Royal Mail

Regulatory Financial Statements

For the 53 week period ended 31st March 2024

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Regulatory Financial Statements 2023-24

Introduction

The Postal Services Act 2011 gives Ofcom the power to impose regulatory conditions on the Universal Service Provider (USP). Ofcom has used these powers to issue the Universal Service Provider Accounting Condition (USPAC). This requires Royal Mail, as the Designated Universal Service Provider (DUSP), to undertake certain financial activities. One of these is to publish audited Regulatory Financial Statements (RFS). The format of the RFS and other guidance is set out by Ofcom in the Regulatory Accounting Guidelines (RAG).

On 28 February 2023, Ofcom published its statement on changes to Royal Mail's regulatory reporting requirements, following Ofcom's 2022 Review of Postal Regulation. This put in place a new reporting framework to start from 27 March 2023, including an amended USPAC and RAG. This set of statements is the first to be published under the new framework.

The RFS should be read in conjunction with the annual report and consolidated financial statements of International Distribution Services plc for the 53-week period ended 31 March 2024. The financial statements set out in the RFS relate to both International Distribution Services plc (the 'Relevant Group') and, within that, the 'Reported Business' and certain segmental results, as required by Ofcom. The Reported Business is a subset of International Distribution Services plc's core UK business - Royal Mail including Network Access but excluding certain businesses such as Parcelforce Worldwide (Parcelforce), the Property Business Unit, Royal Mail Property & Facilities Solutions (RMPFS)[1] and others, as shown in the diagram on page 5. The Reported Business, as defined by Ofcom, is the regulatory entity which contains the Universal Postal Service network and all the products provided through or in relation to that network.[2]

The RFS have been produced in line with Ofcom's USPAC and RAG. These financial statements are different to the consolidated International Distribution Services plc accounts. The RFS show results by entities which are regulatory constructs for regulatory purposes. In following Ofcom's guidance, in some instances we must apply management judgement to determine the allocation of costs and revenues to products via our Activity Based Costing (ABC) system. Operational data – such as traffic and worked hours - have been used to inform these allocations. Royal Mail continues to review its methodologies to develop additional sources of operational data and as the business transforms its operations.

The approach is documented in Royal Mail's ABC Costing Manual (ABC Manual) and the Accounting Methodology Manual for Regulatory Reporting (AMMRR).

[1] The Reported Business is charged for the property facilities it uses that are supplied by RMPFS and is charged rent for the use of properties by the Property Business Unit.
[2] Ofcom, 2022 Review of Postal Regulation, 18 July 2022, Paragraph 3.6. A fuller definition is provided in the USPAC 1.1.2.

The Reported Business

The Universal Service is delivered through Royal Mail (a separate business segment within the International Distribution Services plc consolidated financial statements). Royal Mail collects, processes and delivers addressed letters and certain parcels in line with Royal Mail's Universal Service Obligation (USO). It also provides other services to businesses and consumers across the UK. For example, Royal Mail provides 'Downstream Access' services (described as Network Access in these financial statements) – handling and delivering the mail that other postal operators place in Royal Mail's downstream network for it to deliver on their behalf.

The Relevant Group's revenue and Royal Mail's revenue are shown illustratively below:

Royal Mail Revenue by main product groups

		Cumulative revenue	Main Product Groups and illustrative products (not exhaustive)
Royal Mail	Reported Business	28%	**USO Mail** • First & Second Class stamp & meter letters & parcels • First & Second Class USO Account letters & parcels • Special Delivery 1pm stamp & meter • Royal Mail Signed For purchased on USO services • Redirection, Keepsafe • International Standard, Economy, Signed, Tracked & Signed, letters & parcels
		49%	**Network Access (Non USO)** • Access Business Mail, Access Addressed Advertising mail • Fulfilment general large letters • Magazine subscription mail • Access parcels
		94%	**Retail (Non USO)** • Business, Publishing, Addressed Advertising Mail, Response services and parcels • RM24 & RM 48 large letters & parcels • Royal Mail Tracked 24 & 48, Tracked Returns 24 & 48 • Special Delivery 9am, Special Delivery Account 1pm and Next Day • Royal Mail Signed For purchased on Account • Business Collections • Unaddressed Advertising mail (Door to Door) • Stamps & Collectibles • International Tracked, Contract. International Tracked & Signed >2kg
	Other	100%	**Other (outside of the Reported Business)** • Parcelforce Worldwide, Property Business Unit, Royal Mail Estates, Royal Mail Property & Facilities Solutions, Inter-company eliminations, Intersoft, Storefeeder and e-Courier

The cost of delivering the Universal Service

Royal Mail's statutory obligation as the sole DUSP drives the architecture and costs of the Universal Service mail network. Royal Mail has developed a network to enable it to collect, process and deliver mail throughout the country, including a next day service. We are proud to deliver a 'one price goes anywhere' service on a range of letters and parcels to c.32 million addresses throughout the UK, six days a week.

Common costs are allocated to each product as determined by Ofcom through the costing rules set out in the RAG and Royal Mail's ABC Manual. However, Royal Mail believes that the common cost of the combined Universal Service network should most appropriately be allocated to Universal Service products in the first instance. If this were the case, under the current revenue structure, Universal Services would be significantly loss-making, and non-Universal Service products would be profitable. Such allocation is not permitted under the RAG.

The Universal Service network is used by both Universal Service and non-Universal Service products. Royal Mail relies on revenues from non-Universal Service commercial activities, particularly commercial parcels, to help sustain the USO. The annual c.£8 billion cost of running this network is a result of Royal Mail's DUSP requirements. The network required to meet this obligation alone would not be significantly different. Therefore, a significant proportion of the cost base would remain, whether Royal Mail used the Universal Service mail network for non-Universal Services or not.

It is essential that non-Universal Service commercial activities make use of the Universal Service network to help fund the provision of the Universal Service. In doing so, these products and services make a material contribution towards the significant fixed cost of providing the Universal Service network.

Ofcom draws a distinction between the regulatory methodology to support its 'business as usual' monitoring role and a calculation of the net cost of the USO. In the former approach, Ofcom require Royal Mail to use an Activity Based Costing (ABC) approach to fully allocate all costs to USO and non-USO products.[3] Ofcom states "*This approach is needed for certain ongoing monitoring and business as usual regulatory considerations such as pricing and returns on products. However, it is not appropriate for net cost considerations, which are not part of our ongoing monitoring programme. The main shortcoming of this approach for a net cost calculation is that it does not account for the reasons why the network within the Reported Business is organised and run the way it is. One key reason is to deliver the USO. In order to account for this, a larger proportion of common costs should be allocated to the USO products than are allocated under this approach. The approach using FAC therefore considerably underestimates the net cost of the USO by not accounting for all of the relevant costs.*"[4]

Ofcom has recently estimated that the net cost of the USO to Royal Mail was £325m-£675m in 2021-22.[5]

To strengthen the regulatory framework, we have asked Ofcom to review the costing methodology in the regulatory accounts.[6] This provides an opportunity to ensure the regulatory accounts reflect the true cost of providing the USO. This will provide enhanced transparency to all stakeholders on the true cost of providing the postal USO. Given the considerable size and burden of the net cost and the

[3] The approach to Fully Allocate Cost can be abbreviated to FAC.
[4] Ofcom, The future of the universal postal service, 24 January 2024, paragraph 7.29 and 7.30.
[5] Ofcom, The future of the universal postal service, 24 January 2024, page 1.
[6] Royal Mail, Response to Ofcom's call for input on the future of the universal postal service, 2 April 2024, paragraph 3.37.

significant losses Royal Mail has incurred in recent years, it is more important to use the regulatory accounts to assess the net cost of the USO rather than for monitoring purposes.

The urgent need for USO Reform

In January 2024, Ofcom announced that it was reviewing options for the future of the Universal Service, and called for input on potential reform to better accommodate changing customer needs as letter volumes continue to fall.

Royal Mail submitted its proposal to Ofcom on 2 April 2024. This proposal was developed after extensive engagement listening to feedback from customers, businesses, employees, trade union representatives and other stakeholders and is designed to meet customers' changing needs and protect what matters most to them. The key elements of Royal Mail's proposal are detailed below.

Meeting customers' needs

- A one-price-goes-anywhere service to all parts of the UK maintained.
- First Class letters still delivered daily, six days a week (Monday to Saturday) to recognise the importance of next day and Saturday deliveries, especially for the NHS, publishers and senders of greeting cards.
- The option of First Class and non-First Class letters retained, giving people a choice of price and speed.
- Parcels still delivered up to seven days a week.

Modernising the Universal Service for our customers

- New, additional reliability targets for Universal Service First Class and Second Class services, alongside revised, realistic speed targets, to give customers further confidence. Non-First Class letters to be delivered every other day, Monday to Friday.
- Delivery speed of access standard business to move to within three working days, instead of two.
- Tracking added to Universal Service parcels to reflect customer demand.

Benefiting our people

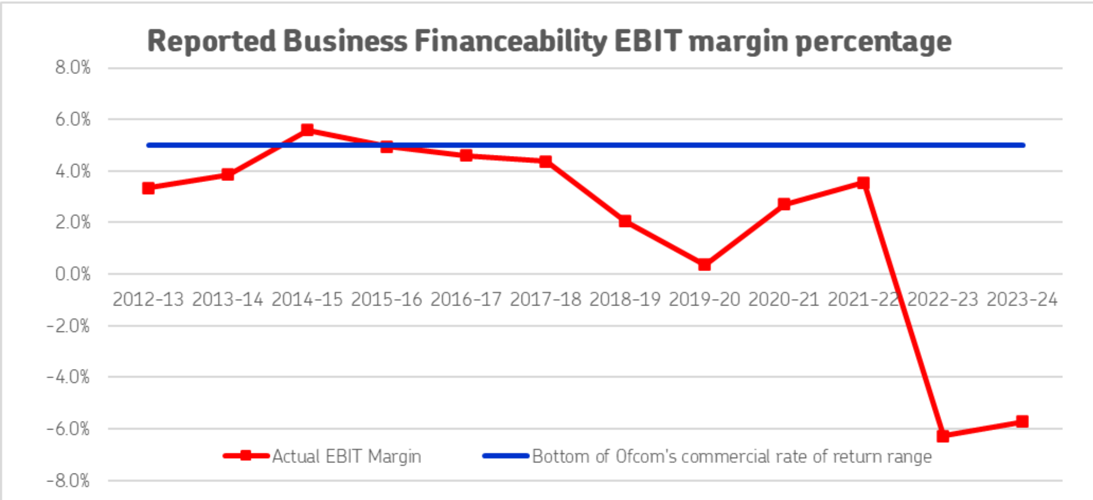
- Opportunities for more Saturdays off: As all non-First Class letters would only be delivered every other weekday (Monday to Friday), there would be fewer routes overall on a Saturday.
- Smaller walking routes, with more addresses visited: Walking routes would reduce, whilst our posties would be delivering letters to around seven out of ten addresses compared to around four out of ten today.
- More choice of duties: The number of walking routes would reduce, while the number of van-based parcel roles would increase.
- Greater job security: The proposals are designed to make Royal Mail business more financially sustainable, protecting tens of thousands of jobs and the best terms and conditions in the industry.

Creating a stable and financially sustainable future for the benefit of all of our stakeholders that will:

- Deliver a more efficient and more financially sustainable Universal Service which could save Royal Mail up to £300 million a year. These savings would enable continued investment in the modernisation and transformation of the business to provide products and services that customers want and reduce its environmental impact.
- Once agreed, implementation would take around 18 to 24 months.
- Make our network more efficient, improve how we deliver the mail and set Royal Mail up to manage future letter decline and parcel growth.

Financeability EBIT margin

According to Ofcom, a financially sustainable Universal Service should be able to achieve an EBIT margin of 5-10%. Since privatisation in 2013, the Universal Service network has only achieved this in two years – 2014-15 and 2015-16. The chart below shows the Financeability EBIT performance since Ofcom took over as regulator of Royal Mail.



Calculation of the Financeability EBIT[7] margin

Ofcom has decided "*to continue to use a Reported Business Financeability EBIT margin as a first order indicator of whether Royal Mail is earning sufficient returns on its provision of the Universal Service for it to be considered to be financially sustainable in the longer-term*"[8]. In 2023-24, the Reported Business achieved a 'Financeability EBIT' of (5.8)% in 53 weeks and (6.3)% in 52 weeks, derived by removing the 53rd week revenue and incremental costs in relation to Royal Mail, (2022-23: (6.3)% in 52 weeks).

We have calculated the Financeability EBIT margin as follows:

	53 weeks March 2024 £m	52 weeks March 2024 £m	52 weeks March 2023 £ m
Revenue	**7,386**	**7,255**	6,972
Operating costs	**(7,713)**	**(7,614)**	(7,301)
People costs	(5,271)	(5,197)	(4,967)
Depreciation and amortisation	(296)	(295)	(304)
Other operating costs	(2,146)	(2,122)	(2,030)
Operating loss before transformation costs[9]	**(327)**	**(359)**	(329)
Transformation costs	(99)	(99)	(109)
Financeability EBIT	**(426)**	**(458)**	(438)
Financeability EBIT as % of total revenues	**(5.8)%**	**(6.3)%**	(6.3)%
Volume (million items)[10]	**10,136**	**9,998**	10,715

Financeability EBIT is presented before specific items and excluding the impact of the Royal Mail CGU impairment. In 2023-24 there was an impairment of the Royal Mail excluding Parcelforce Worldwide CGU of £48 million related to the Reported Business. Had this operating adjustment not been treated as a specific item the Financeability EBIT would have worsened to a £474 million loss with a margin of (6.4%).The RFS are presented with the pension charge on a funding cost of accrual basis, as opposed to an accounting basis under IAS 19. The pension charge adjustment is set out below and is the same under the 53 and 52 weeks basis for 2023-24.

Pension charge adjustment	2023-24 £m	2022-23 £m
Royal Mail (RM UK)	**(41)**	133
Reported Business	**(53)**	114

In the current year, the pension charge adjustment includes £130 million credit in relation to a refund of cash from the RMPP pension escrow, £172 million charge in respect of a change in the DBCBS constructive obligation, and £1 million credit for the difference between the IAS 19 income statement charge rate for the DBCBS and the scheme's cash funding rate.

[7] Reported Business operating profit margin after transformation costs, with the pension charge on a funding cost of accrual basis. Having previously referred to the adjustment as representing the difference between the IAS 19 income statement pension charge and the 'actual cash payments' into the schemes management have sought to clarify the definition of this APM for the 2023-24 and future reporting periods. Management's intention has always been to show the difference between the IAS 19 charge and the pension 'funding cost'.
[8] Ofcom, 2022 Review of Postal Regulation, 18 July 2022, Paragraph 3.60(b).
[9] Operating loss before transformation costs is stated before specific items, see analysis of specific items on page 12.
[10] Royal Mail volumes include unaddressed and election mail. In the 2023-24 Annual Report and Financial Statements, Royal Mail disclosed volumes of 8,031 million for the current year 53 week period, as this excluded unaddressed and election mail.

Impact of Royal Mail excluding Parcelforce Worldwide Cash Generating Unit (CGU) impairment on Financeability EBIT

The current Financeability EBIT workings exclude the impact of the partial impairment of the Royal Mail excluding Parcelforce CGU. This is in line with how management review these balances due to the unpredictability of impairment and related impact on depreciation and amortisation. The Financeability EBIT including the impact of the impairment can be calculated by including the cost of impairment (an operating specific item) and excluding the depreciation/amortisation adjustment for impaired assets, which reinstates the amounts that would have been charged to the income statement, had the partial impairment not taken place.

	53 weeks March 2024 £m	**52 weeks March 2024 £m**	52 weeks March 2023 £m
Revenue	**7,386**	**7,255**	6,972
Financeability EBIT excl. impact of impairment	**(426)**	**(458)**	(438)
Depreciation/amortisation adjustment for impaired assets	**121**	**121**	-
Impairment (operating specific item)	**(48)**	**(48)**	(535)
Financeability EBIT incl. impact of impairment	**(353)**	**(385)**	(973)
Financeability EBIT as % of total revenues incl. impact of impairment	**(4.8)%**	**(5.3)%**	(14.0)%

Analysis of Royal Mail financial performance and position

In the following tables, 'Royal Mail' includes all UK operations and International Distribution Services plc i.e. the 'Relevant Group' excluding GLS. GLS is shown in the 'Other units, eliminations and recharges' column.

Reconciliation of the regulatory income statement for the Reported Business to the Relevant Group

	53 weeks ended 31 March 2024					52 weeks ended 26 March 2023				
	Reported Business £m	**Other operations and adjustments £m**	**Royal Mail (RM UK) £m**	**Other units, eliminations and recharges £m**	**Relevant Group £m**	Reported Business £m	Other operations and adjustments £m	Royal Mail (UKPIL) £m	Other units, eliminations and recharges £m	Relevant Group £m
Revenue	**7,386**	**448**	**7,834**	**4,845**	**12,679**	6,972	439	7,411	4,633	12,044
Operating costs	**(7,713)**	**(366)**	**(8,079)**	**(4,525)**	**(12,604)**	(7,301)	(409)	(7,710)	(4,285)	(11,995)
People costs	(5,271)	(363)	(5,634)	(1,110)	(6,744)	(4,967)	(374)	(5,341)	(1,031)	(6,372)
Depreciation and amortisation[11]	(296)	(122)	(418)	(185)	(603)	(304)	(129)	(433)	(169)	(602)
Other operating (costs)/income	(2,146)	119	(2,027)	(3,230)	(5,257)	(2,030)	94	(1,936)	(3,085)	(5,021)
Operating profit before transformation costs	**(327)**	**82**	**(245)**	**320**	**75**	(329)	30	(299)	348	49
Transformation costs	(99)	(4)	(103)	-	(103)	(109)	(11)	(120)	-	(120)
Financeability EBIT	**(426)**	**78**	**(348)**	**320**	**(28)**	(438)	19	(419)	348	(71)
Financeability EBIT as % of total revenues	**(5.8)%**	**17.4%**	**(4.4)%**	**6.6%**	**(0.2)%**	(6.3)%	4.3%	(5.7)%	7.5%	(0.6)%
Other operating specific items	(80)	(2)	(82)	(41)	(123)	(490)	(2)	(492)	(52)	(544)
Other adjustments	(1)	15	14	1	15	(1)	6	5	1	6
EBIT	**(507)**	**91**	**(416)**	**280**	**(136)**	(929)	23	(906)	297	(609)
Volumes (million items)[12]	**10,136**	**(65)**	**10,071**	**905**	**10,976**	10,715	(59)	10,656	862	11,518

Transfer charges between the reported business and the Relevant Group are £2.6 million (2022-23: £2.5 million).

[11] In the current year the depreciation and amortisation figure includes an adjustment of £121 million, representing the reinstatement of the amounts for depreciation and amortisation that would have been charged to the income statement, had the partial impairment of the Royal Mail excluding Parcelforce Worldwide CGU impairment in the prior year not taken place. When reviewing these balances management exclude the impact of impairments and the related impact on depreciation and amortisation. Due to the unpredictability of impairments and the resulting impact on depreciation, this measure is used to provide a consistent basis for operating profit.

[12] The total volume of (65) million items (2022-23: (59) million items) in 'Other operations and adjustments' includes the elimination of volumes included in the Reported Business to support the costing methodology, such as unofficial redirections and 'Royal Mail Signed For', offset by Parcelforce volumes of 85 million items (2022-23: 89 million items). The volume of 905 million items (2022-23: 862 million items) in the 'Other units, eliminations and recharges' column relates to GLS.

Note on transformation costs and specific items

	53 weeks ended 31 March 2024		52 weeks ended 26 March 2023	
Transformation costs	**Reported Business £m**	**Total Royal Mail (RM UK) £m**	Reported Business £m	Total Royal Mail (RM UK) £m
Voluntary redundancy	(12)	(12)	(32)	(33)
Project costs	(87)	(91)	(77)	(87)
Total	**(99)**	**(103)**	(109)	(120)
Operating specific items				
Legacy/other items	5	3	45	47
Impairment of Royal Mail	(48)	(48)	(535)	(539)
Regulatory and Legal	(37)	(37)	-	-
Total	**(80)**	**(82)**	(490)	(492)
Other adjustments				
(Loss)/profit on disposal of property, plant and equipment	(1)	14	(1)	5
Total	**(1)**	**14**	(1)	5

The current period transformation costs include £12 million of voluntary redundancy charges for Royal Mail (Reported Business £12 million), a year-on-year reduction of £21 million. The £48 million impairment in the Reported business, is a result of further impairment of the Royal Mail excluding Parcelforce Worldwide cash generating unit, recognised in the 2023-24 International Distribution Services plc consolidated financial statements. The calculation of the £48 million impairment in International Distribution Services plc included some entities that are not part of the Reported business, although management is of the view that these would not have materially impacted the impairment value recognised in these financial statements. The prior year £539 million impairment of the Royal Mail cash generating unit recognised in the 2022-23 International Distribution Services plc consolidated financial statements includes £535 million related to the reported business. The £4 million difference relates to goodwill held outside of the reported business.

For legacy/other operating specific items, this comprises a £10 million credit for court-awarded compensation resulting for the recovery of assets, following an investigation in 2016 and 2017 into an under declaration of mail fraud. This has been mainly offset by £5 million specific intangible write-offs. The prior year credit relates to a £35 million damages award from a claim by Royal Mail against DAF Trucks Limited and £10 million release of the industrial disease provision.

The profit on disposal of property, plant and equipment of £14 million primarily relates to the sale of the Nine Elms, London site. The prior year profit of £5 million primarily relates to the sale of a number of Royal Mail properties. The loss on disposal in the current and prior year for the Reported Business relates to vehicle disposals. These disposals are not considered part of trading activity.

Regulatory end to end income statement for the Reported Business

	53 weeks ended 31 March 2024			52 weeks ended 26 March 2023		
	USO Mail £m	**Other £m**	**Total Reported Business £m**	USO Mail £m	Other £m	Total Reported Business £m
Revenue	**2,190**	**5,196**	**7,386**	2,182	4,790	6,972
Operating costs	**(1,899)**	**(5,814)**	**(7,713)**	(1,983)	(5,318)	(7,301)
People costs	(1,102)	(4,169)	**(5,271)**	(1,163)	(3,804)	(4,967)
Depreciation and amortisation	(84)	(212)	**(296)**	(88)	(216)	(304)
Other operating costs	(713)	(1,433)	**(2,146)**	(732)	(1,298)	(2,030)
Operating profit/(loss) before transformation costs	**291**	**(618)**	**(327)**	199	(528)	(329)
Transformation costs	(21)	(78)	**(99)**	(29)	(80)	(109)
Financeability EBIT	**270**	**(696)**	**(426)**	170	(608)	(438)
Financeability EBIT as % of total revenues	**12.3%**	**(13.4)%**	**(5.8)%**	7.8%	(12.7)%	(6.3)%
Other operating specific items			(80)			(490)
Other adjustments		**n/a**	(1)		n/a	(1)
EBIT			**(507)**			(929)
Volumes (million items)	**1,385**	**8,751**	**10,136**	1,488	9,227	10,715

Regulatory income statement for products specified by Ofcom to be published

	53 weeks ended 31 March 2024		52 weeks ended 26 March 2023	
	Network Access £m	**PAF £m**	Network Access £m	PAF £m
Revenue	**1,634**	**37**	1,520	33
Operating costs	**(1,645)**	**(33)**	(1,658)	(30)
People costs	(1,271)	(26)	(1,303)	(23)
Depreciation and amortisation	(60)	(1)	(73)	(1)
Other operating costs	(314)	(6)	(282)	(6)
Operating (loss)/profit before transformation costs	**(11)**	**4**	(138)	3
Transformation costs	(14)	(1)	(18)	(1)
Financeability EBIT	**(25)**	**3**	(156)	2
Financeability EBIT as % of total revenues	**(1.5)%**	**6.0%**[13]	(10.3)%	6.0%[8]
Volumes (million items)	**4,776**	**-**	5,387	-

[13] The Financeability EBIT margin for Postcode Address File (PAF) reflects the calculated result prior to rounding adjustments.

[14] In order to restate these statements on an equivalent 52-week Financial Year basis, an adjustment would be made to remove the 53rd week revenue and incremental costs, based on working days and only incremental costs for frontline staff, distribution and conveyance, property rates and utilities and Post Office Commissions. Further details on the methodology are provided in the AMMRR.

The change in the costs allocated to PAF are impacted by an increase in costs for the CWU frontline pay award and increased hours in 2023-24 due to the 53rd week, compared to reduced hours in 2022-23 due to the impact of the strikes. The costs allocated are also impacted by an increase in general overheads allocated on an Equi-Proportional Mark Up basis in line with the guidance laid down by Ofcom.

Supporting notes for the regulatory financial statements

1. Basis of preparation

These RFS have been prepared in accordance with the USPAC dated February 2023 and the RAG dated May 2024 as supplemented by the ABC Manual and the AMMRR, as provided to Ofcom in May 2024.

The RFS are prepared by disaggregating balances recorded in the general ledger and other accounting records of Royal Mail Group Limited and the International Distribution Services plc Group, maintained in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice ('UK GAAP') and UK-adopted international accounting standards (UK-adopted International Financial Reporting Standards (IFRS)) used for the preparation of Royal Mail Group Limited's and International Distribution Services plc's consolidated financial statements. Certain adjustments are made to these disaggregated balances in accordance with the AMMRR, which are not in accordance with UK GAAP or UK IFRS.

Within the RFS:

- Costs are calculated using an Activity Based Costing Model (ABC Model), which identifies the resources consumed by activities, assigns costs to those resources and thereby allocates those costs to each activity. This allocation is either direct to a single activity or to more than one activity. Where the latter occurs, we use business data to inform the attribution to activities, in accordance with the AMMRR or ABC Manual; and
- All margins have been calculated based on the values as reported within the RFS using the adjusted funding cost of accrual with respect to pensions and without any other adjustments such as the number of working days in the reporting period.

These RFS have been produced to comply with the USPAC and RAG. Our ABC Model uses the most appropriate available data to prepare these financial statements.

Going concern

The Directors of Royal Mail Group Limited ('the Company') have prepared the RFS on a going concern basis as they do not intend to liquidate the Company (which contains the results of Reported Business). The following disclosure has been made in the 2023-24 Royal Mail Group Limited Annual Report and Financial Statements.

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

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

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

In their assessment of going concern over the going concern assessment period, the Company has modelled two scenarios referred to below as the Base Case and the Downside Case.

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

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

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

Further details of the scenarios modelled are as follows:

Scenario: Deteriorating economic and market conditions. Assumptions: Revenue growth in the Business Plan is not achieved.

Scenario: Increased competition in the UK parcels sector including changes in consumer expectations and/or market disruption. Assumptions: Lower parcel revenues and failure to deliver new product offerings
Scenario: Costs to avoid industrial action in Royal Mail. Assumptions: Lower operating profit as a result of incurring costs to avoid industrial action.
Scenario: Delays in relation to the Royal Mail transformation plan. Assumptions: Delays in budgeted cost efficiencies being realised.
Scenario: Cyber attack triggering material service and/or operational interruption. Assumptions: Cyber breach impacting revenue collection.

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

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

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

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

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

However, continued support is dependent on the ability of the IDS plc being able to settle its liabilities as they fall due. The Directors of IDS plc have concluded that a material uncertainty exists over the IDS plc Group's ability to continue as a going concern as, on 29 May 2024, IDS plc, the Company's ultimate parent company, announced that it was recommending an offer of 370 pence per IDS share from EP Group for the entire issued share capital of IDS plc not already owned by EP Group and its affiliates, namely VESA Equity Investment S.a r.l. (Vesa Equity). The offer follows significant negotiation including a number of earlier proposals from EP Group (the first of which was made on 9 April 2024 at a price of 320 pence per share in cash). The parent company IDS plc has a number of financial liabilities in the form of unsecured senior fixed rate notes in place with a carrying value of £1,454 million at 31 March 2024 and a bank syndicate loan facility of £925 million undrawn at 28 June 2024 as well as other contractual arrangements which contain provisions in relation to change of control of IDS plc. Upon a change of control, the bank syndicate loan facility would be subject to renegotiation which could result in withdrawal. In addition, the fixed rate notes contain provisions that in the event of a change of control of IDS plc together with an adverse credit rating change (downgrade to a non-investment grade rating), or credit rating withdrawal, the loan notes can be redeemed at the option of the noteholders. Whilst the IDS plc Board have been seeking assurances in relation to EP Group financing arrangements through due diligence and negotiation of contractual commitments, the financing arrangements of EP Group are outside of the control of the Board.

Further details are described in the International Distribution Solutions plc Annual Report and Financial Statements 2023-24, which are available from www.internationaldistributionservices.com/results or the Company Secretary, 185 Farringdon Road, London, United Kingdom, EC1A 1AA. The Directors have concluded that the extent of the uncertainty related to whether existing finance of IDS plc will be recalled following a change in control, together with a lack of visibility or control over the availability of funding following a change in control, are conditions that constitute a material uncertainty related to events or conditions that may cast significant doubt on the Royal Mail Group Ltd's ability to continue as a going concern and that it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

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

Statement of Directors' responsibilities

The Directors of Royal Mail Group Limited ('the Directors') have accepted responsibility to prepare these Regulatory Financial Statements for the 53 week period ending 31 March 2024 as required under the Postal Services Act 2011, as detailed by Ofcom through the USP Accounting Conditions.

The Directors confirm, to the best of their knowledge, that the Regulatory Financial Statements have been prepared, after agreeing formats with Ofcom, in accordance with the above requirement and that:

1. The Regulatory Financial Statements have been prepared using accounting systems operating on the basis of objectively justifiable cost accounting principles that assign cost and revenue data to the products;

2. Costs and revenues have been directly attributed to products as far as practicable. Common operational costs that cannot be directly assigned are allocated to the products equitably using an ABC system, in accordance with the Accounting Methodology Manual for Regulatory Reporting (AMMRR), as provided to Ofcom in Q2 2021-22 or the Activity Based Costing Manual (as provided to the Regulator). Overhead costs are allocated to products using a non-nested Equi-Proportional Mark Up (EPMU) methodology[15]. In line with ABC approaches, estimates are required and have been applied in order to comply with the requirements of the Accounting Conditions. The attribution methods, data sources and estimation methods are subject to ongoing review. Where appropriate, Royal Mail Group Limited will make improvements;

Where assumptions have been used in applying financial and operational data, the manner in which these assumptions have been determined are defined within the AMMRR or the Activity Based Costing Manual for the relevant period (as provided to the Regulator).

3. The Regulatory Financial Statements have been prepared adopting the following methodology:

• In accordance with the USPAC dated February 2023 and RAG[16] dated May 2024, as supplemented by the ABC Manual and the AMMRR, as provided to Ofcom in May 2024; and

• Generally, accounting policies for the income statement, capital employed statement and statement of cash flows are consistent with UK-adopted International Financial Reporting Standards (UK-adopted International Financial Reporting Standards (IFRS)) and those used in the preparation of the statutory financial statements of Royal Mail Group Limited and consolidated financial statements of International Distribution Services plc for the 53 week period ended 31 March 2024 but in cases of conflict, the methodology as documented in the AMMRR will prevail; and

4. The Regulatory Financial Statements are based on the financial records of the business and have been reconciled to the operating profit within the audited Royal Mail Group Limited and International Distribution Services plc consolidated financial statements for the 53 week period ended 31 March 2024.

5. They have made judgements and estimates that are reasonable and prudent;

6. The Directors have performed an assessment of Royal Mail Group Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern for the purposes of the Regulatory Financial Statements.; and

7. The Directors of Royal Mail Group Limited have used the going concern basis of accounting unless they either intend to liquidate Royal Mail Group Limited or to cease operations, or have no realistic alternative but to do so.

[15] Royal Mail uses a non-nested approach to allocate overheads, where overheads are allocated based upon only the calculated attributable cost base.
[16] Regulatory Accounting Guidelines (RAG) – February 2023

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 regulatory financial statements comply with the Regulatory Accounting Guidelines."

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of the Regulatory 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 Royal Mail Group Limited and to prevent and detect fraud and other irregularities.

Signed on behalf of the Board of Royal Mail Group Limited

Michael Snape
28 June 2024

Independent auditor's report to Royal Mail Group Limited ('the Company') and Ofcom ('the Regulator')

Report on the Audit of the Regulatory Financial Statements

Opinion

We have audited the Regulatory Financial Statements of Royal Mail Group Limited ("the Company") for the 53 week period ended 31 March 2024 and, within that, the 'Reported Business', as required by Ofcom. The Reported Business is a subset of International Distribution Services plc's core UK business, Royal Mail, including Network Access, but excluding certain businesses such as Parcelforce Worldwide ("Parcelforce"), the Property Business Unit, Royal Mail Property & Facilities Solutions ("RMPFS") and the other businesses as defined on page 5 of the Regulatory Financial Statements. These Regulatory Financial Statements comprise the Reconciliation of the Regulatory Income Statement for the Reported Business to the Relevant Group, Note on transformation costs and specific items, Regulatory End to End Income Statement for the Reported Business, Regulatory Income Statement for products specified by Ofcom to be published, and related notes as set out on pages 11 to 17 ("the Regulatory Financial Statements").

In our opinion the Regulatory Financial Statements of the Company for the 53 week period ended 31 March 2024 have been properly prepared, in all material respects, in accordance with the Regulatory Accounting Guidelines dated May 2024, issued by the Regulator ("the Regulatory Accounting Guidelines") and conditions 1.4.1 (a), (d), (e) and 1.5.2 (a) of the Universal Service Provider Accounting Condition dated 28 February 2023 ("the USPAC").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, except as stated in the section on Auditor's responsibilities for the audit of the Regulatory Financial Statements section of our report, and the terms of our engagement letter dated 5 June 2024. In conducting our audit, we also had regard to the guidance contained in ICAEW Technical Release Tech 02/16AAF (Revised) 'Reporting to Regulators on Regulatory Accounts' issued by the ICAEW.

Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the Regulatory Financial Statements section of our report. We have fulfilled our ethical responsibilities under, and are independent of the Company and International Distribution Services plc ("the Relevant Group") in accordance with, UK ethical requirements including the FRC Ethical Standard, as applied to listed public interest entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

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

Our opinion is not modified in respect of this matter.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Financial Statements have been prepared in accordance with a special purpose framework, the USPAC and the Regulatory Accounting Guidelines, as supplemented by the Activity Based Costing Manual and the Accounting Methodology Manual for Regulatory Reporting ("AMMRR") as provided to Ofcom on 24 May 2024 and set out in the basis of preparation in note 1 to these Regulatory Financial Statements. In particular, we note:

- As regards the Guiding Principle c. (Causality), the Company has populated the components of the Regulatory Financial Statements with the relevant activity and product costs. Where attribution to a single activity or product cannot be determined by the Regulatory Accounting Guidelines, the Directors of the Company ("the Directors") have performed the attribution in accordance with the AMMRR or the Activity Based Costing Manual for the relevant period (as provided to the Regulator)

- As regards the Guiding Principle d. (Objectivity), where assumptions have been used in applying financial and operational data, the manner in which these assumptions have been determined are defined within the AMMRR or the Activity Based Costing Manual for the relevant period (as provided to the Regulator).

- As regards the Guiding Principle f. (Compliance with statutory accounting standards), the Regulatory Accounting Methodology is based on the accounting standards applied in the Company's and the Relevant Group's statutory financial statements other than where changes have been necessary to reflect the procedures and rules set out in the Regulatory Accounting Guidelines.

The nature, form and content of the Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The Regulatory Financial Statements are separate from the statutory financial statements of the Company and the Relevant Group and have not been prepared under the basis of UK Generally Accepted Accounting Practice ("UK GAAP") or UK-adopted international accounting standards ("UK-IFRSs"). Financial information other than that prepared on the basis of UK GAAP or UK-IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. As a result, the Regulatory Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern basis of preparation

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

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

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

- Reducing parcel and letter volume across the UK business;

- Widespread inflationary increases and the impact of that on consumer behaviour as well as the impact across all cost captions, including impacts of cyber attack and staff retention;

- Underperformance on transformation targets needed to return to profitability; and

- Impact of change in control on the borrowings of the group headed by International Distribution Services plc ("the Relevant Group").

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

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

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

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

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Financial Statements is appropriate; and

- we found the going concern disclosure in note 1 to be acceptable.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of the Directors, and 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.

- 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.

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 opportunities for fraudulent activity. We did not identify any additional fraud risks. We performed procedures including:

- Identifying journal entries and other adjustments to test based on high-risk criteria and comparing the identified entries to supporting documentation. These included cost adjustments posted in the form of manual journal entries.

- Evaluated the business purpose of significant unusual transactions

- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Financial Statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment, including the entity's procedures for complying with regulatory requirements.

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 Regulatory Financial Statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Regulatory Financial Statements including financial reporting legislation (including the Regulatory Accounting Guidelines) and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Regulatory 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 Regulatory 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: health and safety, data protection laws, anti-bribery, 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.

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 Regulatory 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 Regulatory Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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

Other Information

The Directors are responsible for the other information, which comprises pages 3 to 10. Our opinion on the Regulatory Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether based on our Regulatory Financial Statements audit work, the information therein is materially misstated or inconsistent with the Regulatory Financial Statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

Under the terms of our engagement, we are required to report to you if, in our opinion:

- appropriate accounting records, as required by the Regulatory Accounting Guidelines and the USPAC have not been kept by the Company, or proper returns adequate for our audit have not been received from operating locations not visited by us; or

- the Regulatory Financial Statements are not in agreement with the accounting records and returns retained for the purposes of preparing the Regulatory Financial Statements; 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 for the Regulatory Financial Statements

As explained more fully in their statement set out on page 18 , the Directors are responsible for: the preparation of the Regulatory Financial Statements in accordance with Ofcom 's USP Accounting Condition dated 28 February 2023 as notified pursuant to Section 39 , and in accordance with Section 53 of, and paragraph 3 of schedule 6 to, the Postal Services Act 2011 (dated 27 March 2012), and the Regulatory Accounting Guidelines issued by the Regulator (updated May 2024), as supplemented by the Activity Based Costing Manual and the Accounting Methodology Manual for Regulatory Reporting (as provided to the Regulator by the Company on 24 May 2024). The Directors are responsible for maintaining the Activity Based Costing Manual and the Accounting Methodology Manual in accordance with the USPAC requirements.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Regulatory Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's (which contains the results of the Reported Business) 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 for the audit of the Regulatory Financial Statements

Our objectives are to obtain reasonable assurance about whether the Regulatory 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 Regulatory Financial Statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the Company's Regulatory Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's (which contains the results of the Reported Business) ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Regulatory Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company (which contains the results of the Reported Business) to cease to continue as a going concern.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

- Evaluate the reasonableness of accounting estimates and related disclosures made by the Directors.

The nature, form and content of the Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Reported Business where these are laid down by Regulatory Accounting Guidelines as set out by the Regulator. Where Regulatory Accounting Guidelines does not give specific guidance on the accounting policies to be followed. Our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Financial Statements are consistent with those used in the preparation of the statutory financial statements of the Company and International Distribution Services plc.

Report on other legal and regulatory requirements

Report on other regulatory matters

Under USPAC 1.6.3 the Directors are required to notify the Regulator in writing of any material changes, as defined in the Regulatory Accounting Guidelines, ("Material Changes") made to the information required under USPAC 1.6.2, thirty days prior to the end of the Financial Year in which the changes have been made.

Under the terms of our engagement letter and USPAC 1.6.4, we are required to consider whether the Directors have notified the Regulator in writing of any Material Changes made to the information required under USPAC 1.6.2, thirty days prior to the end of the Financial Year in which the changes have been made as required by USPAC 1.6.3. We report our opinion as to whether, in all material respects, the Directors have complied with the requirements set out in USPAC 1.6.3 with regard to its Activity Based Costing Manual such that all changes it has made to its Activity Based Costing Manual and its AMMRR have either been reported to the Regulator in accordance with USPAC 1.6.3 or were not Material Changes.

In our opinion, the Directors have complied, in all material respects, with the requirements set out in USPAC 1.6.3 such that all changes it has made to its Activity Based Costing Manual and its AMMRR have either been reported to the Regulator in accordance with the USPAC 1.6.3 or were not Material Changes.

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

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the USPAC and the terms of our engagement letter. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order to assist the Company to meet the requirements of the USPAC to procure such a report and to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory financial statements of the Company for the 53 week period ended 31 March 2024 on which we reported on 28 June 2024, and separate from our opinion on the statutory financial statements of the Relevant Group for the 53 week period ended 31 March 2024 on which we reported on 24 May 2024, which are prepared for a different purpose. Our audit reports in relation to the statutory financial statements of the Company and the Relevant Group (our “Statutory audits”) were made solely to the members of the respective companies, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audits work was undertaken so that we might state to the members of the respective companies those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audits reports are shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Andrew Bradshaw (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London

E14 5GL
28 June 2024

Glossary and explanation of terms

Activity Based Costing (ABC)

Activity Based Costing is a widely used and accepted method of costing products, services, customers and sales channels, based upon the cost of the activities required to produce these outputs. The method identifies the resource consumed by activities and assigns a cost to the resource utilised by each activity. These are aggregated to derive activity costs.

Activity costs are then assigned to outputs, based upon defined cost drivers. These cost drivers provide a measure of the intensity or frequency of an activity demanded by a product or service and reflect a cause-and-effect relationship.

AMMRR

The Accounting Methodology Manual for Regulatory Reporting.

Cash Generating Unit (CGU)

Represents the smallest group of assets within a business or organization that primarily generates cash flows independent of other assets or groups of assets. The level at which the recoverable amount is considered for impairment testing.

Downstream Access services (Network Access)

Customer and other postal operators' mail which enters the Royal Mail pipeline after collection, outward sortation and distribution processes, for subsequent delivery.

Earnings before interest and tax (EBIT)

Earnings before the deduction of interest payments and income taxes.

Financeability EBIT margin

Reported Business operating profit margin after transformation costs, with the pension charge on a funding cost of accrual basis. Having previously referred to the adjustment as representing the difference between the IAS 19 income statement pension charge and the 'actual cash payments' into the schemes management have sought to clarify the definition of this APM for the 2023-24 and future reporting periods. Management's intention has always been to show the difference between the IAS 19 charge and the pension 'funding cost'.

Non-nested Equi-Proportional Mark Up (EPMU) Methodology

Royal Mail uses a non-nested approach to allocate overheads, where overheads are allocated based upon only the calculated attributable cost base.

Office of Communications (Ofcom)

The body responsible for regulating postal services in the UK.

Pension charge adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge and the funding cost of accrual as specified in the DBCBS Schedule of Contributions, plus any payments into, or out of, RMPP pension escrow investments and any scheme deficit payments.

In the current year, the pension charge adjustment includes £130 million credit in relation to a refund of cash from the RMPP pension escrow, £172 million charge in respect of a change in the DBCBS constructive obligation, and £1 million credit for the difference between the IAS 19 income statement charge rate for the DBCBS and the scheme's cash funding rate.

Postcode Address File (PAF)

The Postcode Address File (PAF) is a database of all known UK residential and business addresses and postcodes. PAF and its related products are sold to customers who use it for address capture, managing databases and direct mail campaigns.

Reported Business

The Reported Business is a subset of Royal Mail including Network Access, excluding certain businesses such as Parcelforce, the Property Business Unit and Royal Mail Property & Facilities Solutions. It is the regulatory entity which contains the Universal Postal Service network and all the products provided through or in relation to that network.

Relevant Group

International Distribution Services plc consolidated financial statements.

Regulatory Accounting Guidelines (RAG)

Direction given by Ofcom under the USP Accounting condition (USPAC) in accordance with section 53, and paragraph 4 of schedule 6, of the Postal Services Act 2011 and as modified by Ofcom from time to time.

Transformation costs

These costs relate to the ongoing transformation of the business, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs. Transformation costs in the International Distribution Services plc consolidated financial statements are incorporated within their relevant operating cost categories within Royal Mail operating costs. These RFS report transformation costs as a separate line item, as required by Ofcom, thus resulting in a difference between the two sets of financial statements.

USPAC

The USP Accounting Condition (USPAC) imposed on Royal Mail as set out in the notification published by Ofcom at Annex 1 to the statement entitled 'Regulatory Financial Reporting for Royal Mail' dated 28 February 2023, and as modified by Ofcom from time to time.