comparing the carrying value of the CGU to its recoverable amount, assessed as being the 'value in use.' The value in use has been calculated based on the Board's three-year forecast free cash flows, with the assumption that years four and five will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of 0.5% (2020-21: 0.5%).

The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU. The Company has conducted sensitivity analysis on the impairment test for each of the key assumptions. This did not identify any plausible outcomes that would require the CGU to be impaired.

Parcelforce Worldwide CGU

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

Dividends

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

Property, plant and equipment

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

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

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

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

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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.

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

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate incremental borrowing rate (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. Lease interest is shown within finance costs in the Statement of Cash Flows. The lease liability 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 £nil (2020-21: £15 million).

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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

IFRS 16 – Incremental borrowing rates (IBR)

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

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

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

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

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

Trade receivables

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

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

	2021-22	2020-21
Not yet overdue	0.21%	0.10%
Past due not more than one month	1.96%	1.88%
Past due more than one month and not more than two months	12.57%	16.55%
Past due more than two months	57.69%	73.13%

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 27 March 2022 was £27 million (28 March 2021: £29 million).

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Financial instruments

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

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

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

Financial assets measured at amortised cost

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

Financial liabilities measured at amortised cost

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

Cash and cash equivalents

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

Financial assets – pension escrow investments

Pension escrow investments comprise a Royal Mail Senior Executives Pension Plan (RMSEPP) money market fund investment and a Royal Mail Pension Plan (RMPP) money market fund investment.

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).

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

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.

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

Contingent liabilities

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

Contingent assets

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

Royal Mail Group Limited

1. Basis of preparation and accounting policies (continued)

Pensions and other post-retirement benefits

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

Where the economic benefit to be obtained is in the form of a refund, this is recognised less tax expense, in line with IFRIC 14. The Company considers this tax to be a tax other than income 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 Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed.

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

For defined contribution plans, the Company's contributions are charged to operating profit (within people costs) in the year to which the contributions relate.

Intercompany trading

The Company operates through business units that make use of the services of other companies within the Royal Mail 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. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

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

2. Revenue

	52 weeks 2022 £m	52 weeks 2021 ¹ £m
Parcels	4,811	5,142
Letters	3,714	3,516
Total	8,525	8,658

¹The prior year's letters and parcels revenue split has been re-presented to reflect a reallocation of international revenue between letters and parcels.

Royal Mail Group Limited

2. Revenue (continued)

During the year, around £300 million (2020-21: £290 million) of revenue was recognised which was previously held as a deferred revenue balance at 28 March 2021 (2020-21: 29 March 2020). 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

	52 weeks 2022 £m	52 weeks 2021 £m
Wages and salaries ¹	(4,093)	(4,068)
Social security costs	(414)	(408)
Pension costs	(733)	(668)
Temporary resource	(317)	(336)
Total people costs	(5,557)	(5,480)

¹Wages and salaries include £81 million (2020-21: £109 million) in relation to voluntary redundancy costs.

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

	Year end employees		Average employees	
	At 27 March 2022	At 28 March 2021	At 27 March 2022	At 28 March 2021
Total employees²	137,347	134,575	136,064	136,215

² People numbers are based on permanent employees

4. Other operating costs

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

	52 weeks 2022 £m	52 weeks 2021 £m
Distribution and conveyance costs		
Charges from overseas postal administrations	(271)	(343)
Fuel costs	(182)	(178)
Infrastructure costs		
Depreciation and amortisation	(395)	(411)
Depreciation of property, plant and equipment	(306)	(304)
Amortisation of intangible assets (software)	(89)	(107)
Other costs		
Post Office Limited charges	(361)	(405)
Inventory expensed	(30)	(35)
Intercompany property rent	(13)	(13)

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

Regulatory body costs

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

Auditor's remuneration amounted to £290,000 (2020-21: £360,000) for the audit of the statutory Financial Statements. The auditor did not provide any non-audit services for the years ended 27 March 2022 and 28 March 2021.

Royal Mail Group Limited

5. Operating specific items

	52 weeks 2022 £m	52 weeks 2021 £m
Impairment of investment in subsidiary	(161)	-
Impairment of investment in associate	(5)	-
Legacy/other items	8	12
Total	(158)	12

The £161 million impairment of investment in subsidiary and £5 million impairment of investment in associate relate to the Company's investments in Royal Mail Estates Limited and Quadrant Catering Limited respectively (see Note 13 for further details).

Legacy/other items mainly comprise an £11 million release (2020-21: £16 million release) of the industrial diseases provision, following the publication, in late 2021, of updated scenarios on future asbestos-related ill-health claims by the Institute and Faculty of Actuaries (UK Asbestos Working Party) (see Note 21 for further details).

6. Directors' emoluments

	52 weeks 2022 £000	52 weeks 2021 £000
Short-term employee benefits	(2,116)	(1,298)
Post-employment benefits	(5)	(8)
Share-based payments	(801)	(991)
Total	(2,922)	(2,297)

There were no Directors in the Company's defined benefit pension scheme (2020-21: none) and two Directors (2020-21: four) 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 £798,139 (2020-21: £458,037), which includes base salary, benefits, pension cash allowance and short-term incentive.

7. Income from investments

	52 weeks 2022 £m	52 weeks 2021 £m
Royal Mail Estates Limited	813	-
Royal Mail Property and Facilities Solutions Limited	13	13
Royal Mail Courier Services	8	-
Quadrant Catering Limited	5	-
Storefeeder Ltd	2	2
Intersoft Systems and Programming Limited	1	1
Total	842	16

8. Net finance costs

	52 weeks 2022 £m	52 weeks 2021 £m
Interest payable on finance leases	(23)	(21)
Net interest payable to Royal Mail Group entities	(19)	(19)
Other miscellaneous interest payable	(8)	(9)
Finance costs	(50)	(49)
Finance income - interest receivable on investments	1	13
Total	(49)	(36)

Royal Mail Group Limited

9. Taxation

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

	52 weeks 2022 £m	52 weeks 2021 £m
Tax credited/(charged) in the income statement:		
Current tax:		
Corporation tax charge for the year	-	(34)
Tax over/(under)-provided in previous year	16	(3)
Total current tax credit/(charge)	16	(37)
Deferred tax:		
Effect of change in tax rates	36	-
Relating to origination and reversal of temporary differences	(19)	(1)
Amounts over-provided in previous year	8	3
Total deferred tax credit	25	2
Total tax credit/(charge)	41	(35)

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

	52 weeks 2022 £m	52 weeks 2021 £m
Deferred tax:		
Tax (charge)/credit in relation to remeasurement gains of the defined benefit pension schemes	(34)	26
Tax charge on revaluation of cash flow hedges	(21)	(7)
Total deferred income tax (charge)/credit	(55)	19
Total tax (charge)/credit in the statement of other comprehensive income	(55)	19

Tax credit on items taken directly to equity:

	52 weeks 2022 £m	52 weeks 2021 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	(1)	1
Tax credit for loss arising on share-based payments	1	-
Total deferred income tax credit recognised directly in equity	-	1

Royal Mail Group Limited

9. Taxation (continued)

(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 52 weeks ended 27 March 2022 and 52 weeks ended 28 March 2021 is shown below:

	52 weeks 2022 £m	52 weeks 2021 £m
Profit on ordinary activities before tax	958	320
At UK statutory rate of corporation tax of 19% (2020-21: 19%)	(182)	(61)
Tax over-provided in previous years ¹	24	-
Non-deductible expenses	(5)	(4)
Tax reliefs and incentives	5	2
Tax effect of property disposals	10	3
Tax effect of closure of Royal Mail Pension Plan to future accrual	(3)	(2)
Net pension interest credit	14	23
Impairment of investment in subsidiary and associate	(32)	-
Share based payments - Deferred tax only adjustments	-	1
Effect of change in tax rates	36	-
Non-taxable dividend received	160	3
Super deduction enhanced capital allowances	14	-
Tax credit/(charge) in the income statement	41	(35)

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

(c) Net deferred tax asset

	At 27 March 2022 £m	At 28 March 2021 £m
Accelerated capital allowances	(7)	41
Pensions	100	75
Losses	28	5
Employee Shares schemes	2	3
Short-term timing differences	15	24
Hedging	(17)	3
Research & Development expenditure credit	1	1
Total	122	152

Royal Mail Group Limited

9. Taxation (continued)

The movement on deferred tax is shown below:

	£m
Deferred tax asset at 28 March 2021	152
Deferred tax credit in the income statement	25
Deferred tax charge on items taken to other comprehensive income	(55)
Deferred tax asset at 27 March 2022	122

(d) Factors that may affect future tax charges

At 27 March 2022, the Company had unrecognised capital losses carried forward of £2 million (2020-21: £nil million) with a tax value of £1 million (2020-21: £nil million).

The Company also has temporary differences in respect of £177 million (2020-21: £185 million) of capital losses, the tax effect of which is £44 million (2020-21: £35 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £381 million (2020-21: £346 million) of gains for which rollover relief has been claimed, the tax effect of which is £95 million (2020-21: £66 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.

Changes to UK corporation tax rate

The UK Government has announced that the corporation tax rate will rise to 25% from April 2023. In accordance with accounting standards, the deferred tax balances in these Financial Statements have been adjusted to effect this change.

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 29 March 2021	3,119	855	954	279	5,207
Reclassification	1	-	(1)	-	-
Modifications	41	-	-	-	41
Additions	307	103	111	80	601
Disposals	(60)	(21)	(4)	(17)	(102)
Legal entity transfer	(1)	-	-	-	(1)
Reclassification to non-current assets held for sale	(27)	-	-	-	(27)
At 27 March 2022	3,380	937	1,060	342	5,719
Depreciation					
At 29 March 2021	1,813	408	731	231	3,183
Modifications	(1)	-	-	-	(1)
Charge for the year (see Note 4)	158	79	46	23	306
Disposals – external	(60)	(19)	(4)	(16)	(99)
Reclassification to non-current assets held for sale	(1)	-	-	-	(1)
At 27 March 2022	1,909	468	773	238	3,388
Net book value					
At 27 March 2022	1,471	469	287	104	2,331
At 28 March 2021	1,306	447	223	48	2,024

Depreciation rates are disclosed within the accounting policies Note 1. No depreciation is provided on land, which represents £127 million (2020-21: £124 million) of the total cost of properties.

The net book value of the Company's property, plant and equipment includes £250 million (2020-21: £98 million) in respect of assets in the course of construction. The net book value of the Company's land and buildings includes £283 million (2020-21: £316 million) in respect of building fit-out.

The £601 million (2020-21: £249 million) additions include £2 million (2020-21: £1 million) borrowing costs capitalised at a rate of 2.65% (2020-21: 2.5%) in relation to specific qualifying assets.

11. Leases

The Company primarily leases office buildings and letter and parcel processing facilities. At 27 March 2022 the Company held approximately 662 land and building leases (2020-21: 674). 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 27 March 2022	At 28 March 2021
	Present value of lease payments £m	Present value of lease payments £m
Lease liabilities		
Current liabilities		
Lease liabilities due within one year	(146)	(141)
Non-current liabilities		
Lease liabilities due between one and five years	(445)	(405)
Lease liabilities due beyond five years	(374)	(297)

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
27 March 2022					
Cost	1,045	143	465	4	1,657
Additions	188	5	17	-	210
Accumulated depreciation	(243)	(117)	(297)	(3)	(660)
Depreciation charge	(94)	(13)	(40)	(1)	(148)
Carrying amount	802	26	168	1	997

Right of use assets	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
28 March 2021					
Cost	840	174	478	4	1,496
Additions	31	2	17	1	51
Accumulated depreciation	(174)	(132)	(284)	(2)	(592)
Depreciation charge	(85)	(20)	(42)	(1)	(148)
Carrying amount	666	42	194	2	904

Leases are presented in the income statement as detailed below.

Lease income/(costs)	52 weeks 2022 £m	52 weeks 2021 £m
Other operating income		
Sublease income	3	5
Material expenses		
Expenses from short-term/low-value leases	(33)	(26)
Depreciation and impairment losses		
Depreciation on right-of-use assets	(148)	(148)
Net finance costs		
Interest expense on lease liabilities	(23)	(21)

The Company enters into sale and leaseback transactions for plant and machinery and vehicles. Cash received from these transactions in the year was £nil (2020-21: £1 million).

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12. Intangible assets

	At 28 March 2021 £m
Cost	
At 29 March 2021	977
Additions	74
Disposals	(8)
At 27 March 2022	1,043
Amortisation and impairment	
At 29 March 2021	621
Charge for the year (see note 4)	89
Disposals	(8)
At 27 March 2022	702
Net book value	
At 27 March 2022	341
At 28 March 2021	356

The intangible assets outlined above relate to software, have finite lives and are being written down on a straight-line basis. The £74 million (2020-21: £49 million) additions include £1 million (2020-21: £1 million) borrowing costs capitalised at a rate of 2.65% (2020-21: 2.5%) in relation to specific qualifying assets.

13. Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
Cost			
At 29 March 2021	1,293	28	1,321
Addition (shares in RMGLS Holdco Limited)	140	-	140
Addition	-	1	1
Distribution of RMGLS Holdco Limited to Royal Mail plc	(781)	-	(781)
Disposal	(11)	-	(11)
Disposal (shares in RMFCAD Limited to RMGLS Holdco Limited)	(111)	-	(111)
Reclassification	-	(2)	(2)
At 27 March 2022	530	27	557
Impairment			
At 29 March 2021	11	23	34
Disposal	(11)	-	(11)
Impairment	161	5	166
Reclassification	-	(2)	(2)
At 27 March 2022	161	26	187
Net book value			
At 27 March 2022	369	1	370
At 28 March 2021	1,282	5	1,287

Investments in subsidiaries

During the year the Company undertook a number of accounting transactions, with the primary objective of aligning the legal entity structure with Royal Mail plc Group's new governance structure. All transactions were undertaken at book value. More details of these transactions, which are reflected in the above table, are provided below.

On 28 June 2021, the Company transferred its £111 million of shares in RM Finance CAD Limited and a \$40 million USD receivable (£29 million) to RMGLS Holdco Limited in exchange for an issue of £140 million of ordinary shares.

On 28 June 2021, the Company transferred its subsidiary, RMGLS Holdco Limited, (which holds the investment in GLS B.V.) to Royal Mail plc. Subsequently on 31 August 2021, the Company was transferred from Royal Mail plc to RMGLS Holdco Limited in exchange for an issue of shares by RMGLS Holdco Limited to Royal Mail plc.

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13. Investments in subsidiaries and associates (continued)

On 25 October 2021, the Company's subsidiary Royal Mail Estates Limited ('RMEsL') paid a dividend of £813 million to the Company. As a result, the investment held by the Company in RMEsL was impaired by £161 million to its recoverable amount of £348 million, which represents the fair value of its properties and its other net assets. Investments in Associates Quadrant Catering Ltd ('Quadrant'), an associate company, ceased trading with effect from 30 September 2020 and is now in the process of being wound up. As part of this process, on 18 June 2021 the Company received a final dividend from Quadrant of £5.1 million. As a result, the investment held by the Company was fully impaired.

Details of the Company's subsidiaries and associates are provided in Note 33.

14. Financial assets – pension escrow investments

The pension escrow investments of £213 million at 27 March 2022 (2020-21: £212 million) comprise RMPP investments of £192 million (2020-21: £191 million) and RMSEPP investments of £21 million (2020-21: £21 million).

15. Inventories

	At 27 March 2022 £m	At 28 March 2021 £m
Supplies, equipment and materials	22	8
Merchandise	4	3
Total	26	11

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

16. Trade and other receivables

	At 27 March 2022 £m	At 28 March 2021 £m
Trade receivables	812	872
Prepayments and accrued income	85	80
Interest	2	2
Amounts owed by Royal Mail Group entities	315	69
Total	1,214	1,023

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

	At 27 March 2022 £m	At 28 March 2021 £m
At 29 March 2021 and 30 March 2020	(61)	(56)
Receivables provided for during the year	(11)	(31)
Release of allowance	32	18
Utilisation of allowance	6	8
At 27 March 2022 and 28 March 2021	34	(61)

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 27 March 2022 £m	At 28 March 2021 £m
Not yet overdue	711	771
Past due not more than one month	63	79
Past due more than one month and not more than two months	11	15
Past due more than two months	27	7
Total	812	872

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17. Cash and cash equivalents

	At 27 March 2022 £m	At 28 March 2021 £m
Cash at bank and in hand	6	5
Cash equivalent investments: Short-term bank and money market fund investments	825	1,267
Total	831	1,272

18. Trade and other payables

	At 27 March 2022 £m	At 28 March 2021 £m
Trade payables and accruals	(1,089)	(1,109)
Advance customer payments (mainly for stamps held, not yet used by customers)	(254)	(299)
Social security	(81)	(99)
Amounts due to Royal Mail Group entities	(942)	(1,970)
Capital expenditure payables	(41)	(40)
Total	(2,407)	(3,517)

Amounts due to Royal Mail Group entities include £872 million (2020-21: £895 million) loaned to the Company by its ultimate parent company Royal Mail plc, following the issue of two bonds by Royal Mail plc. A €500 million bond was issued in July 2014 and a €550 million bond was issued in October 2019. These loans are revalued at closing Sterling/Euro exchange rates, and the gains/losses recognised in the income statement.

The €500 million bond related loan is hedged by the Company by a loan to the Company's immediate parent company RMGLS Holdco Limited. The €550 million bond related loan is fully hedged by the Company for foreign currency risk by a cross-currency swap. During the year, foreign currency exchange gains on the loans from Royal Mail plc amounted to £23 million (2020-21: £40 million gain) although these were offset by foreign exchange losses of £12 million on the cross-currency swap (2020-21: million loss) and foreign exchange losses of £11 million (2020-21: £19 million loss) on the related loan to the Company's immediate parent RMGLS Holdco Limited.

The £872 million loan is repayable on demand by the parent company.

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 27 March 2022 was £27 million (28 March 2021: £29 million).

19. Non-current other payables

	At 27 March 2022 £m	At 28 March 2021 £m
Total	(2)	(8)

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20. Bank overdraft

	At 27 March 2022 £m	At 28 March 2021 £m
Bank overdraft	(78)	(42)
Total	(78)	(42)

The overdraft of £78 million consists of £56 million (2020-21: £31 million) overdraft 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 £22 million (2020-21: £11 million) of accounting overdrafts related to payments being processed but which have not cleared the bank account at the balance sheet date.

21. Provisions

	Specific items £m	Other £m	Total £m
At 28 March 2021	(128)	(71)	(199)
Arising during the year:			
- released in operating specific items	11	-	11
- charged in other operating costs	-	(115)	(115)
- unused amounts released	-	7	7
Utilised in the year	4	54	58
Unwinding of discount - industrial diseases claims	(1)	-	(1)
At 27 March 2022	(114)	(125)	(239)
Disclosed as:			
Current	(60)	(111)	(171)
Non-current	(54)	(14)	(68)
At 27 March 2022	(114)	(125)	(239)
Disclosed as:			
Current	(59)	(51)	(110)
Non-current	(69)	(20)	(89)
At 28 March 2021	(128)	(71)	(199)

Specific items provisions

The specific items provisions of £114 million (2020-21: £128 million) include £56 million (2020-21: £69 million) for potential industrial diseases claims relating to both current and former employees of the Company.

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 actuarial adviser, 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 30 years. The Group has a rigorous process for ensuring that only valid claims are accepted. £3 million of this provision is expected to be utilised in 2022-23.

The Institute and Faculty of Actuaries (UK Asbestos Working Party), on whose modelling actuaries rely for their calculations for asbestos-related ill-health claims, published updated models during the 2021 calendar year. This new guidance indicates a significant reduction in future liabilities for such claims. Management has worked with its actuarial advisor in considering this guidance and, as a result, released £11 million of the provision balance, recognised as an operating specific item in the income statement.

The specific items provisions also include £52 million (2020-21: £52 million) for the Ofcom fine. In January 2020, Royal Mail requested permission to appeal the Competition Appeal Tribunal's judgment to the Court of Appeal (CoA) in respect of the Ofcom fine. On 30 March 2020, the CoA granted Royal Mail permission and the hearing took place on 20 and 21 April 2021. On 7 May 2021, the CoA dismissed the appeal. The Supreme Court has subsequently rejected Royal Mail's request to appeal the CoA's judgment and the appeal process has now concluded.

The remainder of the provisions consist of legacy property costs of £6 million, which are expected to be utilised over a period greater than five years.

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21. Provisions (continued)

Other provisions (charged in other operating costs)

Other provisions of £125 million (2020-21: £71 million) include £70 million (2020-21: £14 million) in respect of redundancy schemes.

In January 2022, Royal Mail announced a management restructure affecting over 3,000 managerial level employees, mainly within its operational function. This is a significant restructure within the operational area and the functions that support it, resulting in the recognition of a provision for £70 million, representing voluntary redundancy compensation and associated costs for around 700 managers.

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

22. Retirement benefit plans

Summary pension information

	52 weeks 2022 £m	52 weeks 2021 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs) ¹	(439)	(367)
UK defined contribution plan	(113)	(109)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions ²	(181)	(192)
Total	(733)	(668)
	At 27 March 2022 '000	At 28 March 2021 '000
UK pension plans – active membership		
UK defined benefit plan	70	75
UK defined contribution plan	61	53
Total	131	128

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 24.6% (2020-21: 19.5%) of the increase in the defined benefit obligation due to members earning one more years' worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Also included are pensions administration costs for the RMPP of £9 million (2020-21: £9 million) and the DBCBS of £5 million (2020-21: £5 million) and a £6 million past service cost in respect of the estimated liability for historic Guaranteed Minimum Pensions (GMP) costs in RMPP that has arisen in the year. Further details are included under the heading 'Guaranteed Minimum Pensions' below.

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

In the period, the Company operated the following plans.

Defined Contribution plan

The Company operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Company from 31 March 2008, following closure of the RMPP to new members.

Defined contribution plan costs (excluding PSE) have increased from £109 million in 2020-21 to £113 million. This is due to a significant increase in plan membership in the year, offset by a decrease in the average employer's contribution rate from 9.3% in 2020-21 to 8.9% in 2021-22.

Defined Benefit plans

*Royal Mail Pension Plan (RMPP)*³ 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.

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22. Retirement benefit plans (continued)

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

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

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

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

DBCBS members build up a guaranteed lump sum benefit of 19.6% of their pensionable pay each year. Although there are no guaranteed increases to this lump sum, the aim is to provide above inflation increases and the Trustee invests the scheme assets accordingly. If the value of the DBCBS assets were to fall below the value of the members' guaranteed lump sum benefits, then no increases would be awarded until asset values had recovered. The Company would be obligated to make the necessary contributions to ensure that members received at least the guaranteed lump sum amount. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the increases granted to date, Management is however of the view that there is a requirement to recognise a constructive obligation to provide an increase to the lump sum for accounting purposes. The increase awarded from 1 April 2022 is CPI (at 3.41%) plus 1.5%. Future liabilities of the scheme have been calculated assuming increases of CPI plus 2.0%, although the nature of the scheme means that actual increases could be lower or higher than this amount.

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

Pensions Governance and management

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

The Trustee Board is responsible for:

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

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

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22. Retirement benefit plans (continued)

Royal Mail Senior Executives Pension Plan (RMSEPP)

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

In September 2018 an insurance policy was purchased in respect of all remaining pensioners and deferred members, following which it was decided to proceed to buy-out and wind-up the Plan. The wind-up of RMSEPP had previously been expected to complete in 2020-21, however it was delayed by the need for further clarity over the approach to GMP equalisation. This has now been resolved with most of the GMP liabilities settled and the Trustee now expects this to complete in the 2022-23 financial year.

All benefit payments due from the RMSEPP remain unchanged. The insurance policies held by the RMSEPP exactly match the value and timing of the benefits payable to individual members and the fair value is deemed to be the present value of the related obligations. The total value of the buy-in annuity policies in place is £312 million (28 March 2021: £364 million) and is included as a pension asset and a pension liability at 27 March 2022⁴.

An updated Schedule of Contributions was agreed in May 2021, with no further contributions to be paid for the 2021-22 financial year. Contributions in respect of death-in-service lump sum benefits and administration, and wind-up expenses after that point, should the scheme remain in operation, will be set at £500,000 per annum from April 2022, and will be paid annually in arrears.

⁴ In accordance with IAS 19.

Unfunded pension

A liability of £2 million (2020-21: £2 million) has been recognised for future payment of pension benefits to a past Director.

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

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

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

The updated triennial valuation for RMPP and the first triennial valuation for the DBCBS at 31 March 2021 have recently been approved. Since the RMSEPP scheme is expected to be wound up imminently, the Trustee does not intend to carry out a full triennial valuation at 31 March 2021. The estimated funding positions for the RMPP and DBCBS are shown below.

	RMPP	DBCBS
Date of valuation	31 March 2021 (agreed on 17 May 2022)	The first full valuation has been performed as at 31 March 2021 and was agreed on 17 May 2022
Valuation	The triennial valuation has been agreed with the Trustee and the approach has changed to 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 2022 was estimated to be around £500 million.	A draft funding position at 31 March 2022 has been calculated based on the assumption that the funding surplus is equal to the amount held in respect of the risk reserve. Under this method, the DBCBS actuarial surplus was estimated to be around £40 million at 31 March 2022.

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22. Retirement benefit plans (continued)

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

	DBCBS		RMPP and RMSEPP	
	At 27 March 2022 £m	At 28 March 2021 £m	At 27 March 2022 £m	At 28 March 2021 £m
Fair value of plans' assets (23(b) below)	1,536	1,186	11,462	11,793
Present value of plans' liabilities	(1,926)	(1,580)	(7,272)	(8,118)
(Deficit)/surplus in plans (pre-withholding tax payable)	(390)	(394)	4,190	3,675
Withholding tax payable ⁵	n/a	n/a	(1,467)	(1,286)
(Deficit)/surplus in plans	(390)	(394)	2,723	2,389

⁵ Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

Having taken legal advice with regard to the rights of the Company under the Trust deeds and rules, the Directors believe there is an obligation to recognise a pension surplus for the RMPP on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis is a useful measure of the scheme's funding position, however the Directors are required to account for the plans based on the Company's legal right to benefit from a surplus. 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 and there is no cash benefit from the surplus.

This surplus is presented on the balance sheet net of a withholding tax adjustment of £1,464 million (at 28 March 2021: £1,283 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.

Included in the IAS 19 figures in the table above is a RMSEPP surplus at 27 March 2022 of £8 million (at 28 March 2021: £9 million surplus) (pre-withholding tax payable). As the RMSEPP is also closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 at some point in the future, and, as such, is shown on the balance sheet net of a withholding tax adjustment of £3 million (28 March 2021: £3 million), which represents the tax that would be withheld on the surplus amount.

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

Guaranteed Minimum Pensions (GMP)

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

The RMSEPP retained all historic GMP liabilities. All unequal GMP liabilities relating to deferred and pensioner members have been settled in the year. The scheme's actuaries are now carrying out an exercise to calculate equalisation amounts in relation to members who have previously transferred out of the plan. This is expected to be completed shortly and the cost of these is expected to be minimal.

Royal Mail Group Limited

22. Retirement benefit plans (continued)

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

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

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. The RMSEPP will continue in line with legacy RMPP benefits.

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

	At 27 March 2022	At 28 March 2021
Retail Price Index (RPI) – RMPP/RMSEPP	3.5%	3.2%
Retail Price Index (RPI) – DBCBS	3.8%	3.3%
Consumer Price Index (CPI) – RMPP/RMSEPP	3.2%	2.9%
Consumer Price Index (CPI) – DBCBS	3.4%	2.8%
Discount rate – RMPP/RMSEPP ⁶		
– nominal	2.8%	2.0%
– real (nominal less RPI)	(0.7%)	(1.2%)
Discount rate – DBCBS ⁷		
– nominal	2.8%	1.9%
– real (nominal less RPI)	(1.0%)	(1.4%)
Rate of increase in pensionable salaries ⁸	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 ⁸	RPI – 0.1%	RPI – 0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	CPI	CPI
Rate of pension increases – RMSEPP all other members ⁸	RPI – 0.1%	RPI – 0.1%
Rate of pension increases – DBCBS benefits	CPI + 2.0%	CPI + 2.0%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	27/25 years	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	29/27 years	30/28 years

⁶ The discount rate reflects the average duration of the RMPP benefits of around 24 years (2020–21: 25 years).

⁷ The discount rate reflects the average duration of the DBCBS benefits of 14.7 years (2020–21: 14.5 years). The pension service cost applicable from 29 March 2021 is based on 28 March 2021 assumptions.

⁸ The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after 1 April 1987) and RMSEPP 'all other members', is capped at 5.0%, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

Mortality

As part of the actuarial valuation as at 31 March 2021, the Scheme Actuary has carried out an updated mortality experience analysis in respect of the legacy RMPP. As a result of that analysis, the RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S3 mortality tables with appropriate scaling factors (96% for male pensioners and 113% for female pensioners). Future improvements for accounting purposes now use the parameters identified from that analysis but have been based on the most up to date CMI 2021 core projections (smoothing factor 7.5 with a long-term trend of 1.5% per annum). The impact of these changes is to reduce the balance sheet liabilities of the RMPP by c.£220 million and those of RMSEPP by c.£9 million. No adjustments have been made to mortality assumptions at year end to reflect the potential effects of COVID-19, as it is still considered too soon to make a judgement on the impact of the pandemic on future mortality improvements.

Cash commutation allowance

In previous periods a 15% allowance had been made for active members of Section C of RMPP commuting their pension upon retirement. Recent commutation experience and expectations for the future, taking into account that most members will now have the benefit of a cash lump sum upon retirement under the DBCBS, suggest that commutations are likely to be far smaller in the future. As a result, for the 2021–22 year end this allowance has been reduced to nil. This has had the effect of increasing the RMPP's liabilities by c.£135 million at 27 March 2022.

Royal Mail Group Limited

22. 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 27 March 2022		At 28 March 2021	
	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	-	280	-	320
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% per annum	30	170	25	190
Decrease in discount rate of 0.1% per annum	30	170	25	190
Increase in CPI assumption (assuming RPI remains constant) of 0.1% per annum	30	40	25	45
Increase in constructive obligation of 0.1% per annum	30	-	25	-

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% change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 27 March 2022 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2022. 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 effect on liabilities.

b) RMPP, RMSEPP and DBCBS assets

	At 27 March 2022			At 28 March 2021		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	1	19	20	2	21	23
Overseas	23	32	55	43	31	74
Bonds						
Fixed interest – UK	415	96	511	302	20	322
– Overseas	494	305	799	231	112	343
Pooled investments						
Absolute return	-	476	476	-	411	411
Equity	347	-	347	121	-	121
Private equity	-	62	62	-	208	208
Fixed interest	21	574	595	347	145	492
Private debt	-	450	450	-	461	461
Property	-	63	63	-	54	54
Liability-driven investment ⁹	8,263	42	8,305	9,230	(16)	9,214
Property (UK)	-	625	625	-	458	458
Cash and cash equivalents	402	-	402	442	-	442
Other	-	(52)	(52)	(3)	-	(3)
Derivatives	-	7	7	(1)	(3)	(4)
RMSEPP buy-in annuity policies	-	311	311	-	363	363
Total plans' assets	9,966	3,010	12,976	10,714	2,265	12,979

⁹ 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 27 March 2022 it included £8,386 million (28 March 2021: £9,051 million) of index-linked gilts, £690 million (28 March 2021: £453 million) of bonds, £145 million (28 March 2021: £157 million) in short-term money market funds and £26 million of swaps (28 March 2021: £(18) million), offset by negative fair value investments of £898 million (28 March 2021: £456 million) in repurchase agreements and £44 million (28 March 2021: £27 million asset) in cash and similar instruments.

Included within the Company's defined benefit pension scheme assets are assets with a fair value estimated to be £274 million that are based on non-observable inputs at 27 March 2022. 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.

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22. Retirement benefit plans (continued)

There were no open equity futures or options derivatives within this portfolio at 27 March 2022 (28 March 2021: £nil). £8.4 billion (28 March 2021: £9.1 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 Royal Mail plc at 27 March 2022 (28 March 2021: £nil).

In light of the current war in Ukraine, the Trustee of the Royal Mail Pension Plan has carefully reviewed its exposure to Russian-domiciled investments. The Plan has no current exposure to direct investments in Russia and as such is compliant with all economic sanctions currently in force. The Trustee is also actively working with fund managers and advisers to ensure that the appropriate restrictions are put in place to prevent any future exposure.

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	<p>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 reduce risks whilst maintaining expected investment returns.</p> <p>In addition to property and cash, the RMSEPP holds two buy-in annuity policies totalling £312 million at 27 March 2022 (28 March 2021: £364 million) to match its liabilities.</p>
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 funding 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 pension schemes, many of the inflation linked increases that apply are restricted to a maximum increase of 5% in any year. The pension schemes' rules therefore give some protection from the risk of significantly high levels of inflation.</p>
Equity exposure	<p>The equity exposure of the legacy RMPP section has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held.</p> <p>The TRS has a negative market value as at 27 March 2022 of £nil (28 March 2021: negative £2 million) included in the derivative values above. The TRS economically offsets £100 million of the Plan's global equity market exposure at 27 March 2022 (28 March 2021: £60 million).</p>
Changes in life expectancy	<p>The RMPP's liabilities are impacted by longer than expected life expectancy, resulting in higher than expected payout levels.</p> <p>Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.</p>
Changes in corporate and Government bond yields	<p>A fall in yields on AA rated corporate bonds, used to set the IAS 19 discount rates, will lead to an increase in the IAS 19 liabilities.</p> <p>The RMPP's assets include corporate bonds, HM Government bonds and interest rate derivatives that are expected to partly offset the impact of movements in the discount rate. The scheme is hedged against gilt movements to limit the impact on funding (and therefore cash) but, to the extent that gilts move differently to corporate bonds, the accounting liability is more exposed.</p>

Further details on key sources of estimation uncertainty and judgements relating to pensions, including how the assets have been valued, can be found in accounting policies in Note 1, including details of how the assets have been valued.

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22. Retirement benefit plans (continued)

c) Movement in RMPP and 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	
	2022	2021	2022	2021	2022	2021
	£m	£m	£m	£m	£m	£m
Retirement benefit surplus (before withholding tax payable) at 29 March 2021 and 30 March 2020	11,793	11,968	(8,118)	(6,408)	3,675	5,560
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(9)	(9)	(6)	-	(15)	(9)
Pension interest income/(cost) ¹⁰	235	262	(162)	(140)	73	122
Total included in profit before tax	226	253	(168)	(140)	58	113
Amounts included in other comprehensive income - remeasurement (losses)/gains						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	905	(1,748)	905	(1,748)
Demographic assumptions	-	-	94	-	94	-
Experience adjustment	-	-	(50)	97	(50)	97
Return on plans' assets (excluding interest income)	(492)	(347)	-	-	(492)	(347)
Total remeasurement (losses)/gains of the defined benefit surplus	(492)	(347)	949	(1,651)	457	(1,998)
Other						
Employer contributions	-	-	-	-	-	-
Benefits paid	(86)	(81)	86	81	-	-
Total other movements	(86)	(81)	86	81	-	-
Retirement benefit surplus (before withholding tax payable) at 27 March 2022 and 28 March 2021	11,441	11,793	(7,251)	(8,118)	4,190	3,675
IFRIC 14 adjustment	n/a	n/a	n/a	n/a	(1,467)	(1,286)
Retirement benefit surplus (net of withholding tax payable) at 27 March 2022 and 28 March 2021	n/a	n/a	n/a	n/a	2,723	2,389

¹⁰ Pension interest income results from applying the plans' discount rate at 28 March 2021 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 28 March 2021 to the plans' liabilities at that date.

d) Movement in DBCBS assets, liabilities and net position

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2022	2021	2022	2021	2022	2021
	£m	£m	£m	£m	£m	£m
Retirement benefit at 29 March 2021 and 30 March 2020	1,186	726	(1,580)	(903)	(394)	(177)
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(5)	(5)	(513)	(453)	(518)	(458)
Pension interest income/(cost) ¹¹	26	20	(35)	(25)	(9)	(5)
Total included in profit before tax	21	15	(548)	(478)	(527)	(463)
Amounts included in other comprehensive income - remeasurement gains/(losses)						
Actuarial gains/(losses) arising from:						
Financial assumptions	-	-	107	(271)	107	(271)
Experience assumptions	-	-	51	32	51	32
Return on plans' assets	14	103	-	-	14	103
Total remeasurement gains/(losses) of the defined benefit deficit	14	103	158	(239)	172	(136)
Other						
Employer contributions ¹²	359	382	-	-	359	382
Employee contributions	3	4	(3)	(4)	-	-
Benefits paid	(55)	(44)	55	44	-	-
Total other movements	307	342	52	40	359	382
Retirement benefit deficit at 27 March 2022 and 28 March 2021	1,528	1,186	(1,918)	(1,580)	(390)	(394)

¹¹ Pension interest income results from applying the plans' discount rate at 28 March 2021 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 28 March 2021 to the plans' liabilities at that date.

¹² Includes PSE contributions of £99 million (2020-21: £104 million).

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23. Non-current other receivables

	At 27 March 2022 £m	At 28 March 2021 £m
Amount owed by Royal Mail Group entities	18	-
Other	20	22
Total	38	22

24. Non-current assets held for sale

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

	At 27 March 2022 £m	At 28 March 2021 £m
Property assets held for sale	-	23
Total	-	23

During the year costs relating to the Nine Elms site were classified as 'held for sale'. Subsequently, all costs relating to the Nine Elms site were transferred to the income statement, within 'profit on disposal of property, plant and equipment', leaving a £nil balance at 27 March 2022 (2020-21: £23 million).

25. Share-based payments

Employee Free Shares

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

The shares are held in a Trust administered by Equiniti Share Plan Trustees Limited (Equiniti) and may only be distributed to, or for the benefit of, eligible employees.

Partnership and matching shares

Beginning in October 2018, a partnership and Matching Share scheme was introduced for eligible employees. Under the terms of the scheme employees may elect to purchase a limited number of Royal Mail 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 27 March 2022 there had been 42 (2020-21: 30) such monthly awards and a total of 1,309,873 (2020-21: 959,671) Matching Shares had been awarded to eligible staff members at a weighted average market price of 314.4 pence (2020-21: 252.8 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 £2 million (including a £1 million National Insurance charge) has been made for the year ended 27 March 2022 (2020-21: £2 million charge including a net £1 million National Insurance credit) for all SIP allocations.

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

	Number of shares
Total shares remaining in SIP at 29 March 2021	53,789,835
Shares sold/transferred out of SIP during the reporting year (fully vested)	(7,906,372)
Shares transferred out of SIP during the reporting year ('good leavers') ¹	(5,465,559)
Total shares remaining in SIP at 27 March 2022	40,417,904

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

Of the total shares remaining in the scheme, 38,596,514 (2020-21: 51,752,858) have been allocated to current employees. The remaining 1,821,390 (2020-21: 2,036,977) shares are unallocated and have arisen as a result of forfeitures.

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25. Share-based payments (continued)

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	
2019	08/08/2019	08/08/2022	84.0	210.9	1,212,590
2019	12/12/2019	12/12/2022	100.0	232.2	-
2020	27/11/2020	27/11/2023	272.3	309.3	623,510
2021	12/08/2021	12/08/2024	305.6	500.7	666,566

A charge to the income statement of £2 million (including £nil for National Insurance) has been made for the year ended 27 March 2022 in relation to all LTIP schemes (2020-21: £2 million, including £1 million for National Insurance).

The one employee accruing awards under the December LTIP 2019 scheme, forfeited their shares during the year.

Award of shares under the Deferred Shares Bonus Plan

Award year	Grant date	Shares vest from	Fair value/ share (pence)	Maximum number of potential shares to vest
2020	24/07/2020	24/07/2022	180.0	486,471
2020	24/07/2020	24/07/2023	180.0	486,471
2021	01/12/2021	01/12/2023	502.4	42,596

A charge to the income statement of £2 million (including £1 million for National Insurance) has been recognised for the year ended 27 March 2022 in relation to all DSBP schemes (2020-21: £3 million, including £nil for National Insurance).

26. Issued share capital

	At 27 March 2022	At 28 March 2021
	£	£
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.

Other reserve

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

27. Dividends

	52 weeks 2022	52 weeks 2021	52 weeks 2022	52 weeks 2021
	pence per share	pence per share		
Paid interim dividend	316,000	-	158,000,000	-
Total dividend paid	316,000	-	158,000,000	-

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28. Commitments

Capital commitments

The Company has commitments of £105 million (2020-21: £97 million) for property, plant and equipment, £59 million (2020-21: £nil) for vehicles and £6 million (2020-21: £1 million) for intangible assets, which are contracted for but not provided for in the Financial Statements.

Lease commitments

The Company has £1 million of lease commitments (2020-21: £9 million) relating to leases that have been signed but not yet commenced at the year-end date. These commitments have not been provided for in the Financial Statements.

29. Contingent liabilities and contingent assets

Contingent liability

In October 2018, Whistl filed a damages claim against the Company at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position (see Note 21). This claim was paused pending the outcome of Royal Mail's appeal against Ofcom's decision. On 7 June 2022, the Supreme Court refused Royal Mail permission to appeal the Court of Appeal judgment regarding Ofcom's decision and £50 million fine.

Royal Mail believes Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

Contingent asset

The Company is pursuing a follow-on damages claim in the UK Competition Appeal Tribunal against DAF Trucks in relation to the European Commission's decision of 19 July 2016 finding that DAF participated in an illegal cartel with other European truck manufacturers. The trial took place in Spring 2022 with the Competition Appeal Tribunal likely to issue their judgment later in the year. If Royal Mail is successful with this claim, any damages may be awarded but the amount and timing is uncertain.

30. Related party information

Royal Mail 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.

On 28 June 2021, the Company transferred its subsidiary, RMGLS Holdco Limited (previously known as Royal Mail Investments Limited) to Royal Mail plc (see Note 13 for more details).

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

Royal Mail Group Limited

30. Related party information (continued)

Related party transactions

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

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

	Sales/recharges to related party		Purchases/recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	52 weeks 2022	52 weeks 2021	52 weeks 2022	52 weeks 2021	At 27 March 2022	At 28 March 2021	At 27 March 2022	At 28 March 2021
	£m	£m	£m	£m	£m	£m	£m	£m
RMPP (administration and investment service recharge)	6	7	-	-	-	-	-	-
Quadrant Catering Limited	-	-	-	4	-	-	-	-
Mallzee Ltd	-	1	-	-	-	-	-	-

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

31. Events after the reporting period

Ofcom investigation into 2021-22 performance

Our Quality of Service results for the 2021-22 year showed that the difficult and exceptional ongoing impact of COVID-19 had impacted our performance and Royal Mail did not meet its regulatory quality targets. On 31 May 2022, Ofcom announced that it had opened an investigation into our performance. We are preparing our response.

Ofcom fine 2018-19

Following Royal Mail's appeal against the Competition Appeal Tribunal's judgment to uphold Ofcom's decision to fine it £50 million being rejected by the Court of Appeal (CoA) on 7 May 2021, on 7 June 2022, the Supreme Court refused Royal Mail permission to appeal the CoA judgment and the appeal process has now concluded.

Industrial action

On 21 June 2022, the CWU provided formal notification to ballot its members for industrial action, with a result expected in mid/late July.

On 29 June 2022, Unite/CMA members voted in favour of both industrial action and industrial action short of a strike. They have subsequently given notice of two periods of industrial action: work to rule from 15 to 19 July 2022 and a strike from 20 to 22 July 2022.

32. Immediate and ultimate parent company

At 27 March 2022, the Directors regarded RMGLS Holdco Limited as the immediate parent company and Royal Mail plc as the ultimate parent company. The results of the Company form part of the Royal Mail plc Annual Report and Financial Statements 2021-22, which are available from www.royalmailgroup.com/results or the Company Secretary, 185 Farringdon Road, London, United Kingdom, EC1A 1AA.

Royal Mail Group Limited

33. Related undertakings of Royal Mail Group Limited

In accordance with section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 27 March 2022 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 Group
China		
Suite 966, 9F, No.2 bldg, China Central Place, No.79, 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
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
RM (International) Limited	£1.00 Ordinary shares	100.000
RMSEPP Pensions Trustees (2050) Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
Romec Enterprises Limited	£1.00 Ordinary shares	100.000
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000

¹ Limited by guarantee.

Royal Mail Group Limited

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

Associate undertakings

Company name	Share class	% held by Group
United Kingdom		
24a Nottingham Road, Loughborough, LE11 1EU		
Charac Limited	B Ordinary shares	33.000
30 Finsbury Square, London, EC2A 1AG		
Quadrant Catering Limited	£1.00 Ordinary A shares	51.000
70 Margaret Street, London, W1W 8SS, United Kingdom		
JICMAIL Limited ¹	-	20.000

Investments

Company name	Share class	% held by Group
United Kingdom		
Suite 2, Ground Floor Orchard Brae House, 30 Queensferry Road, Edinburgh, EH4		
Mallzee Ltd	£0.01 Ordinary shares	19.500
Aviva, Wellington Row, York, North Yorkshire, YO90.1WR		
Voyager Park South Management Company Limited ¹	Ordinary shares	5.500

Royal Mail Group Limited

Corporate information

Registered Office and Group Head Office

Royal Mail Group Limited
185 Farringdon Road
LONDON
EC1A 1AA
Registered No: 04138203