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17 November 2022

INTERNATIONAL DISTRIBUTIONS SERVICES PLC RESULTS FOR THE HALF YEAR ENDED 25 SEPTEMBER 2022

Reported measures (£m) ¹	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021	Change ²
Revenue	5,838	6,072	(3.9)%
Operating (loss)/profit	(163)	311	(152.4)%
(Loss)/profit before tax	(127)	315	(140.3)%
Basic earnings per share (pence)	(9.0)p	27.0p	(36.0)p
Adjusted measures (£m)¹			
Operating (loss)/profit	(57)	404	(114.1)%
Operating (loss)/profit margin (%)	(1.0)%	6.7%	(770)bps
(Loss)/profit before tax	(80)	378	(121.2)%
Basic earnings per share (pence)	(7.3)p	30.3p	(37.6)p
Pre-IFRS16 in-year trading cash flow ³	(235)	181	(229.8)%
Net debt	(1,472)	(540)	172.6%
Net (debt)/cash (pre-IFRS 16)	(150)	685	(121.9)%

Summary segmental results¹

	Revenue			Adjusted operating (loss)/profit		
	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021	Change ²	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021	Change ²
(£m)						
Royal Mail	3,647	4,074	(10.5)%	(219)	235	(193.2)%
GLS	2,200	2,010	9.5%	162	169	(4.1)%
Intragroup	(9)	(12)	(25.0)%	-	-	-
Group	5,838	6,072	(3.9)%	(57)	404	(114.1)%

Key points:

- International Distributions Services (IDS) revenue down 3.9% period-on-period, driven by weakness in Royal Mail
- IDS reported operating loss of £163 million (H1 2021-22: £311 million profit); adjusted operating loss of £57 million (H1 2021-22: £404 million profit)
 - Material adjusted operating loss in Royal Mail of £219 million (H1 2021-22: £235 million profit), driven by weak parcel volumes, inability to deliver productivity improvements and impacts from industrial action
 - GLS adjusted operating profit of £162 million (€191 million), down 4.1% (down 3.0% in Euros), with 7.4% adjusted operating margin (down 100 basis points), driven by inflationary pressures
- Royal Mail:
 - Revenue 10.5% lower period-on-period. Due to management action, strike impact has been contained. Revenue flat vs. H1 2019-20 (pre-pandemic)
 - Five point plan to stabilise the business already underway with a focus on rightsizing the business, tighter cash management and improving operational grip
 - Successfully completed Delivering for the Future management change and agreed a new pay deal with Unite/CMA
 - Talks with CWU continue although we are already moving ahead with required changes. Talks will cease if further industrial action goes ahead
 - Ensuring future sustainability depends critically on urgent reform of the Universal Service. Government has been approached to seek an early move to five day letter delivery, whilst we continue to improve parcel services

- GLS:
 - Robust trading in the first half with pricing initiatives helping to mitigate inflationary cost pressures. Investment focused on growth, efficiency and digitalisation
 - Revenue up 9.5% in Sterling (10.5% in Euros), driven by better pricing, higher freight revenues and contribution from acquisitions
 - Parcel volumes declined 2% due to unwinding of temporary benefits from COVID-19 lockdown restrictions in the prior period and current macro-economic environment
- Group in-year trading cash outflow pre-IFRS 16 of £235 million (H1 2021-22: £181 million inflow), driven predominantly by the decline in trading performance in Royal Mail
 - Royal Mail £330 million in-year trading cash outflow pre-IFRS 16 (H1 2021-22 £64 million inflow)
 - GLS £95 million in-year trading cash inflow pre-IFRS 16 (H1 2021-22: £117 million)
- Despite increase in net debt, strong balance sheet remains with net debt £150 million (pre-IFRS 16)
- No interim dividend to be paid. We will look at the potential to pay a final dividend for FY 2022-23 from earnings in GLS
- As previously stated, in the event that significant change within Royal Mail is not achieved, all options remain open to protect the value and prospects of the Group, including separation of the two companies
- Outlook:
 - Royal Mail FY 2022-23: We continue to expect a full year adjusted operating loss of around £350 million to £450 million, including the direct impact of 12⁵ days of industrial action (previously eight days, reflecting revenue resilience in strike action to date) which have taken place or have been notified to us, but excluding any charges for voluntary redundancy costs
 - Targeting Royal Mail to generate positive free cash flow in FY 2023-24 and return to adjusted operating profit in FY 2024-25
 - GLS FY 2022-23: maintaining guidance of high single digit % revenue growth in Euros and adjusted operating profit in the range of €370 to €410 million
 - GLS Accelerate⁴ targets (€500 million operating profit and €1 billion accumulated free cash flow⁴ in FY 2024-25) delayed by c.18-24 months given current worse than anticipated macro-economic backdrop

Keith Williams, Non-Executive Chair, commented:

"The difference between the performances of our two companies could not be more stark. GLS has adapted well to inflationary pressures across its geographies. However, we have been standing at a crossroads with CWU in the UK for several months. We are now heading in a clear direction in light of the substantial losses in Royal Mail."

"Whilst our frontline management population under Unite/CMA has agreed both pay and change in the last few months, progress on a deal for frontline employees has been blocked by the actions of CWU. Accordingly, we have started to implement the change needed to rightsize Royal Mail which will ensure that it is both better placed to serve our customers' needs in parcels, as well as letters, bring it back to profitability and provide a sustainable future. We believe that this is the best course of action for the long-term survival of Royal Mail even if it results in short-term disruption. A sustainable future must also include urgent reform of the Universal Service. Government has now been approached to seek an early move to five day letter delivery, whilst we continue to improve parcel services."

"The Board reiterates that in the event of the lack of significant operational change in Royal Mail it will look at all options to preserve value for the Group including the possibility of separation of the two businesses."

Simon Thompson, Chief Executive, Royal Mail said:

"We have always been clear we need change to survive. We have started turning the business around and will do whatever it takes. We have worked hard to deploy our contingency plans to minimise disruption to customers and impact on revenue. Our infrastructure plans are on time and we are now making the operational changes to turn Royal Mail into a thriving business that will provide great service for our customers at a competitive price and long-term job security for our people."

"We would prefer to reach agreement with the CWU, but in any case we are moving ahead with changes to transform our business."

Martin Seidenberg, Chief Executive, GLS added:

"We delivered a robust performance in the first half against a challenging macro-economic backdrop, underpinned by our flexible business model, balanced B2C and B2B portfolio, and diversified geographic exposure."

"Despite the weakening global economic conditions, GLS is maintaining its full year revenue and adjusted operating profit guidance."

"We continue to focus our efforts on pricing strategies and cost measures to mitigate short term headwinds, while"

focusing our investments on long-term growth and efficiency, pushing GLS to become more global, digital and diverse."

1. Reported results are in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the IAS 19 pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board. The APMs used are explained in the section entitled 'Presentation of results and Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

2. All percentage changes reflect the movement between figures as presented, unless otherwise stated.

3. The comparative trading working capital movements and thus in-year trading cash flow have been re-presented to include deferred revenue movements (including Stamps In The Hands Of the Public (SITHOP)) which were previously presented in other working capital. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022.

4. GLS Accelerate free cash flow is calculated as pre-IFRS 16 in-year trading cash flow plus disposal proceeds.

5. 12 days of industrial action includes eight that have already taken place and four for which we have received formal notification.

Results presentation

A results webcast presentation for analysts and institutional investors will be held at 09:00 today, Thursday 17 November 2022, at <https://www.internationaldistributionsservices.com/en/investors/financial-results-presentations>.

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

Financial Calendar

Q3 trading update

9 February 2023

INTERNATIONAL DISTRIBUTIONS SERVICES PLC

Overview

The first half of the year has been challenging as a result of ongoing macro-economic headwinds and the unwind of temporary benefits from COVID-19 lockdown restrictions, resulting in lower parcel volumes across both Royal Mail and GLS.

In Royal Mail, we have also suffered from the impact of the industrial dispute with CWU, which saw the first national strike action since 2009. The business has to date failed to rightsize its resources to the lower parcel volumes, and this is now a critical priority for the coming period, where the focus is on continuing action to address this inefficiency, focus on cash management and modernise working practices.

GLS remains focused on taking actions to mitigate the macro-economic headwinds and on securing and optimising its long-term growth prospects.

Financial performance

Group revenue declined by 3.9%, driven by the decline in revenue in Royal Mail. Group operating loss was £163 million on a reported basis (H1 2021-22: £311 million profit). Group adjusted operating loss was £57 million (H1 2021-22: £404 million profit), impacted by the significant operating loss in Royal Mail. GLS adjusted operating profit in Euros reduced 3.0%, although was 4.1% lower in Sterling terms, due to adverse foreign exchange movements. Adjusted basic loss per share was 7.3 pence (H1 2021-22: 30.3 pence profit per share).

Strategy

Royal Mail's strategy to transform the business into a more efficient parcels-focused operation that meets our customers' changing needs continues to be the right one. Whilst management action has ensured that the impact on revenue from industrial action has been contained to date, the position of Royal Mail has deteriorated due to poor cost performance, the impact of the industrial dispute and an inability to deliver the productivity improvements agreed with CWU under the Pathway to Change agreement. The business was also unable to reduce costs of full time equivalent (FTE) operational roles quickly enough in line with deteriorating parcel volumes.

Talks on change and pay with CWU are continuing. It is clear from the first half results that Royal Mail is not changing quickly enough to adapt to the demands of a highly competitive parcels market. This is due, in part, to the unique, complex, costly and highly restrictive union agreements and structures built up over many years. Royal Mail announced on 22 September it would review or serve notice on a number of historic agreements and policies. Now that many of these agreements and policies have lapsed, we are implementing a range of changes we had previously been prevented from doing, such as new starter contracts and removing the cap on owner drivers in Parcelforce Worldwide. We will move to a more modern industrial relations framework designed to make the business more agile, and able to compete more effectively.

We have already commenced the deployment of our five point plan to stabilise the business, supported by a strong balance sheet with available liquidity of around £1.7 billion. This includes rightsizing the business with a c.5,000 FTE reduction by March 2023 (on a rolling 12 month basis), deployment of new resourcing models and optimising the efficient use of our network and assets. This is further enabled through investment in management capability and effectiveness. Further detail is provided in the Royal Mail operational review.

We anticipate these measures, with successful execution, will enable Royal Mail to generate positive free cash flow in FY 2023-24 and return to adjusted operating profit in FY 2024-25.

It is also clear that in order to be financially sustainable, the Universal Service requires major reform now. The current financial position of Royal Mail means this change is critical. Government has been approached to seek an early move to a five day letter delivery, whilst we continue to improve parcel services.

Notwithstanding challenging trading conditions across its markets, GLS' strong portfolio – with a flexible business model, B2B/B2C balance and geographic diversity – underpinned its resilient performance in the first half. Performance across Europe and Canada was robust, with continued positive momentum in France. However, performance in the US continues to be impacted by strong inflationary pressures and volume slowdown. GLS is taking pricing actions and stepping up cost containment and efficiency measures to combat competitive and inflationary pressures. GLS remains focused on its long-term growth prospects and continues to invest to grow and diversify.

Capital allocation, dividend and separation

IDS has seen a pre-IFRS 16 in-year trading cash outflow of £235 million in the first half. The cash outflow was driven by the poor performance of Royal Mail, which saw a pre-IFRS 16 in-year trading cash outflow of £330 million. GLS generated pre-IFRS 16 in-year trading cash inflow of £95 million in the period.

Net debt (pre-IFRS 16) is now £150 million (£307 million of net cash at 27 March 2022). Net debt is £1,472 million.

The maintenance of a conservative balance sheet has always been at the heart of the capital allocation policy. In this respect, the Board considers the Group's net debt of £150 million (pre-IFRS 16) to represent a robust position as at the half year. Further, the Group has available liquidity of around £1.7 billion, including £768 million of cash and cash equivalents (excluding £36 million GLS client cash and £21 million RMSEPP pension escrow) along with undrawn bank syndicate loan facility of £925 million. It is not expected that the facility will be drawn during the current financial year.

The Board considers that both its businesses have potential to be successful.

The short-term priority for the Board is securing the urgently required change in Royal Mail. Royal Mail has a valuable asset base and during Covid demonstrated that it is capable of generating good cash returns. A transformed and modernised Royal Mail, with its established customer centric brand, ESG leadership and unparalleled network is targeting to return to adjusted operating profitability in FY 2024-25.

Given the material losses currently being experienced, including the ongoing uncertainty in relation to industrial disruption, the Board has already taken action to tighten cash management in that business and a five point plan to stabilise Royal Mail is already underway, including the reduction and deferral of capital investment and rightsizing of the workforce to reflect the material decline in parcel and letter volumes experienced in the year.

GLS has a flexible business model. Its reliable track record of delivering top line growth, strong margins and good cash flow generation continues to represent a platform for organic and inorganic growth.

However, as a result of the ongoing uncertainty in Royal Mail and in order to further conserve the balance sheet position, the Board has taken the decision to not pay an interim dividend. The situation will be reviewed again in May 2023, when the Board will look at the potential to pay a final dividend financed by earnings in GLS.

The Board re-iterates its position that, in the event that significant change within Royal Mail is not achieved, all options remain open to protect the value and prospects of the Group, including separation of the two companies.

Board changes

As previously announced, Rita Griffin stepped down from the Board following our AGM in July. Lynne Peacock has succeeded Rita as Chair of the ESG Committee and stepped down as Chair of the Remuneration Committee but remains a member. Maria da Cunha, who was an existing member of the Remuneration Committee, has taken over from Lynne Peacock as Chair of this Committee. Maria continues in her role as Designated Non-Executive Director for engagement with the workforce.

Jourik Hooghe joined the Board with effect from 1 June 2022 and became a member of the Nomination and Audit and Risk Committees. At the time of Jourik's appointment he was Executive Vice President and Group Chief Financial Officer of Wizz Air Holdings Plc. It was announced in August 2022 that he will be stepping down from these positions at Wizz Air but will remain available for a transitional period until the end of the calendar year. The Board greatly benefits from his strong international strategic, financial and accounting expertise.

Name change

The name of the company changed from Royal Mail plc to International Distributions Services plc on 3 October 2022. This better reflects the Group structure of two separate companies, Royal Mail and GLS, the increased importance of GLS to the Group, our strength in markets outside the UK, and our position in the wider logistics and distribution markets. It will not have any impact on the brands Royal Mail, Parcelforce Worldwide and GLS.

Outlook

The trading environment continues to be uncertain for both Royal Mail and GLS. All of our markets are impacted by the more challenging global economy, including increasingly high levels of inflation and expectations of lower future economic growth.

Royal Mail

In Royal Mail, we continue to expect revenue decline in FY 2022-23 driven by continued macro-economic pressures. The domestic parcels market in the UK is expected to decline and we anticipate that the majority of COVID-19 test kit volumes we delivered last year will not repeat. Letter volumes are reverting to a more normal structural rate of decline and we continue to expect addressed letter volumes excluding elections to decline by a high single digit percentage.

We have agreed a pay offer worth 5.5%, plus a £1,000 one off cash payment, with Unite/CMA and have made an improved offer to CWU: 2% paid from April 2022, a further 3.5% offered from the date the deal is agreed and a 2% lump sum payment on delivery of change. A further 1.5% pay increase has been offered from April 2023. Talks with CWU are continuing.

Our three-year rolling hedging strategy for fuel and energy is mitigating much of the inflation we are facing, which, when combined with the fuel surcharges introduced into some contract prices, means we should not see an overall negative impact year-on-year.

The impact of the three days of industrial action in the first half of the year on adjusted operating profit was estimated to be c.£70 million. In October¹ there were an additional five days of industrial action, which we estimate had an additional c.£30 million impact on adjusted operating profit. Excluding the estimated impact of industrial action, the adjusted operating loss in October was c.£18 million. As such, following significant investments made in maintaining service and in customer management, the negative impact to date has been reduced.

As a result of our inability to reduce FTE costs in line with lower volumes quickly enough in the period, our cost saving initiatives targeted for the full year have now reduced from c.£350 million to c.£200 million of year-on-year benefit. This includes benefits from our operational management restructure, removal of residual costs from COVID-19, including rental vans and resource covering absence, and our non-people cost reduction programme. Failure to deliver on Pathway to Change savings represents the major reason for the reduction in expected cost savings. The in year benefit excludes the planned new redundancy programme in frontline operations announced in October.

In order to offset the revenue and cost headwinds, and focus on cash management, we are delivering our five point plan (detailed in the Royal Mail Operating Review) and we have accelerated price increases on some high volume letter services to November, which would normally be introduced in January, including an 18% increase on business mail letters and 5% on advertising mail.

We continue to expect a full year adjusted operating loss of around £350 million to £450 million, including the direct impact of 12 days of industrial action (previously eight days, reflecting revenue resilience in strike action to date) which have taken place or have been notified to us, but excluding any charges for voluntary redundancy costs.

The actions already underway will reduce costs and improve performance, but they are not in themselves sufficient to secure the long-term sustainability of the business. We need a more efficient and more flexible cost base in order to be competitive and respond to the daily and seasonal volatility in the workload of a parcels business. We are moving forward with further structural efficiencies to better leverage our network including: a review of our Mail Centre footprint, more efficient utilisation of the Royal Mail and Parcelforce Worldwide networks, a review of our Customer Service Points and new and faster trials, including indoor delivery sorting methods. In addition, we will now seek regulatory reform in order to modernise the Universal Service.

We anticipate these measures, with successful execution, will enable Royal Mail to generate positive free cash flow in FY 2023-24 and return to adjusted operating profit in FY 2024-25.

GLS

Whilst we anticipate further cost pressure in the second half, absent any significant deterioration in the macro-economic environment, the combination of specific pricing actions, service quality and targeted efficiency measures that are being undertaken should allow us to deliver our full year outlook of high single digit % revenue growth and operating profit in the range of €370 to €410 million.

Given that a macro-economic rebound in FY 2023-24 to pre-pandemic levels is now unlikely, the €500 million Accelerate operating profit target in FY 2024-25 and €1 billion accumulated free cash flow target over five years are likely to be delayed by c.18 - 24 months.

1. Period 26 September to 30 October

ROYAL MAIL OPERATING REVIEW

Operating performance

First half revenue decreased 10.5% and on a reported basis the operating loss was £283 million (H1 2021-22: £150 million profit). The adjusted operating loss was £219 million (H1 2021-22: £235 million profit). This trend continued into October, with an adjusted operating loss of £48 million (c.£18 million loss excluding the c.£30 million impact of industrial action). Whilst revenue remained relatively robust against the impact of industrial action, the disappointing performance was driven by increased costs, due to the impact of the industrial dispute, an inability to deliver the joint productivity improvements agreed with CWU under the Pathway to Change agreement, and ongoing macro-economic headwinds. The business also did not reduce FTE costs quickly enough in line with deteriorating parcel volumes.

In-year trading cash outflow was £274 million (H1 2021-22: £114 million inflow). In-year trading cash outflow pre-IFRS 16 was £330 million (H1 2021-22: £64 million inflow). Gross capital expenditure reduced by £32 million to £110 million due to a decline in both transformation and maintenance capital expenditure. Further detail is included in the Financial Review.

Parcels

Domestic parcel volumes (excluding international) decreased by 16% reflecting a reduction in COVID-19 test kits, ongoing macro-economic headwinds and the industrial relations environment. Domestic parcel revenue (excluding international) decreased by 14.4%, reflecting price increases and mix. Volumes for our premium products, Tracked 24® / 48® and Tracked Returns®, declined 12% (H1 2021-22: 21% growth). The decline excluding COVID-19 test kits was 5%. Total revenue from parcels accounted for 54.2% of total Royal Mail revenue (H1 2021-22: 56.7%).

International parcel volumes, including import and export parcels for Royal Mail and Parcelforce Worldwide, were down 8%, a slower decline and improvement compared to the prior period (H1 2021-22: 40% decline). July 2022 marked the first anniversary of the introduction of new customs requirements and since then performance has improved with growth in some product streams.

Compared to pre-pandemic levels (H1 2019-20) domestic parcel volumes (excluding international) increased 11% and revenue was up 22.6%. International parcel volumes, including import and export parcels for Royal Mail and Parcelforce Worldwide, were down 42% and revenue was down 13.5%.

Letters

Addressed letter volumes (excluding elections) were down 6% reflecting a return to the long-term structural rate of decline in letters. Advertising mail volumes were broadly flat in the first half, after suffering particularly steep declines during the pandemic. Business mail volumes declined 6% driven by ongoing structural decline in the letters market. Total letter revenue was down 5.3%, benefitting from pricing, partially offset by mix effects.

Compared to pre-pandemic levels (H1 2019-20) addressed letter volumes (excluding elections) were down 24% reflecting the continued structural decline in the letters market.

Costs

Reported operating costs of £3,938 million increased by 0.4%. Total adjusted operating costs increased 0.7% to £3,866 million.

Our target of £350 million year-on-year cost benefits has shown mixed progress. Whilst we are making progress with our non-people costs savings, have seen a reduction in residual COVID-19 costs, made further progress in automation, and secured the financial benefits of the operational management simplification, we have not delivered the expected savings from Pathway to Change. As a result we are now expecting c.£200 million of year-on-year benefits.

Adjusted people costs increased 1.6%. Due to the industrial relations environment, we did not undertake planned revisions in delivery or processing in the period, which combined with the reduction in parcel and letter volumes and inability to reduce people costs quickly enough, meant that productivity fell by 1.4% and planned Pathway to Change benefits resulted instead in a cost. People costs include the 2% pay award for frontline staff that has already been paid out. People costs also include a number of other inflationary pay pressures such as the flow through impacts of the one hour reduction in the working week implemented in FY 2021-22, managerial pay deals and increases due to changes in the National Insurance social care levy. There are no residual COVID-19 costs although absence is still higher than pre-pandemic levels.

Non-people costs decreased 1.3%. Distribution and conveyance costs decreased as a result of lower volumes and the removal of COVID-19 related vehicle hires as part of social distancing, partially offset by higher air conveyancing costs and costs associated with industrial action. Infrastructure costs increased, largely driven by higher depreciation and amortisation costs, a result of the accelerated depreciation of the resource scheduling asset. Other operating costs increased predominantly due to the purchase of new frontline uniforms.

Progress on a number of key priorities was impacted by the prolonged CWU dispute in the first half. Quality of Service performance was below target, exacerbated by industrial action and continued high levels of absence. However we made progress in other areas – on automation we are now at 65% parcel automation, up from 54% in May and reached over 70% in recent weeks. And despite the industrial disruption, we have maintained our number one position on net promoter score for receiving customers and in the second quarter we regained our number one position for sending customers.

Strategic focus for this year - five point plan to stabilise the business

We have a clear five point plan to restore cash generation and operating profitability in the UK business. We have already started to deliver the following actions:

1. Rightsizing our business

- **FTE reductions:** In October, Royal Mail announced it would seek to rightsize the business by reducing c. 5,000 FTEs by March 2023 (on a rolling 12 month basis). Our operational FTE workforce will need to reduce by an estimated c.10,000 by the end of August 2023 (on a rolling 12 month basis). Wherever possible, we are achieving FTE reductions through reductions in overtime, temporary workers and natural attrition. However, based on current estimates, c.5,000-6,000 redundancies may be required. We have started the process by today opening a portal that will allow people to express a preference for voluntary redundancy. Where possible any redundancy will be achieved on a voluntary basis, with compulsory redundancy only to be used as a last resort.
- **Revisions:** We are progressing revision activity to align resource to workload in our delivery, processing and distribution functions. We are planning revisions in all our 1,200 delivery offices.

2. Creating the headroom to invest

- We have created incremental liquidity to continue to fund our transformation by focusing on cash management and reducing capex this year from c.£350 million to c.£250 million.

3. New resourcing models

- **Removal of the cap on Parcelforce Worldwide owner drivers:** In October, the 25% cap on owner drivers in Parcelforce Worldwide was removed, giving the company the ability to increase the mix of self-employed drivers. This is designed to improve productivity and gives more flexibility to manage peaks and troughs in demand.
- **New starter contracts:** In November 2022 we introduced new employment contracts and are already hiring new frontline recruits with market-competitive rates and Sunday working as part of standard terms. We are proud to offer the best terms and conditions in the industry.
- **Attendance policy:** We have developed a new attendance policy which will go live in Q1 2023-24, to reduce our sick absence rate which has remained elevated post pandemic.

4. Efficient use of our network and assets

- **National roll out of Scan In, Scan Out technology in delivery:** In October Scan In, Scan Out technology replaced handwritten sign in sheets in every delivery office across the Royal Mail network.
- **National roll out of dedicated parcel hubs:** We are deploying dedicated parcel routes from c.350 hubs for the delivery of larger and next day parcels. c.60 hubs have already been deployed with the remainder to be completed by the end of this financial year. As part of our efficiency initiatives we are exploring the utilisation of a number of Parcelforce Worldwide locations as hubs for both Royal Mail and Parcelforce Worldwide parcels.
- **Moving parcel volume from Mail Centres to Super Hubs:** Our Warrington Super Hub opened in June 2022 and is scaling up. Our Midlands Super Hub is on track to open in Summer 2023. With this significant investment in our future, we will start to divert parcels from Mail Centres to our Super Hubs to deliver a more efficient service.

5. Building management capability and effectiveness

- **Management restructure complete:** We have completed the biggest change to the delivery operational structure in 30 years enabling improved performance management of the operation. We have fundamentally restructured the operational management team to improve focus and accountability for operational performance. We are seeing the benefits from the new operational management structure in terms of the expected cost savings, the reduced leadership layers (from eight to five) and smaller team sizes which have pushed decision making closer to the customer.
- **Investment in our managers:** In July we launched the Royal Mail Academy, a new dedicated facility at our Midlands Super Hub that is equipping managers to deliver our transformation. During November all of our c.7,500 managers are attending intensive Academy sessions focused on their role running our business and delivering the required changes. Both the new operational structure and the Academy were developed in partnership with Unite/CMA.

Further structural change is required

The five point plan has already started to reduce costs and improve performance, but in itself that is not sufficient to secure the long-term sustainability of the business.

We need a more efficient and more flexible cost base in order to be competitive and respond to the daily and seasonal volatility in the workload of a parcels business. We are moving ahead with further structural efficiencies to better leverage our network including:

- **Review of our Mail Centre footprint:** We are reviewing the future requirements for our Mail Centre estate to take into account the reduced workload outlook, and the additional capacity that the Super Hubs provide. Based on early estimates we expect that the number of Mail Centres we will require in future will likely reduce.
- **More efficient utilisation of the Royal Mail and Parcelforce Worldwide networks:** Currently there is duplication across the Royal Mail and Parcelforce Worldwide networks, with both companies carrying the same format of parcels and visiting the same customers on the same day. We will implement a single large parcel network to optimise synergies across both Royal Mail and Parcelforce Worldwide. Most smaller parcels will continue to be delivered by Royal Mail, with medium and larger parcels delivered by Parcelforce Worldwide.
- **Review of Customer Service Points:** Royal Mail has introduced a range of new delivery options designed to improve our first time delivery rates. This includes free redelivery, the option to leave parcels in a Safeplace and in-flight redirection through the App and website. With customer footfall down around 50% at our c.1,200 Customer Service Points compared to pre-pandemic, we are conducting a review to determine the optimum number of locations, taking into account efficiency and changing customer preferences.
- **New and faster trials, including indoor delivery sorting methods:** A New Trials Framework has been developed to speed up the introduction of new technology and ways of working. We are commencing a small-scale trial on new indoor delivery office sorting methods to reduce the amount of time spent re-sorting mail and will assess what changes have the greatest impact on productivity.
- **Fleet financing and maintenance:** We have introduced alternative leasing options for our fleet in the current year to provide a capital light and lower cost of ownership option for new electric vehicles.

Achieving transformation is not optional; it is urgent. The losses that we have suffered to date, exacerbated by the industrial action, are not sustainable. Management is committed to doing whatever it takes to turn this business around and complete the transformation.

Regulatory reform

According to Ofcom, a financially sustainable Universal Service should be achieving an EBIT margin of 5-10%. Since privatisation, the Universal Service network has only achieved this twice. It is clear that when letter volumes have declined by more than 60% since their peak, that in order to be financially sustainable the Universal Service requires major reform now. The current financial position of Royal Mail means this change is critical. Ofcom's own research shows that a five day (Monday-Friday) letters service would meet the needs of 97% of consumers and SMEs. Being required to provide a service that customers have said they no longer need, at significant structural cost to Royal Mail, increases the threat to the sustainability of the Universal Service. We urge the Government to recognise

Ofcom's findings, to enable this change quickly, and work with us to protect the long-term sustainability of the one-price-goes-anywhere Universal Service.

Industrial relations update

We entered into pay discussions with CWU earlier in the year and tabled what we believed was a fair pay offer, worth up to 5.5% in total for CWU grade colleagues, recognising current inflationary pressures whilst enabling the transformational change which the business needs. CWU balloted its members twice, on pay and change, and both ballots returned a majority in favour of industrial action. There have been eight days of industrial action so far this year (to 16 November) which we estimate have had a direct net impact of c.£100 million on adjusted operating profit. As a result of management action, the direct revenue impact of more recent strikes has been contained.

On 25 October we were pleased to enter into talks through Acas. As part of those talks, Royal Mail made an improved offer, worth 9% over two years, comprising:

- 7% salary increase over two years:
 - 5.5% this financial year: made up of the 2% already paid, and a further 3.5% salary increase from the date the deal is agreed
 - 1.5% next financial year from April 2023
- Plus, a non-pensionable lump sum payment of 2% of this year's pay, paid upon the successful implementation of a local revision or other local change

Talks with CWU are continuing, although we are already moving ahead with required changes. Talks will cease if further industrial action goes ahead. Further strike action will necessitate more restructuring and job losses and make our new offer unaffordable.

We are pleased that after three weeks of productive discussion and a ballot, the pay offer we negotiated with Unite/CMA has been accepted by their members. We agreed a pay offer worth 5.5% plus a £1,000 one off cash payment for our managers, which is to be backdated to 1 September 2022. The pay offer comprises three elements:

- 2% basic pay increase
- 3.5% basic pay increase linked to change
- a £1,000 one-off payment for those managers in Royal Mail who did not receive this in October

The second element (3.5% basic pay increase) is contingent upon agreeing to implement changes prior to June 2023 for managerial resourcing (e.g. seven day working and attendance time changes to fit with our transformation plan) and a review of pay progression and alternative reward mechanisms that enhance our ability to retain talent and reward high performance.

GLS OPERATING REVIEW

Operating performance

We continued to make good progress in the first half against the three key objectives of our Accelerate GLS strategy: strengthen GLS' top position in the cross border deferred parcel segment; strongly position GLS in the 2C¹ parcel market, whilst securing our leading position in the 2B segment; and inspire the market. For example, we have invested in our new Madrid hub which is due to go live in the second half. This hub will provide new growth opportunities and increase efficiency, for example through a fully automated small parcel sorter. In France, as another example, we acquired a start-up company specialising in developing digital and sustainable solutions, which will enable us to further optimise the last mile customer experience. Continued, focused execution on our strategy will enable us to become more global, digital and diverse.

GLS performed well in the first half with revenue growth of 9.5% to £2,200 million, driven by better pricing, increased freight revenue and the contribution from the Rosenau acquisition in Canada (excluding acquisitions, revenue was up 5.5% in Sterling). Parcel volumes declined 2% reflecting weaker volumes as a result of the unwinding of positive effects from lockdown restrictions in the prior period, and a general weakening in macro-economic conditions. B2C share of volume was 54%, one percentage point below the prior period, with B2B share at 46%.

Adjusted operating profit declined, as expected, to €191 million (H1 2021-22: €197 million), in line with our full year guidance range of €370 to €410 million. A decline in volumes and continued cost pressure was to a large extent offset through higher prices.

During the first half, the impact of foreign exchange movements adversely impacted revenue by £21 million and favourably impacted costs by £19 million, resulting in a reduction in operating profit of £2 million.

We continue to invest in growth and automation to generate efficiency savings, with capital expenditure in the first half of £44 million (H1 2021-22: £52 million). In-year trading cash inflow pre-IFRS 16 remained robust, at £95 million, which compared with £117 million inflow in the prior period. In-year trading cash inflow was £131 million (H1 2021-22: £147 million inflow). Further detail is included in the Financial Review.

Market performance

Most markets saw a decline in parcel volumes compared to the prior period but through pricing actions, good customer retention and higher freight revenue, underlying revenue growth was achieved in almost all markets.

Performance in our key markets is highlighted below, with revenue growth and cost development detailed in Euro terms.

In Germany, the largest GLS market by revenue, revenue grew by 4.9% despite a slow-down in the economy and strong competition. Revenue growth benefited from strong price increases implemented to mitigate inflationary pressures, including the impact from the higher German minimum wage. Overall operating profit declined as better pricing could not fully mitigate cost increases.

In Italy revenue grew by 5.3%, driven by better pricing and slightly higher volumes. Operating profit decreased compared with the prior period due to an increase in operational costs which impacted margin development.

Revenues in GLS Spain grew by 3.1%, driven by better pricing which compensated a marginal decline in volumes. Operating profit was below the prior period as higher operational costs could not be fully offset through improved pricing.

France continues to progress, with gradual and meaningful improvements. GLS France revenue grew by 4.1%, benefiting from better pricing which mitigated a decline in volumes. Volume decline was driven by lower B2C volumes, partly compensated by higher B2B volumes. Losses narrowed slightly compared with the prior period.

In the US revenue grew by 10.0% in Euro terms, driven by foreign exchange movements (4.0% decline in USD terms). The decline in USD terms was driven by lower volumes partly mitigated by better pricing. Final-mile and line-haul costs were impacted by inflationary pressures which resulted in an increase in operational costs and an overall loss. Measures focused on improving unit operational costs and the quality of revenue, including yield management activities, are continuing.

GLS Canada revenue increased by 30.1% in Euro terms (17.4% in CAD terms) on an organic basis, driven by higher yield, including the benefit from higher fuel surcharges. The integration of Rosenau with our pre-existing business

GLS Canada is on track, with planned synergies being secured. The Canadian business continues to perform well, delivering margins above the GLS group average.

Other developing markets, where GLS has a high exposure to B2C, continued to grow despite the impact from the war in Ukraine. Revenues were up 9.8% in the period, with double-digit revenue growth achieved in Poland, Croatia, Slovenia and Czech Republic.

1. 2C = to consumer. Includes Business to Consumer and Consumer to Consumer.

OUR PRINCIPAL RISKS AND UNCERTAINTIES

The Board has considered the principal risks faced by the Group for the remaining six months of the year and has provided an update on those risks as described at pages 56 to 61 of Royal Mail plc's (now International Distributions Services plc) Annual Report and Financial Statements 2021-22:

<https://www.internationaldistributionsservices.com/media/11769/royal-mail-ara-2021-2022.pdf>

A decline in the global macro-economic environment post pandemic and slowing GDP growth has put pressure on several of the Group's principal risks which were already categorised as high risk. Furthermore, in the UK, there is an ongoing dispute between Royal Mail and the CWU over pay and change which has resulted in industrial action. These factors have adversely affected Royal Mail's sales volumes and revenue, increased underlying operational costs and put pressure on productivity and quality of service. The external economic environment remains uncertain and a prolonged dispute with the CWU will further exacerbate these factors.

As a result, the following principal risks faced by the Group have regressed further within the high risk category:

- Risk 1: Failure to reduce our cost base
- Risk 2: Economic and political environment
- Risk 5: Industrial Action

The regression of these risks and the subsequent adverse impact on Royal Mail's financial performance in the first half of the year has created a new liquidity risk in the Royal Mail business and Group.

The following new risk has therefore been added to the Principal risks of the Group: "Liquidity: The risk that the Group fails to secure ongoing access to finance, complies with covenants and/or manages working capital and cash to support the ongoing running of, and investment in, the Royal Mail business and medium/long term growth strategies."

In response to these increasing risks, Royal Mail management have taken the following additional short-term mitigating actions:

- Implementation of measures to reduce costs and conserve cash in Royal Mail including a consultation on the reduction of c.10,000 operational roles to control headcount and rightsize the workforce (Risk 1: Failure to reduce our cost base)
- Implementation of required transformation activities alongside continued dialogue with CWU on pay and change (Risk 5: Industrial Action)
- Enactment of operational contingency plans for industrial action to minimise disruption to customers (Risk 5: Industrial Action)
- Updated business planning and cashflow forecasting to support assessment of future financing requirements (New Risk: Liquidity)

Medium to long term remediation plans to several principal risks are dependent upon Royal Mail sustainably resolving the Industrial Relations dispute in a timely manner to create a new, more productive and agile relationship with the CWU to enable the rapid transformational change required by the UK business.

The following risks remain materially unchanged from those disclosed in the 2021-22 Annual Report and Financial Statements:

- Risk 3: Major breach of information security, data protection regulation and/or cyber attack
- Risk 4: Customer expectations and Royal Mail's responsiveness to market changes
- Risk 6: Talent – workforce for the future
- Risk 7: Our UK regulatory framework
- Risk 8: Environmental and sustainability
- Risk 9: Actual or suspected breached in material law and/ or regulation
- Risk 10: Business continuity and operational resilience
- Risk 11: Health, safety and wellbeing

FINANCIAL REVIEW

Summary results (£m)¹

	Reported 26 weeks September 2022	Specific items and pension adjustment	Adjusted ² 26 weeks September 2022	Reported 26 weeks September 2021	Specific items and pension adjustment	Adjusted ² 26 weeks September 2021
Revenue	5,838	-	5,838	6,072	–	6,072
Royal Mail	3,647	-	3,647	4,074	–	4,074
GLS	2,200	-	2,200	2,010	–	2,010
Intragroup revenue ³	(9)	-	(9)	(12)	–	(12)
Operating costs	(5,967)	(72)	(5,895)	(5,751)	(83)	(5,668)
Royal Mail	(3,938)	(72)	(3,866)	(3,922)	(83)	(3,839)
GLS	(2,038)	-	(2,038)	(1,841)	–	(1,841)
Intragroup costs ³	9	-	9	12	–	12
Operating (loss)/profit before specific items	(129)	(72)	(57)	321	(83)	404
Operating specific items	(34)	(34)	-	(10)	(10)	–
Operating (loss)/profit	(163)	(106)	(57)	311	(93)	404
<i>Operating (loss)/profit margin</i>	(2.8)%	-	(1.0)%	5.1%	–	6.7%
Royal Mail	(283)	(64)	(219)	150	(85)	235
<i>Royal Mail Operating (loss)/profit margin</i>	(7.8)%	-	(6.0)%	3.7%	–	5.8%
GLS	120	(42)	162	161	(8)	169
<i>GLS Operating profit margin</i>	5.5%	-	7.4%	8.0%	–	8.4%
Profit/(loss) on disposal of property, plant and equipment (non-operating specific item)	6	6	-	(2)	(2)	–
Net finance costs	(23)	-	(23)	(26)	–	(26)
Net pension interest (non-operating specific item)	53	53	-	32	32	–
(Loss)/profit before tax	(127)	(47)	(80)	315	(63)	378
Tax credit/(charge)	41	31	10	(45)	30	(75)
(Loss)/profit after tax	(86)	(16)	(70)	270	(33)	303
Earnings per share (basic) – pence	(9.0)p	(1.7)p	(7.3)p	27.0p	(3.3)p	30.3p
In-year trading cash flow⁴			(143)			261
Royal Mail			(274)			114
GLS			131			147
Pre-IFRS 16 in-year trading cash flow⁴			(235)			181
Royal Mail			(330)			64
GLS			95			117
Gross capital expenditure			(154)			(194)
Royal Mail			(110)			(142)
GLS			(44)			(52)
Net debt			(1,472)			(540)

1. Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, the Group's performance is explained through the use of Alternative Performance Measures (APMs) that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by Management and reported to the Board. The APMs used are explained in the section entitled 'Presentation of results and Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

2. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. A full reconciliation of reported to adjusted results is explained in the section entitled 'Presentation of results and Alternative Performance Measures.'

3. Intragroup revenue and costs represent trading between Royal Mail and GLS, principally a result of Parcelforce Worldwide operating as GLS' partner in the UK.
4. The comparative trading working capital movements and thus in-year trading cash flow have been re-presented to include deferred revenue movements (including Stamps In The Hands Of the Public (SITHOP)) which were previously presented in other working capital. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022.

Group results

Group and Royal Mail results are for the 26 week period to 25 September 2022. GLS financial performance is presented for the 6 months to 30 September 2022.

Period-on-period Group revenue declined 3.9%, driven by the challenging macro-economic conditions and the comparator being bolstered by COVID-19 restrictions and lockdowns. For Royal Mail the prior period also benefited from elevated COVID-19 test kit volumes, whilst the current period has been adversely affected by industrial action.

People cost performance was disappointing in Royal Mail, where savings were not achieved despite a fall in volumes. We were unable to reduce full-time equivalent (FTE) related costs quickly enough in response to lower parcel and letter volumes. GLS' cost base has also been affected by cost and wage inflation.

Reported operating loss before specific items was £129 million (H1 2021-22: £321 million profit), £450 million lower than the prior period. Operating specific items were a cost of £34 million (H1 2021-22: cost of £10 million)

On a reported basis the Group operating loss margin was 2.8% (H1 2021-22: 5.1% profit margin), with the decline primarily due to the operating loss made by Royal Mail. Adjusted Group operating loss was £57 million (H1 2021-22: £404 million profit) driven by losses in Royal Mail. GLS' performance was broadly in line with the prior period including the effect of the Rosenau acquisition. Excluding Rosenau GLS' adjusted operating profit was down 13.0%. Adjusted Group operating loss margin was 1.0%, a significant decline on the prior period which saw an operating profit margin of 6.7%. GLS experienced a fall of 100 bps in its margin, primarily as a result of the economic environment as well as cost and wage inflation. Royal Mail suffered a significant deterioration in its margin from a 5.8% profit margin to a 6.0% loss margin driven by the challenging trading environment as a result of the macro-economic conditions, industrial action, and the inability to reduce FTE costs quickly enough. The comparative also benefited from increased volumes during the lockdowns.

Non-operating specific items were a cost of £59 million (H1 2021-22: cost of £30 million).

Reported loss before tax of £127 million (H1 2021-22: £315 million profit) comprises a £239 million loss in Royal Mail (H1 2021-22: £159 million profit) and a £112 million profit in GLS (H1 2021-22: £156 million profit). Basic reported earnings per share decreased to a 9.0 pence loss per share (H1 2021-22: 27.0 pence profit per share).

	26 weeks ending September		% change
Revenue (£m)	2022	2021	2022 vs 2021
Group⁵	5,838	6,072	(3.9)%
Royal Mail	3,647	4,074	(10.5)%
Total Parcels	1,975	2,308	(14.4)%
Domestic Parcels (excluding international) ⁶	1,635	1,911	(14.4)%
International Parcels ⁷	340	397	(14.4)%
Letters	1,672	1,766	(5.3)%
GLS	2,200	2,010	9.5%
	26 weeks ending September		% change
Volume (m units)	2022	2021	2022 vs 2021
Royal Mail			
Total Parcels	613	725	(15)%
Domestic Parcels (excluding international) ⁶	539	645	(16)%
International Parcels ⁷	74	80	(8)%
Addressed letters (excluding elections)	3,598	3,816	(6)%
GLS	410	417	(2)%

5. Royal Mail and GLS revenue does not equal Group revenue due to the elimination of intragroup trading (H1 2022-23: £9 million, H1 2021-22: £12 million).

6. Domestic Parcels excludes import and export for both Royal Mail and Parcelforce Worldwide.

7. International includes import and export for Royal Mail and Parcelforce Worldwide.

Group revenue fell by 3.9% in the period. Total Group parcel revenue fell 3.3% in the period. Parcel revenue accounted for 71.4% of total revenue (H1 2021-22: 70.9%), a marginal increase on the prior period due to the growth in GLS revenue.

Segment – Royal Mail

Royal Mail adjusted operating loss was £219 million (H1 2021-22: £235 million profit). Adjusted operating loss margin was 6.0% (H1 2021-22: 5.8% operating profit margin). Reported operating loss was £283 million (H1 2021-22: £150 million profit). The decline was due to lower revenue driven by a combination of the macro-economic environment impacting customers' disposable spend and uncertainty caused by industrial action. The comparative also benefited from higher test kit revenue. The cost base was also slow to adjust to lower volumes as we were unable to reduce our FTE costs quickly enough and the performance of further efficiency measures was disappointing. We estimate that there was a direct negative impact of c.£70 million on reported and adjusted operating profit from three days of industrial action in the period.

Revenue

Royal Mail revenue declined 10.5% versus the prior period reflecting weakening retail trends, lower test kit volumes, the impact of industrial action and a return to structural decline in letters. The comparative also benefited from higher volumes during the lockdown periods.

Parcels

Total parcel revenue reduced period-on-period by 14.4% with volumes down 15%. Parcel revenue represented 54.2% of total Royal Mail revenue, this is down from 56.7% in H1 2021-22. COVID-19 test kits accounted for c.2% of total parcel volumes (H1 2021-22: c.5%).

The prior period included periods of COVID-19 restrictions, as a result the comparative revenues and volumes benefited as consumers were sending more parcels and e-commerce sales were higher, leading to more parcels in the network. This year consumers' disposable income has reduced as a result of the uncertainty in the macro-economic environment leading to a reduction in parcel volumes. Furthermore, industrial action has adversely impacted our revenue as customers moved volumes away from our network. These factors have led to a decline in the revenue and volumes in all of our parcel revenue streams.

Domestic parcels (excluding international) performance against the prior period for both revenue and volume saw declines of 14.4% and 16% respectively. This revenue stream includes Royal Mail's premium products, Tracked 24®/48® and Tracked Returns® which experienced volume declines of 12% (H1 2021-22: 21% growth). As well as the factors outlined above the reduction in test kit traffic also impacted this revenue stream. The decline in Tracked products excluding COVID-19 test kits was 5%. To support the reversal of this decline specific growth initiatives are being put in place and the continued shift from standard to Tracked products is expected to continue.

Compared to pre-pandemic levels (H1 2019-20) domestic parcel volumes (excluding international) increased 11% and revenue was up 22.6%. International parcel volumes, including import and export parcels for Royal Mail and Parcelforce Worldwide, were down 42% and revenue was down 13.5%.

Until July 2022 international revenue continued to experience headwinds post Britain's withdrawal from the European Union, driven by additional customs checks and data complexities which were introduced in July 2021. Since we passed the anniversary of these additional checks in July 2022 the period-on-period revenue decline has slowed, with growth in some product streams.

We are currently losing market share due to the impact of industrial action and reduction in test kit mailings.

Letters

Total letter revenue declined 5.3% versus the prior period, with volumes for addressed letters excluding elections down 6%. Letter volumes reflect a return to the long-term structural rate of decline in the letters market experienced pre-COVID-19.

Advertising mail volumes were broadly flat period-on-period. Advertising mail volumes were especially negatively impacted by the pandemic and only recovered partially in the prior period, they have still not returned to pre-pandemic levels. Despite price increases of c.2.9% implemented in January 2022 advertising revenues still remained broadly flat.

Business mail volumes fell 6% driven by the structural decline in this market. Revenue grew by 0.9% despite the fall in volumes due to positive pricing actions of c.9.3% from January 2022.

Compared to pre-pandemic levels (H1 2019-20) addressed letter volumes (excluding elections) were down 24% reflecting the continued structural decline in the letters market.

Adjusted operating costs²

(£m)	Adjusted 26 weeks September 2022	Adjusted 26 weeks September 2021	% change
People costs	(2,693)	(2,651)	1.6%
Non-people costs	(1,173)	(1,188)	(1.3)%
Distribution and conveyance costs	(400)	(456)	(12.3)%
Infrastructure costs	(410)	(387)	5.9%
Other operating costs	(363)	(345)	5.2%
Total	(3,866)	(3,839)	0.7%

2. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. A full reconciliation of reported to adjusted results is explained in the section entitled 'Presentation of results and Alternative Performance Measures.'

Total adjusted operating costs increased 0.7% period-on-period despite the 10.5% fall in revenue. The increase in costs was driven by our people costs as we did not reduce FTEs quickly enough in response to reduced volumes whilst also facing inflationary cost pressures.

People costs

People costs have increased 1.6% compared to the prior period. The increase in costs, despite the fall in revenue illustrates our need to reduce FTEs. The increase in people costs has been driven by a number of factors.

Due to the industrial relations environment, we did not undertake planned revisions in delivery or processing in the period, which, combined with the reduction in parcel and letter volumes, meant that productivity fell by 1.4% and planned Pathway to Change benefits resulted in a cost.

The 2022-23 frontline pay award is still under negotiation with CWU. First half people costs include the 2% pay award for frontline staff that has already been paid. People costs also include a number of other inflationary pay pressures such as the flow through impacts of the one hour reduction in the working week implemented in FY 2021-22, managerial pay deals and increases due to changes in the National Insurance social care levy.

There are no residual COVID-19 costs (H1 2021-22: £29 million) however the level of absence remains higher than prior to COVID-19. In the current period the average total sick absence rate was 7.1% compared with 7.5% in the prior period. In H1 2019-20 (prior to the pandemic) average total sick absence was 5.3%.

Non-people costs

Non-people costs decreased by 1.3% versus the prior period.

Distribution and conveyance costs decreased by 12.3% driven by lower volumes and a reduction in COVID-19 related van hires. The prior period included £32 million of costs related to social distancing. This reduction has been partially offset by higher air conveyancing costs and additional costs associated with industrial action. Total diesel and jet fuel costs decreased to £82 million (H1 2021-22: £89 million) driven by a decrease in the volume of diesel used as a result of a combination of lower volumes and fewer vans, the benefit of the reduction in fuel duty and a stronger hedge position limiting the exposure to the spot market.

Infrastructure costs increased period-on-period by 5.9% largely driven by higher depreciation and amortisation costs. Depreciation and amortisation costs were £16 million higher mainly as a result of accelerated depreciation on our resource scheduling asset. Before this adjustment, underlying depreciation was broadly flat.

Other operating costs increased by 5.2% driven by a variety of factors but predominantly linked to the purchase of new frontline uniforms.

Segment – GLS⁸

Summary results ⁹ (£m)	6 months to 30 September 2022	6 months to 30 September 2021	% change
Revenue	2,200	2,010	9.5%
Operating costs	(2,038)	(1,841)	10.7%
Operating profit before specific items	162	169	(4.1)%
(€m)			
Revenue	2,587	2,342	10.5%

Operating costs	(2,396)	(2,145)	11.7%
Operating profit before specific items	191	197	(3.0)%

8. The results for H1 2022-23 include £16 million operating profit before specific items contribution from acquisitions, of which £15 million was from Rosenau Transport acquired on 1 December 2021.

9. The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the section entitled 'Specific items and pension charge to cash difference adjustment'. As the pension charge to cash difference is not applicable to GLS, the operating profit before specific items is the same on a reported and adjusted basis, and thus no separate adjusted measures have been presented.

In Sterling terms, operating profit before specific items was £162 million (H1 2021-22: £169 million). Foreign exchange movements adversely impacted revenue by £21 million and favourably impacted costs by £19 million resulting in a net reduction to operating profit of £2 million.

Operating profit before specific items in Euro terms decreased by 3.0%. Margin deteriorated by 100 bps, to 7.4%, due to operational cost pressures including general inflation and driver shortages across most markets.

Revenue

Revenue increased by 9.5% in Sterling terms (10.5% in Euro terms). Excluding acquisitions, revenue was up 5.5% in Sterling terms, driven by better pricing and higher freight revenues. Revenue grew despite the strong performance in the previous period which benefited from lockdown restrictions. Revenue growth was achieved in almost all markets, with particularly good performances in Canada and Eastern Europe. GLS' European markets represented 86.2% of total revenue (H1 2021-22: 90.1%), with the North American market contributing 13.8% (H1 2021-22: 9.9%).

Overall volumes decreased by 2% impacted by unwinding of temporary benefits from COVID-19 lockdown restrictions in the prior period and a general deterioration in the economic environment. B2C volume share of 54% was one percentage point below H1 of the prior period.

Operating costs

(£m)	Reported 6 months to 30 September 2022	Reported 6 months to 30 September 2021	% change
People costs	(489)	(431)	13.5%
Non-people costs	(1,549)	(1,410)	9.9%
Distribution and conveyance costs	(1,350)	(1,247)	8.3%
Infrastructure costs	(146)	(117)	24.8%
Other operating costs	(53)	(46)	15.2%
Total	(2,038)	(1,841)	10.7%

Total reported operating costs in Sterling terms increased by 10.7%, or 7.3% excluding acquisitions.

Costs were impacted by significant increases in inflation rates during the period in the markets in which GLS operates. A combination of higher fuel costs, wage inflation (for example higher minimum wages in Germany), rising utilities costs and driver shortages all contributed to increases in subcontractor costs for collection, delivery and line-haul services. The reported increase in Euro terms is presented below.

(€m)	Reported 6 months to 30 September 2022	Reported 6 months to 30 September 2021	% change
People costs	575	503	14.3%
Non-people costs	1,821	1,642	10.9%
Distribution and conveyance costs	1,588	1,453	9.3%
Infrastructure costs	171	136	25.7%
Other operating costs	62	53	17.0%
Total	2,396	2,145	11.7%

People costs

In Euro terms people costs increased by 14.3%, or 7.6% excluding acquisitions, due to a combination of factors including higher unit operational labour costs driven by wage inflation across GLS' markets.

Non-people costs

Non-people costs increased by 10.9%, or 8.5% excluding acquisitions. Distribution and conveyance costs were up 9.3%, or 7.6% higher excluding acquisitions, driven by higher sub-contractor rates resulting from wage inflation and increased fuel costs. Infrastructure and other operating costs increased by 25.7% and 17.0% respectively (16.9% and 13.2% respectively excluding acquisitions), principally due to higher depreciation, as a result of increased investment in the prior year, and utilities costs.

Country overview

The following individual market summaries detail revenue growth in Euro terms, unless otherwise stated.

In Germany, the largest GLS market by revenue, revenue grew by 4.9% despite a slow-down in the economy and strong competition. Revenue growth benefited from strong price increases implemented to mitigate inflationary pressures, including the impact from the increase in the German minimum wage. Overall operating profit declined as better pricing could not fully mitigate cost increases.

GLS Italy revenue grew by 5.3%, driven by better pricing and slightly higher volumes. Operating profit decreased compared with the prior period due to an increase in operational costs which impacted margin development.

Revenues in GLS Spain grew by 3.1%, driven by better pricing which compensated for a marginal decline in volumes. Operating profit was below the prior period as higher operational costs could not be fully offset through improved pricing.

France continues to progress, with gradual and meaningful improvements. GLS France revenue grew by 4.1%, benefiting from better pricing which mitigated a decline in volumes. Volume decline was driven by lower B2C volumes, partly compensated by higher B2B volumes. Losses narrowed slightly compared with the prior period.

In the US, revenue grew by 10.0% in Euro terms driven by foreign exchange movements (4.0% decline in USD terms). The decline in USD terms was driven by lower volumes partly mitigated by better pricing. Final-mile and line-haul costs were impacted by inflationary pressures which resulted in an increase in operational costs and an overall loss. Measures focused on improving unit operational costs and the quality of revenue, including yield management activities, are continuing.

GLS Canada revenue increased by 30.1% in Euro terms (17.4% in CAD terms) on an organic basis, driven by higher yield, including the benefit from higher fuel surcharges. The integration of Rosenau within our pre-existing business GLS Canada is on track, with planned synergies being secured. The Canadian business continues to perform well, delivering margins above the group average.

Revenue growth in GLS' other developed European markets was 6.3% driven by better pricing.

Other developing markets, where GLS has a high exposure to B2C, continued to grow despite the impact from the war in Ukraine. Revenues were up 9.8% in the period, with double-digit revenue growth achieved in Poland, Croatia, Slovenia and Czech Republic.

Other Group financial performance measures
Specific items and pension charge to cash difference adjustment

	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021
(£m)		
Pension charge to cash difference adjustment (within people costs)	(72)	(83)
Operating specific items		
GLS VAT adjustments	(33)	-
Amortisation of intangible assets in acquisitions	(10)	(8)
Legacy/other items	9	(2)
Total operating specific items	(34)	(10)
Non-operating specific items		
Profit/(loss) on disposal of property, plant and equipment	6	(2)
Net pension interest	53	32
Total non-operating specific items	59	30
Total specific items and pensions adjustment before tax	(47)	(63)
Total tax credit on specific items and pensions adjustment	31	30

The pension charge to cash difference adjustment largely comprises the difference between the IAS 19 income statement pension charge rate of 23.3% (H1 2021-22: 24.4%) for the Defined Benefit Cash Balance Section (DBCBS) from 28 March 2022 and the actual cash contribution rate agreed with the Trustee of 15.6% (H1 2021-22: 15.6%). The charge was £72 million in the period (H1 2021-22: £83 million). The decrease in the IAS 19 pension charge rate is due to the increase in the net discount rate (versus CPI) between March 2021 and March 2022.

The specific item of £33 million (€39 million) in GLS relates to the expected settlement of VAT adjustments in Italy, covering the years 2016 to 2021.

Amortisation of acquired intangible assets of £10 million (H1 2021-22: £8 million) largely relates to acquisitions made by GLS in Canada, Spain, the US and Italy.

The legacy item relates to a £9 million credit in respect of Industrial Diseases claims, the credit is as a result of an increase in the discount rate versus the prior period due to an increase in gilt yields at the half year date. The prior period charge of £2 million related to employee share schemes and interest on the Ofcom fine that was provided for in H1 2019-20. The Ofcom fine has been settled in the current period.

The profit on disposal of property, plant and equipment of £6 million (H1 2021-22: loss of £2 million) primarily relates to the sale of a number of Royal Mail properties.

Net pension interest credit of £53 million (H1 2021-22: £32 million) is calculated by reference to the net pension surplus at the start of the financial period. The increase in the period of £21 million is as a result of a higher overall pension surplus and higher discount rate used at 27 March 2022, compared with 28 March 2021.

Net finance costs

Reported net finance costs of £23 million (H1 2021-22: £26 million) comprise interest on leases of £16 million (H1 2021-22: £14 million), interest on bonds (including cross-currency swaps) of £12 million (H1 2021-22: £12 million), interest/fees on the bank syndicate loan facility of £1 million (H1 2021-22: £1 million), and other net interest payable of £1 million (H1 2021-22: £2 million). This is offset by interest income of £7 million (H1 2021-22: £3 million) which has increased as a result of higher interest rates.

The bank syndicate loan facility expires in September 2026.

The blended interest rate on gross debt, including leases for 2022-23, is approximately 3%. The impact of retranslating the €500 million and €550 million bonds is accounted for in equity.

Taxation

The Group recognised a reported tax credit of £41 million (H1 2021-22: £45 million charge) which consists of a tax credit of £77 million (H1 2021-22: £9 million charge) in Royal Mail and a tax charge of £36 million (H1 2021-22: £36 million) in GLS.

The Royal Mail reported tax credit of £77 million (H1 2021-22: £9 million charge) arose on a loss of £239 million (H1 2021-22: £159 million profit). This leads to an effective tax rate of 32.2% (H1 2021-22: 5.7%) which is 13.2% higher than the UK statutory rate of 19%. The effective tax rate is mainly impacted by; the remeasurement of deferred tax balances to the future UK statutory rate of 25%; net pension interest income on which there is no tax charge and Super-deduction capital allowances claims which create an enhanced credit for qualifying capital expenditure.

The Royal Mail adjusted effective tax rate of 20.6% (H1 2021-22: 17.2%), is lower than the reported effective tax rate as it does not include the effect of specific items such as the remeasurement of deferred tax balances to the future UK statutory rate of 25% and net pension interest income.

The GLS reported effective tax rate of 32.1% (H1 2021-22: 23.1%) is higher than the UK statutory rate mainly due to the expected settlement of VAT adjustments in Italy for which no tax credit is assumed; the effect of losses in the US and France for which no deferred tax credit is recognised and higher rates of tax in some of the countries in which it operates.

The GLS adjusted effective tax rate of 24.8% (H1 2021-22: 23.3%) is lower than the reported effective tax rate as it does not include the effect of the expected settlement of VAT adjustments in Italy which is treated as a specific item.

Earnings per share (EPS)

Reported basic EPS was a loss of 9.0 pence per share (H1 2021-22: 27.0 pence profit per share) and adjusted basic EPS was a loss of 7.3 pence per share (H1 2021-22: 30.3 pence profit per share).

In-year trading cash flow¹

	26 weeks ended 25 September 2022			26 weeks ended 26 September 2021		
(£m)	Royal Mail	GLS	Group	Royal Mail	GLS	Group
Adjusted operating (loss)/profit	(219)	162	(57)	235	169	404
Depreciation and amortisation	215	81	296	199	68	267
Adjusted EBITDA	(4)	243	239	434	237	671
Trading working capital movements ¹⁰	(157)	(18)	(175)	(146)	6	(140)
Share-based awards (LTIP and DSBP) charge adjustment	-	-	-	2	-	2
Gross capital expenditure	(110)	(44)	(154)	(142)	(52)	(194)
Estate Upgrade Programme ¹¹	(7)	-	(7)	-	-	-
Net finance costs paid	(18)	(8)	(26)	(22)	(8)	(30)
Dividend received from associate undertaking	-	-	-	5	-	5
Income tax received/(paid)	22	(42)	(20)	(17)	(36)	(53)
In-year trading cash flow¹⁰	(274)	131	(143)	114	147	261
Capital element of operating lease repayments ¹²	(56)	(36)	(92)	(50)	(30)	(80)
Pre-IFRS 16 in-year trading cash flow	(330)	95	(235)	64	117	181

1. Reported results are prepared in accordance with IFRS. In addition, the Group's performance is explained through the use of APMs that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained in the section entitled 'Presentation of results and Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

10. The comparative trading working capital movements and thus in-year trading cash flow have been re-presented to include deferred revenue movements (including Stamps In The Hands Of the Public (SITHOP)) which were previously presented in other working capital. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022.

11. Capital expenditure on the properties in this programme is funded via the disposal of other properties. The disposal proceeds are recognised outside of in-year trading cash flow.

12. The capital element of lease payments of £100 million (H1 2021-22: £91 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £92 million (H1 2021-22: £80 million) and the capital element of finance lease payments of £8 million (H1 2021-22: £11 million).

Group in-year trading cash outflow was £143 million, compared with £261 million inflow in the prior period. This decrease was predominantly driven by the decline in the trading performance in Royal Mail.

Royal Mail trading working capital cash flow declined by £11 million period-on-period predominantly driven by the increased voluntary redundancy payments in the period. The current period outflow was driven by the payment of invoices received late in FY 2021-22 but paid in H1 2022-23, voluntary redundancy payments and the settlement of international balances. This has been partially offset by an inflow in relation to trade debtors due to the reduced revenues.

GLS trading working capital cash flow reduced by £24 million period-on-period as it was impacted by timing of receipts and payments around period end.

Total gross capital expenditure was £154 million (H1 2021-22: £194 million), of which GLS spend was £44 million (H1 2021-22: £52 million). Royal Mail capital expenditure was £110 million in total (H1 2021-22: £142 million), of which £63 million (H1 2021-22: £73 million¹³) was transformational spend. Transformational spend predominantly relates to our investment in parcel hubs and automation. Royal Mail maintenance spend was £47 million (H1 2021-22: £69 million¹³), the decrease from the prior period is due to the comparative including our PDA refresh spend which has not repeated in the current year.

Income tax paid decreased by £33 million. Royal Mail income tax received of £22 million predominantly related to a receipt following HMRC's agreement of the patent box claims. GLS income tax paid of £42 million was £6 million higher than the prior period due to increased tax payments on account following the Rosenau Transport acquisition and the timing of payments across other jurisdictions.

The capital element of operating lease repayments of £92 million (H1 2021-22: £80 million) reflects the net impact on in-year trading cash flow as a result of adopting IFRS 16. The increase is due to new leases in the current and prior year. Excluding the capital element of operating lease repayments, in-year trading cash flow was a £235 million outflow (H1 2021-22: £181 million inflow).

13. The comparative transformation and maintenance spend has been re-presented to reflect the reallocation of certain projects from maintenance to transformation following a review of the portfolio.

Net debt¹

A reconciliation of net debt is set out below.

(£m)	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021
Net debt brought forward at 28 March 2022 and 29 March 2021	(985)	(457)
Free cash flow	(195)	260
In-year trading cash flow ^{14, 15}	(143)	261
Cash cost of operating specific items	(54)	(3)
Proceeds from disposal of property (excluding Estate Upgrade Programme ¹⁵ and London Development Portfolio) plant and equipment	2	5
Proceeds from disposal of property relating to the Estate Upgrade Programme	8	-
Acquisition of business interests	(4)	-
Cash flows relating to London Development Portfolio	(4)	(3)
Purchase of own shares	-	(10)
Movement in GLS client cash ¹⁶	(3)	(6)
New or increased lease obligations under IFRS 16 (non-cash)	(87)	(225)
Foreign currency exchange impact	(75)	(2)
Dividends paid to equity holders of the Parent Company	(127)	(100)
Net debt carried forward	(1,472)	(540)
Operating leases ¹⁷	1,322	1,225
Pre-IFRS 16 net (debt)/cash¹⁸	(150)	685

1. Reported results are prepared in accordance with IFRS. In addition, the Group's performance is explained through the use of APMs that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are also consistent with the way financial performance is measured by management and reported to the Board. The APMs used are explained in the section entitled 'Presentation of results and Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

14. The comparative in-year trading cash flow has been re-presented following the re-allocation of deferred revenue (including SITHOP) from other working capital to trading working capital to reflect the trading nature of this balance. GLS client cash movements, which were previously disclosed in other working capital are now presented separately outside of free cash flow. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022.
15. Capital expenditure on the properties in this programme is funded via the disposal of other properties, the capital expenditure is presented within in-year trading cash flow.
16. GLS client cash movements are presented as part of the working capital movements line in the statutory cashflow. The movement in the period excluding foreign currency exchange impacts is £3 million (H1 2021-22: £6 million). The foreign currency movement on GLS client cash in the period was a gain of £3 million (H1 2021-22: £nil) which is included in the £75 million foreign currency exchange impact line in the table (H1 2021-22: £2 million).
17. This amount represents leases that would not have been recognised on the Balance Sheet prior to the adoption of IFRS 16.
18. This measure is considered as the Group's banking covenants are calculated on a pre-IFRS 16 basis.

The cash cost of operating specific items was an outflow of £54 million (H1 2021-22: £3 million outflow) consisting mainly of the Ofcom Regulatory fine payment of £52 million and Industrial Diseases claims of £2 million. The prior period consisted of £2 million for Industrial Diseases claims and £1 million relating to National Insurance payments for Employee Shares.

Acquisition of business interests of £4 million outflow relates mainly to the acquisition of Tousfacteurs (£5 million) offset by a purchase price refund in respect of the acquisition of Rosenau Transport in the previous year.

The net cash outflows relating to the London Development Portfolio were £4 million (H1 2021-22: £3 million). Further details are provided in the London Development Portfolio section.

The amount of GLS client cash held at 25 September 2022 was £36 million (H1 2021-22: £35 million).

New or increased lease obligations under IFRS 16 of £87 million (H1 2021-22: £225 million) relate to additional lease commitments that were entered into during the period. Property lease additions, modifications and acquisitions totalled £71 million (H1 2021-22: £205 million). Lease obligations have also increased by £16 million (H1 2021-22: £20 million) as a result of vehicle and plant and machinery additions.

London Development Portfolio

In total we have invested £4 million in the period on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

1) Mount Pleasant

This development site includes the sale of 6.25 acres to develop c.680 residential units. In 2017 an agreement was reached with Taylor Wimpey UK Ltd (Taylor Wimpey) for the sale of the Calthorpe Street development site, subject to specific separation and enabling works for the site being completed. The sale was completed, and the site handed over to Taylor Wimpey in March 2021, following the successful completion of the separation and enabling works. The combined proceeds for the Calthorpe Street site, and the adjacent Phoenix Place site (sold to Taylor Wimpey in 2017-18) was £193.5 million (including £3.5 million non-cash consideration). For accounting purposes, £39.5 million of the proceeds were allocated to Phoenix Place and £154 million to Calthorpe Street. £115 million of the total combined cash proceeds for both sites has been received as at 25 September 2022 (no proceeds were received in the current period). The remainder of the cash is due to be received through a stage payment in 2023-24 (£66 million) and a final payment in 2024-25 (£9 million).

2) Nine Elms

This site covers the sale of 13.9 acres with planning consent to develop 1,911 residential units, split into various plots:

- Plots B and D sale completed June 2019 for £101 million to Greystar Real Estate Partners, LLC.
- Plot C1 sale completed June 2019 for £22.2 million to Galliard Homes.
- Plot A sale completed December 2020.
- Plots E, F and G sale completed January 2022 for £111.2 million to London Square Developments Ltd.

Further investment by Royal Mail will be required in relation to infrastructure obligations.

Pensions

Royal Mail makes contributions to two main schemes in the UK; the Royal Mail Defined Contribution Plan (RMDCP), and the DBCBS of the Royal Mail Pension Plan.

The Group also operates two additional UK defined benefit schemes which are closed to future accrual, the legacy section of the RMPP, and the Royal Mail Senior Executives Pension Plan (RMSEPP).

The buy-out of the RMSEPP was completed in June 2022, when the bulk annuity policies held were exchanged for individual policies between the insurers and all remaining members.

The Group's obligations under the RMSEPP have now been fully extinguished and the Group expects to proceed to wind up the plan in the coming months. The scheme still holds residual assets of £9 million which are expected to be returned to the Group following the wind up of the scheme subject to the payment of any remaining closure expenses and the deduction of withholding tax.

Royal Mail also aims to introduce a new pension scheme, the Royal Mail Collective Pension Plan (RMCPP) which will replace the existing DBCBS and the RMDCP and will comprise a Defined Benefit Lump Sum Section (DBLS), similar to the existing DBCBS, and a Collective Defined Contribution (CDC) Section. The Trustee has now submitted an application to the Pensions Regulator for authorisation.

The CDC Section will be accounted for as a defined contribution scheme and the DBLS as a defined benefit scheme with the accounting treatment expected to be similar to the DBCBS. The new arrangements will have fixed employer contributions of 13.6%, plus an additional 1.0% for employees who choose to save for an additional lump sum payment. Standard employee contributions will be 6.0%.

Cash pension costs

The Group's cash pension costs in respect of all UK pension schemes were £196 million in the period, excluding Pension Salary Exchange (PSE).

When the design of the RMCPP was agreed in 2018, the fixed employer contribution rate of 13.6% of pensionable pay was designed to be affordable and sustainable for Royal Mail. The expected cost of RMCPP based on pensionable payroll at that time was approximately the same as the cost of the existing schemes, at around £400 million per year. The new RMCPP is expected to increase cash payroll costs by c.£30 million per annum, based on 2021-22 payroll, when it is introduced. The main reason for the increase is that although the estimated cost of the RMCPP as a percentage of pensionable pay will remain broadly the same as in 2018, payroll costs have increased. In addition, since the RMPP closed to accrual in 2018, the cost of existing plans has been reducing over time relative to overall pay costs, as DBCBS members leave and are replaced by new employees who join the RMDCP, at a lower employer contribution rate.

Defined benefit schemes – balance sheet position

An IAS 19 deficit of £188 million (27 March 2022: £390 million) is shown on the balance sheet in respect of the DBCBS; however, the scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The significant decrease in the deficit in the period is largely due to a considerable increase in the 'real' discount rate (the difference between RPI and the discount rate based on corporate bond yields), as a result of a large increase in corporate bond yields at the balance sheet date, versus the year end which has had the effect of significantly reducing liabilities.

The RMPP scheme closed to future accrual in its previous form from 31 March 2018. The pre-withholding tax accounting surplus of the legacy section of the RMPP at 25 September 2022 was £2,897 million (27 March 2022: £4,182 million). The pre-withholding tax accounting surplus has decreased by £1,285 million in the period. This was the result of a significant increase in index-linked gilt yields, against which the RMPP liabilities are hedged, driving a large proportion of the £3,805 million reduction in the value of this section's assets. This movement was however to a large degree offset by a significant increase in the 'real' discount rate driving a large proportion of an overall £2,520 million reduction to the value of the RMPP's calculated liabilities versus the year end. Although the surplus has decreased in absolute terms, the funding level on an accounting basis (assets as a proportion of liabilities) has improved since the year end as a result of the significant decrease in liabilities.

Further details of all the Group's pension arrangements can be found in Note 7 to the Consolidated Financial Statements.

Dividends

A final dividend for FY 2021-22 of 13.3 pence per share was paid on 6 September 2022. No FY 2022-23 interim dividend to be paid.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMs)

The Group uses certain APMs in its financial reporting that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information.

These APMs are not a substitute for, or superior to, any IFRS measures of performance. They are used by Management, who considers them to be an important means of comparing performance period-on-period and are key measures used within the business for assessing performance.

APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Where appropriate, reconciliations to the nearest GAAP measure have been provided. The APMs used may not be directly comparable with similarly titled APMs used by other companies.

A full list of APMs used are set out in the section entitled 'Alternative Performance Measures'.

Reported to adjusted results

The Group makes adjustments to results reported under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment. Management believes this is a useful basis upon which to analyse the business' underlying performance (in particular given the volatile nature of the IAS 19 charge) and is consistent with the way financial performance is reported to the Board.

Further details on specific items excluded from adjusted operating profit are included in the paragraph 'Specific items and pension charge to cash difference adjustment' in the Financial Review. A reconciliation showing the adjustments made between reported and adjusted Group results can be found in the section headed 'Consolidated reported and adjusted results'.

Presentation of results

Consolidated reported and adjusted results

The following table reconciles the consolidated reported results, prepared in accordance with IFRS, to the consolidated 26 week adjusted results.

Group (£m)	26 weeks ended 25 September 2022			26 weeks ended 26 September 2021		
	Reported	Specific items and pension adjustment ¹	Adjusted	Reported	Specific items and pension adjustment ¹	Adjusted
Revenue	5,838	-	5,838	6,072	-	6,072
Operating costs	(5,967)	(72)	(5,895)	(5,751)	(83)	(5,668)
People costs	(3,254)	(72)	(3,182)	(3,165)	(83)	(3,082)
Non-people costs	(2,713)	-	(2,713)	(2,586)	-	(2,586)
Distribution and conveyance costs	(1,741)	-	(1,741)	(1,691)	-	(1,691)
Infrastructure costs	(556)	-	(556)	(504)	-	(504)
Other operating costs	(416)	-	(416)	(391)	-	(391)
Operating (loss)/profit before specific items	(129)	(72)	(57)	321	(83)	404
Operating specific items ¹ :						
GLS VAT adjustments	(33)	(33)	-	-	-	-
Amortisation of intangible assets in acquisitions	(10)	(10)	-	(8)	(8)	-
Legacy/other items	9	9	-	(2)	(2)	-
Operating (loss)/profit	(163)	(106)	(57)	311	(93)	404
Profit/(loss) on disposal of property, plant and equipment (non-operating specific item) ¹	6	6	-	(2)	(2)	-
(Loss)/profit before interest and tax	(157)	(100)	(57)	309	(95)	404
Finance costs	(30)	-	(30)	(29)	-	(29)
Finance income	7	-	7	3	-	3

Net pension interest (non-operating specific item) ¹	53	53	-	32	32	-
(Loss)/profit before tax	(127)	(47)	(80)	315	(63)	378
Tax credit/(charge)	41	31	10	(45)	30	(75)
(Loss)/profit for the period	(86)	16	(70)	270	(33)	303
Earnings per share (pence)						
Basic	(9.0)p	(1.7)p	(7.3)p	27.0p	(3.3)p	30.3p
Diluted	(9.0)p	(1.7)p	(7.3)p	26.9p	(3.3)p	30.2p

Segmental reported results

The following table presents the segmental reported results, prepared in accordance with IFRS.

Group (£m)	26 weeks ended 25 September 2022				26 weeks ended 26 September 2021			
	Royal Mail	GLS	Intragroup eliminations	Group	Royal Mail	GLS	Intragroup eliminations	Group
Revenue	3,647	2,200	(9)	5,838	4,074	2,010	(12)	6,072
People costs	(2,765)	(489)	-	(3,254)	(2,734)	(431)	-	(3,165)
Non-people costs	(1,173)	(1,549)	9	(2,713)	(1,188)	(1,410)	12	(2,586)
Operating (loss)/profit before specific items	(291)	162	-	(129)	152	169	-	321
Operating specific items ¹	8	(42)	-	(34)	(2)	(8)	-	(10)
Operating (loss)/profit	(283)	120	-	(163)	150	161	-	311
Profit/(loss) on disposal of property, plant and equipment (non-operating specific item) ¹	5	1	-	6	(3)	1	-	(2)
Earnings before interest and tax	(278)	121	-	(157)	147	162	-	309
Net finance costs	(14)	(9)	-	(23)	(20)	(6)	-	(26)
Net pension interest (non-operating specific item) ¹	53	-	-	53	32	-	-	32
(Loss)/profit before tax	(239)	112	-	(127)	159	156	-	315
Tax credit/(charge)	77	(36)	-	41	(9)	(36)	-	(45)
(Loss)/profit for the period	(162)	76	-	(86)	150	120	-	270

1. Details of specific items and the pension adjustment can be found under 'Specific items and pension charge to cash difference adjustment' in the Financial Review.

Alternative Performance Measures

APMs used in this report are consistent with the 2021-22 Annual Report. Updates to any APMs and reconciliations to IFRS measures are set out in the section below.

Earnings before interest, tax, depreciation and amortisation (EBITDA) before specific items

EBITDA is reported operating profit before specific items with depreciation and amortisation added back.

Adjusted EBITDA is EBITDA before specific items with the pension charge to cash difference adjustment added back. This measure is used by management to assess the underlying trading performance as it removes volatility caused by specific items. The true trading position can also be observed due to the exclusion of depreciation and amortisation.

The following table reconciles adjusted EBITDA to reported operating profit before specific items.

(£m)	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021
Reported operating (loss)/profit before specific items	(129)	321

Depreciation and amortisation	296	267
EBITDA before specific items	167	588
Pension charge to cash difference adjustment	72	83
Adjusted EBITDA	239	671

Pension charge to cash difference adjustment

This adjustment represents the difference between the total IAS 19 income statement pension charge and the cost of the Group's cash contributions to the schemes recognised in the income statement in the period. Management believes this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash costs of the pension plans in the adjusted operating profit of the Group.

This largely represents the difference between the IAS 19 income statement pension charge rate of 23.3% (H1 2021-22: 24.4%) for the DBCBS and the cash contribution rate agreed with the Trustee of 15.6% (H1 2021-22: 15.6%).

Free cash flow

Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments and GLS client cash movements. GLS client cash movements were previously presented in FCF but have now been removed as this better reflects cash movements available to the Group. As a result, the comparative period has been re-presented. This presentation has been adopted since the year ended 27 March 2022. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base, thus is useful for Management in assessing liquidity. FCF is also shown on a pre-IFRS 16 basis as it is used to support dividend cover analysis, taking into account all cash flows related to the operating businesses.

The following table reconciles free cash flow to the nearest IFRS measure 'net cash inflow before financing activities'.

	Reported 26 weeks ended 25 September 2022	Re-presented Reported 26 weeks ended 26 September 2021
(£m)		
Net cash (outflow)/inflow before financing activities	(95)	246
Adjustments for:		
Finance costs paid	(33)	(32)
Movement in GLS client cash ¹	3	6
(Sale)/purchase of financial asset investments	(70)	40
Free cash flow	(195)	260
Capital element of operating lease repayments ²	(92)	(80)
Pre-IFRS 16 free cash flow	(287)	180

1. The movement in GLS client cash is shown excluding foreign currency exchange gain of £3 million (H1 2021-22: £nil).

2. The capital element of lease payments of £100 million (H1 2021-22: £91 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £92 million (H1 2021-22: £80 million) and the capital element of finance lease payments of £8 million (H1 2021-22: £11 million).

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude movements in GLS client cash and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions, net finance payments and dividends received from associates. The prior period has been re-presented to reflect the re-allocation of deferred revenue (including SITHOP) into trading working capital (included within net cash inflow from operating activities). These balances were previously excluded from in-year trading cash flow as part of other working capital movements. This presentation is consistent with the presentation that has been adopted since the year ended 27 March 2022. In-year trading cash flow is used primarily by Management to show cash being generated by operations less cash investment. In-year trading cash flow is also shown on a pre-IFRS 16 basis as it is used to support dividend cover and covenant analysis.

The following table reconciles in-year trading cash flow to the nearest IFRS measure 'net cash inflow from operating activities'.

	Reported 26 weeks ended 25 September	Re-presented Reported 26 weeks ended 26 September
(£m)		

	2022	2021
Net cash (outflow)/inflow from operating activities	(13)	471
Adjustments for:		
Movement in GLS client cash ¹	3	6
Cash cost of operating specific items	54	3
Purchase of property, plant and equipment	(120)	(162)
Purchase of intangible assets	(41)	(32)
Dividends received from associates	-	5
Net finance costs paid	(26)	(30)
In-year trading cash flow	(143)	261
Capital element of operating lease repayments ²	(92)	(80)
Pre-IFRS 16 in-year trading cash flow	(235)	181

1. The movement in GLS client cash is shown excluding foreign currency exchange gain of £3 million (H1 2021-22: £nil).

2. The capital element of lease payments of £100 million (H1 2021-22: £91 million) shown in the statutory cash flow is made up of the capital element of operating lease payments of £92 million (H1 2021-22: £80 million) and the capital element of finance lease payments of £8 million (H1 2021-22: £11 million).

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. Management consider this APM to be useful as it is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Net debt is also shown on a pre-IFRS 16 basis as the banking covenants are calculated on a pre-IFRS 16 basis.

A reconciliation of net debt to reported balance sheet line items is shown below.

(£m)	At 25 September 2022	At 27 March 2022
Loans/bonds	(933)	(872)
Leases	(1,364)	(1,341)
Cash and cash equivalents	768	1,101
Investments	-	70
GLS Client cash	36	36
Pension escrow (RMSEPP)	21	21
Net debt	(1,472)	(985)
Operating leases ¹	1,322	1,292
Pre-IFRS 16 net (debt)/cash	(150)	307

1. This amount represents leases that would not have been recognised on the Balance Sheet prior to the adoption of IFRS 16.

Loans and bonds increased by £61 million, largely as a result of exchange rate movements on the value of bonds.

Cash and cash equivalents and Investments decreased by £403 million, largely as a result of free cash outflow of £195 million (FY 2021-22: £420 million inflow), the payment of £127 million in external dividends (FY 2021-22: £366 million) and by the capital element of lease repayments of £100 million (FY 2021-22: £192 million). In FY 2021-22 there were also outflows relating to the share buyback (£201 million) and purchase of own shares for awards schemes (£17 million).

Net debt excludes £193 million (FY 2021-22: £192 million) related to the RMPP pension scheme of the total £214 million (FY 2021-22: £213 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

Adjusted effective tax rate

The adjusted effective tax rate is the adjusted tax charge or credit for the period expressed as a proportion of adjusted profit before tax. The adjusted effective tax rate is considered by Management to be a useful measure of the tax impact for the period. It approximates to the tax rate on the underlying trading business through the exclusion of specific items, including the pension charge to cash difference adjustment.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

	Notes	Reported 26 weeks ended 25 September 2022 £m	Reported 26 weeks ended 26 September 2021 £m
Continuing operations			
Revenue	2	5,838	6,072
Operating costs^{1,2}		(5,967)	(5,751)
People costs	3	(3,254)	(3,165)
Distribution and conveyance costs		(1,741)	(1,691)
Infrastructure costs		(556)	(504)
Other operating costs		(416)	(391)
Operating (loss)/profit before specific items²		(129)	321
Operating specific items ²	4		
GLS VAT adjustments		(33)	-
Amortisation of intangible assets in acquisitions		(10)	(8)
Legacy/other items		9	(2)
Operating (loss)/profit		(163)	311
Profit/(loss) on disposal of property, plant and equipment (non-operating specific item) ²	4	6	(2)
(Loss)/profit before interest and tax		(157)	309
Finance costs		(30)	(29)
Finance income		7	3
Net pension interest (non-operating specific item) ²	4	53	32
(Loss)/profit before tax		(127)	315
Tax credit/(charge)	5	41	(45)
(Loss)/profit for the period		(86)	270
Earnings per share	6		
Basic		(9.0)p	27.0p
Diluted		(9.0)p	26.9p

¹ Operating costs are stated before operating specific items which comprise: GLS VAT adjustments, amortisation of intangible assets in acquisitions and legacy/other items.

² Details of Alternative Performance Measures (APMs) are provided in the Financial Review.

Condensed consolidated statement of comprehensive income

		Reported 26 weeks ended 25 September 2022 £m	Reported 26 weeks ended 26 September 2021 £m
	Notes		
(Loss)/profit for the period		(86)	270
Other comprehensive (expense)/income for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		(681)	(8)
Withholding tax adjustment relating to the defined benefit surplus	7	450	(20)
Remeasurement (losses)/gains of the surplus in RMPP and RMSEPP	7	(1,338)	23
Remeasurement gains/(losses) of the deficit in DBCBS	7	276	(27)
Deferred tax		(69)	16
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		84	2
Exchange differences on translation of foreign operations (GLS)		114	3
Net loss on hedge of a net investment (€500 million bond)		(29)	(1)
Net loss on hedge of a net investment (Euro-denominated lease payables)		(1)	-
Designated cash flow hedges		49	32
Gain on cash flow hedges deferred into equity		88	37
(Gain)/loss on cash flow hedges released from equity to income		(40)	1
Loss released from equity to the carrying value of non-financial assets		3	-
Gain on cross currency swap cash flow hedge deferred into equity		10	-
Loss on cross currency swap cash flow hedge released from equity to income – interest payable		4	4
Gain on cost of hedging deferred into equity		1	-
Gain on cost of hedging released from equity to income – interest payable		(1)	(1)
Tax on above items		(16)	(9)
Total other comprehensive (expense)/income for the period		(548)	26
Total comprehensive (expense)/income for the period		(634)	296

Condensed consolidated balance sheet

	Notes	Reported At 25 September 2022 £m	Reported At 27 March 2022 £m
Non-current assets			
Property, plant and equipment		3,655	3,571
Goodwill		472	428
Intangible assets		473	488
Investment in associates		1	1
Financial assets	8		
Pension escrow investments		214	213
Derivatives		62	30
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	7	1,889	2,723
Other receivables		94	94
Deferred tax assets		93	116
		6,953	7,664
Assets held for sale		1	-
Current assets			
Inventories		44	34
Trade and other receivables		1,541	1,659
Income tax receivable		38	41
Financial assets	8		
Investments		-	70
Derivatives		101	74
Cash and cash equivalents	8	804	1,137
		2,528	3,015
Total assets		9,482	10,679
Current liabilities			
Trade and other payables		(2,168)	(2,332)
Financial liabilities	8		
Lease liabilities		(213)	(213)
Derivatives		(3)	(8)
Income tax payable		(10)	(10)
Provisions	9	(58)	(176)
		(2,452)	(2,739)
Non-current liabilities			
Financial liabilities	8		
Interest-bearing loans and borrowings		(933)	(872)
Lease liabilities		(1,151)	(1,128)
Derivatives		-	(36)
DBCBS retirement benefit deficit	7	(188)	(390)
Provisions	9	(84)	(94)
Other payables		(38)	(32)
Deferred tax liabilities		(62)	(54)
		(2,456)	(2,606)
Total liabilities		(4,908)	(5,345)
Net assets		4,574	5,334
Equity			
Share capital		10	10
Retained earnings		4,355	5,248
Other reserves		209	76
Total equity		4,574	5,334

Condensed consolidated statement of changes in equity

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 28 March 2021	10	4,802	7	(14)	4,805
Profit for the period	-	270	-	-	270
Other comprehensive (expense)/ income for the period	-	(8)	2	32	26
Total comprehensive income for the period	-	262	2	32	296
Dividend paid to equity holders of the Parent Company	-	(100)	-	-	(100)
Share-based payments					
Employee Free Shares issue	-	1	-	-	1
Long-Term Incentive Plan (LTIP)	-	1	-	-	1
Deferred Share Bonus Plan (DSBP)	-	1	-	-	1
Purchase of own shares ¹	-	(10)	-	-	(10)
Reported at 26 September 2021	10	4,957	9	18	4,994
Profit for the period	-	342	-	-	342
Other comprehensive income/(expense) for the period	-	422	(2)	51	471
Total comprehensive income/(expense) for the period	-	764	(2)	51	813
Transactions with owners of the Company, recognised directly in equity					
Purchase of own shares ¹	-	(7)	-	-	(7)
Share buyback	-	(201)	-	-	(201)
Dividend paid to equity holders of the Parent Company	-	(266)	-	-	(266)
Share-based payments					
Long-Term Incentive Plan (LTIP)	-	1	-	-	1
Reported at 27 March 2022	10	5,248	7	69	5,334
Loss for the period	-	(86)	-	-	(86)
Other comprehensive (expense)/income for the period	-	(681)	84	49	(548)
Total comprehensive (expense)/income for the period	-	(767)	84	49	(634)
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the Parent Company	-	(127)	-	-	(127)
Share-based payments					
Employee Free Shares issue	-	1	-	-	1
Reported at 25 September 2022	10	4,355	91	118	4,574

¹ Purchase in respect of employee share schemes.

Condensed consolidated statement of cash flows

	Notes	Reported 26 weeks ended 25 September 2022 £m	Reported 26 weeks ended 26 September 2021 £m
Cash flow from operating activities			
(Loss)/profit before tax		(127)	315
Adjustment for:			
Net pension interest		(53)	(32)
Net finance costs		23	26
(Profit)/loss on disposal of property, plant and equipment		(6)	2
GLS VAT adjustments		33	-
Amortisation of intangible assets in acquisitions		10	8
Legacy/other items		(9)	2
Operating (loss)/profit before specific items¹		(129)	321
Adjustment for:			
Depreciation and amortisation		296	267
EBITDA before specific items¹		167	588
Working capital movements		(178)	(146)
Increase in inventories		(8)	(3)
Decrease in receivables		163	95
Decrease in payables		(233)	(222)
Net increase in derivatives		(35)	(5)
Decrease in provisions (non-specific items)	9	(65)	(11)
Pension charge to cash difference adjustment	7	72	83
Share-based awards (LTIP and DSBP) charge		-	2
Cash cost of operating specific items		(54)	(3)
Cash inflow from operations		7	524
Income tax paid		(20)	(53)
Net cash (outflow)/inflow from operating activities		(13)	471
Cash flow from investing activities			
Dividend received from associate undertaking		-	5
Finance income received		7	2
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		10	5
London Development Portfolio net costs (non-operating specific item)		(4)	(3)
Purchase of property, plant and equipment		(120)	(162)
Purchase of intangible assets (software)		(41)	(32)
Acquisition of business interests, net of cash acquired		(5)	-
Purchase price refund in respect of prior years' acquisitions		1	-
Sale/(purchase) of financial assets investments (current)		70	(40)
Net cash outflow from investing activities		(82)	(225)
Net cash (outflow)/inflow before financing activities		(95)	246
Cash flow from financing activities			
Finance costs paid		(33)	(32)
Purchase of own shares		-	(10)
Payment of capital element of obligations under lease contracts		(100)	(91)
Dividend paid to equity holders of the parent Company		(127)	(100)
Net cash outflow from financing activities		(260)	(233)
Net (decrease)/increase in cash and cash equivalents		(355)	13
Effect of foreign currency exchange rates on cash and cash equivalents		22	1
Cash and cash equivalents at the beginning of the period		1,137	1,573
Cash and cash equivalents at the end of the period		804	1,587

¹ Details of Alternative Performance Measures (APMs) are provided in the Financial Review.

Notes to the condensed consolidated financial statements

1. Basis of preparation

The comparative figures for the 52 weeks ended 27 March 2022 are not the Company's statutory accounts for that financial period. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, this condensed consolidated set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the 52 weeks ended 27 March 2022, which were prepared in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

This condensed consolidated set of unaudited financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK i.e. on a 'Reported' basis. The Group's financial reporting period ends on the last Sunday in September and, accordingly, these Financial Statements are prepared for the 26 weeks ended 25 September 2022 (2021-22: 26 weeks ended 26 September 2021). GLS' reporting half year-end date is 30 September each year. There were no significant transactions between the respective reporting dates that required adjustment in the Financial Statements.

In some instances, Alternative Performance Measures (APMs) are used by the Group. This is because Management is of the view that these APMs provide a useful basis on which to analyse business performance and is consistent with the way that financial performance is measured by Management and reported to the Board. Details of the Group's APMs are included in the Financial Review.

Going Concern

In assessing the going concern status of the Group, the Directors are required to look forward a minimum of 12 months from the date of approval of these financial statements to consider whether it is appropriate to prepare the financial statements on a going concern basis. The Directors have reviewed business activities, together with factors likely to affect its future development and performance, as well as the Group's principal risks and uncertainties.

The Board has concluded that it is appropriate to adopt the going concern basis having undertaken a rigorous assessment of the financial forecasts, with specific consideration of the trading position of the Group in the context of the current global economic environment, and the industrial relations landscape in relation to the UK business, for the reasons as set out below.

At 25 September 2022 the Group had total assets less current liabilities of £7 billion and net assets of £4.6 billion. Liquidity available as at that date was £1.7 billion (excluding GLS client cash and RMSEPP pension escrow), made up of cash at bank £400 million, cash equivalent investments of £368 million and committed and an undrawn bank syndicate loan facility of £925 million - available until September 2026. The bank syndicate loan facility contains financial covenants.

In its assessment of going concern over the 12 months from 17 November 2022 (the 'going concern period'), the Group has modelled two scenarios referred to below as the Base Case and the Downside Case. The GLS Base Case aligns with their Accelerate strategy. The Royal Mail Base Case takes into account the Board's and Management's views on the anticipated impact and recovery from industrial action in relation to Royal Mail, across the going concern period.

1. Basis of preparation (continued)

The key inputs and assumptions underlying the Base Case include the economic impact driven by the ongoing macro-economic headwinds in both Royal Mail and GLS and the impact of industrial action taking place in Royal Mail. It also assumes the costs and associated benefits from the activity required to transform Royal Mail into a more efficient parcels-focused operation. This transformational activity includes the costs required to rightsize the operation, including the impact of c.5,000-6,000 voluntary redundancies as announced on 14 October 2022. The Base Case also assumes no dividend payment over the going concern period, although there is sufficient headroom to introduce a final dividend financed by earnings in GLS for 2022-23. The Board will consider this, subject to progress made, in May 2023. The €500 million bond, with a maturity date of July 2024 (outside of the going concern assessment period), will be refinanced, but at a higher cost reflecting current market conditions.

In the Base Case it is projected that the Group will have sufficient cash and liquidity and although covenant headroom given the scale of the business would be marginal over the going concern period, the £925 million bank syndicate loan facility would remain available, as covenants would not be breached.

The Downside Case applies further stress to the Base Case to model further deteriorating economic and market conditions impacting GLS and either further deteriorating economic conditions or further industrial action beyond what has already been modelled in the Base Case in relation to Royal Mail. The Directors believe that the downside is a severe but plausible scenario, recognising that the Base Case already anticipates significant negative impacts from the weak economy and industrial action, and also having regard to the extent to which capacity exists in the market to absorb volumes that customers may seek to direct to Royal Mail's competitors.

If the severe but plausible scenario were to materialise, the Directors would be required to take mitigating actions to preserve cash and maintain liquidity by building covenant headroom. The Directors have identified a number of mitigations, all within Management's control, to reduce costs and optimise the Group's cash flow, liquidity and covenant headroom.

Whilst the Group is already undertaking actions to conserve cash, including reduction in capital expenditure, reduction in discretionary expenditure and working capital initiatives, a number of the mitigations in the downside would only be triggered in the event of the severe downside scenario materialising. The mitigating actions include:

- reducing capital and investment expenditure through postponing or pausing projects and change activity;
- deferring or cancelling discretionary spend (including management bonus, reducing marketing spend and reductions in overtime and agency spend);
- delaying implementation of the new pension scheme which has a higher cost to the Group;
- reducing the terms for voluntary redundancy payments over and above those currently being negotiated;
- pricing actions; and
- should the current pay offer not be accepted, resulting in further strike action, the timing and amount of the cashflows in respect of certain elements of the pay offer would need to be revisited.

The Directors have assessed the Group's financial commitments and consider that in the Downside Case, after taking into account mitigations and cash generated from operations and existing facilities, the business is forecast to have sufficient cash and liquidity. Whilst covenant headroom given the scale of the business would be marginal over the going concern period, the covenant would not breach, ensuring sufficient liquidity to continue to operate and to discharge its liabilities as they fall due over the going concern assessment period.

Having reviewed the Base Case, and Downside Case, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence over the going concern assessment period and hence continue to adopt the going concern basis in preparing the financial statements.

1. Basis of preparation (continued)

New accounting standards and interpretations in 2022-23

No new UK Accounting Standards, which affect the presentation of these condensed consolidated financial statements, have been issued.

Key sources of estimation uncertainty and critical accounting judgements

The preparation of the condensed consolidated financial statements 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 significant judgements and estimates applied by the Group in these condensed consolidated financial statements are consistent with those applied in the Annual Report and Financial Statements 2021-22 with the exception of the impairment assessment of the Royal Mail UK excluding Parcelforce Worldwide cash generating unit (CGU) and Going Concern (see previous page).

Impairment assessment – Royal Mail UK excluding Parcelforce Worldwide CGU

As a result of the poor trading performance of the Royal Mail UK business, exacerbated by industrial action, Management identified an indicator of impairment, and as a result performed an impairment assessment of the Royal Mail excluding Parcelforce Worldwide CGU ('the CGU').

In assessing whether the CGU was impaired, the carrying value of the CGU of £1,412 million was compared to its recoverable amount. As required by IAS 36, for the purpose of assessing whether the CGU is impaired, the recoverable amount of the CGU should be considered as the higher of value in use (VIU) and its fair value less costs of disposal (FVLCD).

Royal Mail's strategy is to transform the business into a more efficient parcels-focused operation and the future cash flows in the three-year business plan reflects both the costs and benefits associated with this transformation. Under the VIU calculation, estimates of future cash flows should not include cash inflows or outflows that are expected to arise from a future restructuring or improving or enhancing the assets which an entity is not yet committed at the balance sheet date. The VIU approach, after adjusting for the restructuring and transformational cash flows, resulted in a valuation below the carrying value of the CGU.

Management therefore assessed the recoverability of the CGU using the alternative FVLCD methodology. This considers a discounted cash flow modelling from the perspective of a 'market participant' i.e. a buyer transacting in the principal market for an asset of this type.

The assumptions used by management in estimating the FVLCD are:

Discount rates

The discount rate is based on the UK-specific post tax discount rate of 11.0%, which is deemed to be the rate a normal market participant would use. The discount rate (13.3% pre-tax under VIU valuation) has increased since the 27 March 2022 year end date, reflecting the market volatility at the balance sheet reporting date of 25 September 2022.

Approved budget period

Forecast cash flows for the initial five-year period are based on the Board approved forecast for years one to three. For years four and five, Management have used judgement to determine the expectation of performance, based on revenue growth trajectory and cost inflation. The cashflows for years one to three reflect both restructuring and transformational cashflows required to transform the business.

1. Basis of preparation (continued)

Long-term growth rates

A long-term growth rate of 0.5% has been used for cash flows subsequent to the five-year plan period. This long-term growth rate is considered by Management to be a conservative rate, in that it is lower than the long-term historical growth rates of the industry.

The application of the FVLCD methodology as outlined above results in a valuation in excess of the carrying value of the CGU with significant headroom on the basis that Royal Mail delivers on its transformation programme. Therefore, Management has concluded that an impairment of the CGU is not required.

Sensitivity to changes in key assumptions

The valuation of the CGU is predominantly dependent upon judgements used in arriving at discount rates applied to cash flow projections, and delivery of the transformational cashflows in the plan. Management have modelled a number of sensitivities individually including an increase in the discount rate and non-execution of a proportion of the transformational cashflow benefits. An increase in the discount rate to 13% would reduce the headroom by c.£500 million. Assuming a proportion of the transformational benefits and associated cashflows are not realised, would reduce the headroom by c.£300 million. Whilst the sensitivities would reduce headroom there would still remain adequate headroom and would not result in an impairment charge for the half year ended 25 September 2022.

2. Segment information

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the International Distributions Services plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

The key measure of segment performance is operating profit before specific items (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis i.e. excluding specific items and the pension charge to cash difference adjustment, which is consistent with how financial performance is measured internally and reported to the CODM.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed.

Seasonality

Parcel and letter volumes are subject to seasonal variation. The Group's busiest period is from September to December, when there is: typically an increase in marketing mail as businesses seek to maximise sales in the period leading up to Christmas; an increase in parcel volumes as a result of online Christmas shopping; and an increase in addressed letter volumes as a result of the delivery of Christmas cards. During this period, Royal Mail and GLS would expect to record higher revenue, as greater volumes of parcels and letters are delivered through their respective networks. We also incur higher costs, particularly in Royal Mail as we hire large numbers of temporary workers to assist in handling the increased workload.

Other seasonal factors that can affect the Group's results include the Easter period, the number of bank holidays in a reporting period and weather conditions. Typically, late spring and summer months are less busy in Royal Mail and GLS.

2. Segment information (continued)

26 weeks ended 25 September 2022	Adjusted				Specific items and pension adjustment		Reported
	Royal Mail £m	GLS £m	Eliminations ¹ £m	Group £m	Royal Mail £m	GLS £m	Group £m
Continuing operations							
Revenue	3,647	2,200	(9)	5,838	-	-	5,838
People costs	(2,693)	(489)	-	(3,182)	(72)	-	(3,254)
Non-people costs	(1,173)	(1,549)	9	(2,713)	-	-	(2,713)
Operating (loss)/profit before specific items	(219)	162	-	(57)	(72)	-	(129)
Operating specific items							
GLS VAT adjustments	-	-	-	-	-	(33)	(33)
Amortisation of intangible assets in acquisitions	-	-	-	-	(1)	(9)	(10)
Legacy/other items	-	-	-	-	9	-	9
Operating (loss)/profit	(219)	162	-	(57)	(64)	(42)	(163)
Profit on disposal of property, plant and equipment (non-operating specific item)	-	-	-	-	5	1	6
(Loss)/profit before interest and tax	(219)	162	-	(57)	(59)	(41)	(157)
Finance costs	(26)	(11)	7	(30)	-	-	(30)
Finance income	12	2	(7)	7	-	-	7
Net pension interest (non-operating specific item)	-	-	-	-	53	-	53
(Loss)/profit before tax	(233)	153	-	(80)	(6)	(41)	(127)

26 weeks ended 26 September 2021	Adjusted				Specific items and pension adjustment		Reported
	Royal Mail £m	GLS £m	Eliminations ¹ £m	Group £m	Royal Mail £m	GLS £m	Group £m
Continuing operations							
Revenue	4,074	2,010	(12)	6,072	-	-	6,072
People costs	(2,651)	(431)	-	(3,082)	(83)	-	(3,165)
Non-people costs	(1,188)	(1,410)	12	(2,586)	-	-	(2,586)
Operating profit/(loss) before specific items	235	169	-	404	(83)	-	321
Operating specific items							
Impairments	-	-	-	-	(2)	-	(2)
Amortisation of intangible assets in acquisitions	-	-	-	-	-	(8)	(8)
Operating profit/(loss)	235	169	-	404	(85)	(8)	311
Loss on disposal of property, plant and equipment (non-operating specific item)	-	-	-	-	(3)	1	(2)
Profit/(loss) before interest and tax	235	169	-	404	(88)	(7)	309
Finance costs	(25)	(7)	3	(29)	-	-	(29)
Finance income	5	1	(3)	3	-	-	3
Net pension interest (non-operating specific item)	-	-	-	-	32	-	32
Profit/(loss) before tax	215	163	-	378	(56)	(7)	315

¹ Revenue and non-people costs eliminations relate to intragroup trading between Royal Mail and GLS, due to Parcelforce Worldwide being GLS' partner in the UK. Finance costs/income eliminations relate to intragroup loans between Royal Mail and GLS.

3. People information

	Reported 26 weeks ended 25 September 2022 £m	Reported 26 weeks ended 26 September 2021 £m
Wages and salaries	(2,608)	(2,544)
Royal Mail	(2,170)	(2,160)
GLS	(438)	(384)
Pensions (see Note 7)	(368)	(367)
Royal Mail defined benefit plans (including administration costs)	(204)	(217)
Royal Mail defined contribution plan	(64)	(56)
Royal Mail defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions	(96)	(90)
GLS	(4)	(4)
Social security	(278)	(254)
Royal Mail	(231)	(211)
GLS	(47)	(43)
Total people costs	(3,254)	(3,165)

People numbers

The number of people employed, expressed as both full-time equivalents and headcount, during the reporting period was as follows:

	Full-time equivalents (FTEs) ¹				Headcount ²			
	Half-year end		Average		Half-year end		Average	
	26 weeks September 2022	26 weeks September 2021	26 weeks September 2022	26 weeks September 2021	26 weeks September 2022	26 weeks September 2021	26 weeks September 2022	26 weeks September 2021
Royal Mail	142,751	150,579	149,318	151,030	137,369	137,437	138,517	137,445
GLS	21,562	18,734	20,476	18,208	22,075	22,844	22,497	22,218
Total	164,313	169,313	169,794	169,238	159,444	160,281	161,014	159,663

¹ These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same period. GLS has changed its FTE calculation methodology in the reporting period to align better with Royal Mail. This change has been applied prospectively and no changes have been made to the prior year numbers stated.

² These people numbers are based on permanent employees.

4. Specific items and pension charge to cash difference adjustment

	26 weeks ended 25 September 2022	26 weeks ended 26 September 2021
Pension charge to cash difference adjustment (within People costs)	(72)	(83)
Operating specific items:		
GLS VAT adjustments	(33)	-
Amortisation of intangible assets in acquisitions	(10)	(8)
Legacy/other items	9	(2)
Total operating specific items	(34)	(10)
Non-operating specific items:		
Profit/(loss) on disposal of property, plant and equipment	6	(2)
Net pension interest	53	32
Total non-operating specific items	59	30
Total specific items and pensions adjustment before tax	(47)	(63)
Tax credit on certain specific items and the pension charge to cash difference	31	30

The pension charge to cash difference adjustment largely comprises the difference between the IAS 19 income statement pension charge rate of 23.3% (H1 2021-22: 24.4%) for the Defined Benefit Cash Balance Section (DBCBS) from 28 March 2022 and the actual cash contribution rate agreed with the Trustee of 15.6%. The charge was £72 million in the period (H1 2021-22: £83 million). The decrease in the IAS 19 pension charge rate is due to the increase in the net discount rate (versus CPI) between March 2021 and March 2022.

The £33 million (€39 million) in GLS relates to the expected settlement of VAT adjustments in Italy, covering the years 2016 through to 2021.

The legacy item relates to a £9 million credit in respect of Industrial Diseases claims, resulting from a significant increase since the year end to the rate at which liabilities are discounted (see Note 9 for further details). The prior period charge of £2 million related to Employee Free Share schemes and interest on the Ofcom fine.

The tax credit of £31 million (H1 2021-22: £30 million) includes a net credit of £14 million (H1 2021-22: £18 million) in relation to the tax effect of certain specific items and the pension charge to cash difference and, a net credit of £17 million (H1 2021-22: £12 million) in relation to the remeasurement of certain UK deferred tax assets and liabilities at the future UK corporation tax rate of 25%.

5. Taxation

The Group reported tax credit is £41 million (H1 2021-22: £45 million charge) on a reported loss before tax of £127 million (H1 2021-22: £315 million profit). This consists of a tax credit in Royal Mail of £77 million (H1 2021-22: £9 million charge) on a reported loss of £239 million (H1 2021-22: £159 million profit) and a tax charge in GLS of £36 million (H1 2021-22: £36 million) on a profit of £112 million (H1 2021-22: £156 million).

The tax credit in Royal Mail relates to the recognition of a deferred tax asset in respect of the reported loss. The Royal Mail reported effective tax rate is higher than the UK statutory rate mainly due to the remeasurement of deferred tax balances to the future UK statutory rate of 25%, the non-taxable net pension interest income on which there is no tax charge and the Super-deduction capital allowances claim which creates an enhanced credit for qualifying capital expenditure.

The GLS effective tax rate is higher than the statutory rate, mainly due to higher tax rates in some of the countries in which it operates and the expected settlement of VAT adjustments in Italy, for which no tax credit is assumed.

Details of the adjusted tax results and effective tax rates are provided in the Financial Review.

5. Taxation (continued)

Deferred tax assets

The Group assesses the recoverability of deferred tax assets at each reporting date. Given the loss incurred by Royal Mail during the period, there is increased uncertainty that future taxable profits will be generated to utilise those losses.

In assessing the recoverability of the deferred tax asset, Management have modelled the expected utilisation of the tax losses using profit forecasts. Forecast profits for the initial five-year period are based on the Board approved forecast for years one to three. For years four and five, Management have used judgement to determine the expectation of performance, based on revenue growth trajectory and cost inflation. The profits for years one to three reflect both restructuring and transformational changes required to transform the business. For the purposes of the tax modelling, Management have assumed that profits beyond year five will be maintained at the same level as year five. The modelling indicates that the losses will be utilised over the next seven years.

Sensitivity analysis was also undertaken which assumes a 25% worsening of operating profit relative to the approved forecasts. The sensitivity analysis shows the tax losses being utilised one year later. Given the expected utilisation of the losses within a reasonably foreseeable time period, Management are of the view that the Royal Mail net deferred tax asset should be fully recognised. Should the expected improvement in performance from the restructuring and transformational changes not arise as forecast, then the net deferred tax asset may be written off in future periods.

6. Earnings per share

	26 weeks ended 25 September 2022			26 weeks ended 26 September 2021		
	Specific items and pension adjustment ¹			Specific items and pension adjustment ¹		
	Reported	Adjusted		Reported	Adjusted	
Attributable to equity holders of the parent Company						
(Loss)/profit from continuing operations (£ million)	(86)	(16)	(70)	270	(33)	303
Weighted average number of shares issued (million)	956	n/a	956	1,000	n/a	1,000
Basic earnings per share (pence)	(9.0)	n/a	(7.3)	27.0	n/a	30.3
Diluted earnings per share (pence)	(9.0)	n/a	(7.3)	26.9	n/a	30.2

¹ Details of Alternative Performance Measures (APMs) are provided in the Financial Review.

The diluted earnings per share for the 26 weeks ended 25 September 2022 is based on a weighted average number of shares of 958,775,868 (H1 2021-22: 1,004,337,921) to take account of the potential issue of 437,680 (H1 2021-22: 2,070,299) ordinary shares resulting from the Deferred Share Bonus Plan (DSBP) and 2,408,279 (H1 2021-22: 2,632,630) ordinary shares resulting from the Long-Term Incentive Plan (LTIP). Management have historically elected to settle this scheme using shares purchased from the market.

The 263,566 (H1 2021-22: 365,008) shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees, are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

7. Retirement benefit plans

Summary pension information

	26 weeks ended 25 September 2022 £m	26 weeks ended 26 September 2021 £m
Ongoing Royal Mail pension service costs		
Defined benefit plans (including administration costs) ¹	(204)	(217)
Defined contribution plans	(64)	(56)
Defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions ²	(96)	(90)
Total Royal Mail ongoing pension service costs	(364)	(363)
GLS defined contribution plan costs	(4)	(4)
Total Group ongoing pension service costs	(368)	(367)
Cash pension service costs³		
Defined benefit plans' employer contributions ⁴	(132)	(134)
Defined contribution plans' employer contributions	(68)	(60)
Defined benefit and defined contribution plans' PSE employer contributions	(96)	(90)
Total Group cash pension service costs	(296)	(284)
Pension charge to cash difference adjustment	(72)	(83)

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 23.3% for the DBCBS (H1 2021-22: 24.4%)) of the increase in the defined benefit obligation, due to members earning one more half year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting period. Pensions administration costs for the RMPP of £5 million (H1 2021-22: £5 million) and the DBCBS of £3 million (H1 2021-22: £2 million) continue to be included within the Group's ongoing UK pension service costs.

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

³ These values exclude the impact of any timing differences in pension payments and represent the equivalent cash costs of the amounts charged to the income statement in the period.

⁴ The employer cash contribution rate of 15.6% (H1 2021-22: 15.6%) forms part of the payroll expense and is paid in respect of the DBCBS. This contribution rate is fixed, with actuarial funding valuations carried out every three years to determine whether additional deficit contributions are required. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail. The most recent triennial valuation at 31 March 2021 was completed in May 2022 and no additional contributions were required.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The buy-out of this scheme was completed in June 2022, with the bulk annuity policies being exchanged for individual policies between the insurers and all remaining members.

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

The Group expects to proceed to wind up the plan in the coming months. The scheme still holds residual assets which are expected to be returned to the Group following the wind up of the scheme, following the payment of any remaining closure expenses. This refund however will be subject to a withholding tax deduction of 35%, hence the surplus is presented on the balance sheet net of a £3 million adjustment which represents the tax that would be withheld on the surplus amount.

7. Retirement benefit plans (continued)

Movement in RMSEPP assets, liabilities and net position

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	H1 2023 £m	H1 2022 £m	H1 2023 £m	H1 2022 £m	H1 2023 £m	H1 2022 £m
Retirement benefit surplus (before withholding tax) at 28 March 2022 and 29 March 2021	320	373	(312)	(364)	8	9
Amounts included in the income statement:						
Pension interest income/(cost) ⁵	2	4	(2)	(4)	-	-
Total included in profit before tax	2	4	(2)	(4)	-	-
Amounts included in other comprehensive income – remeasurement losses/(gains):						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	64	(22)	64	(22)
Return on plan assets (excluding interest income)	(63)	23	-	-	(63)	23
Total remeasurement (losses)/gains of the defined benefit surplus	(63)	23	64	(22)	1	1
Other:						
Benefits paid	(8)	(9)	8	9	-	-
Transfer of assets and liabilities to insurers following buy-out	(242)	-	242	-	-	-
Total other movements	(250)	(9)	250	9	-	-
Retirement benefit surplus (before withholding tax payable) at 25 September 2022 and 26 September 2021	9	391	-	(381)	9	10
Withholding tax payable	n/a	n/a	n/a	n/a	(3)	(4)
Retirement benefit surplus (net of withholding tax) at 25 September 2022 and 26 September 2021	n/a	n/a	n/a	n/a	6	6

⁵ Pension interest income in the period results from applying the plan's discount rate at the preceding year end date to the plan's assets at that date. Similarly, the pension interest cost results from applying the plan's discount rate at the preceding year end date to the plan's liabilities at that date.

Royal Mail Pension Plan

Accounting surplus/(deficit) position – DBCBS and Legacy RMPP

Below is a summary of the assets and liabilities of the two sections of the Royal Mail Pension Plan on an accounting (IAS 19) basis.

	DBCBS		Legacy RMPP	
	At 25 September 2022 £m ⁶	At 27 March 2022 £m	At 25 September 2022 £m	At 27 March 2022 £m
Fair value of plans' assets	1,463	1,536	7,337	11,142
Present value of plans' liabilities	(1,651)	(1,926)	(4,440)	(6,960)
(Deficit)/surplus in plans (pre-withholding tax payable)	(188)	(390)	2,897	4,182
Withholding tax payable ⁷	n/a	n/a	(1,014)	(1,464)
(Deficit)/surplus in plans	(188)	(390)	1,883	2,718

⁶ The closing balance sheet position at 25 September 2022 allows for both market conditions at the balance sheet date and the impact of RPI/CPI inflation over the period to the extent that it is expected to feed into future benefit increases.

⁷ Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.

7. Retirement benefit plans (continued)

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, predominantly through investment in index-linked gilts and derivatives.

In the RMPP section, many of the inflation linked increases that apply are also restricted to a maximum increase of 5% in any year. The scheme's rules therefore give some protection from the risk of significantly high levels of inflation.

The pre-withholding tax accounting surplus of the legacy section of the RMPP at 25 September 2022 was £2,897 million (27 March 2022: £4,182 million), a decrease of £1,285 million in the period. This was the result of a significant increase in index-linked gilt yields, against which the RMPP liabilities are hedged, driving a large proportion of the overall £3,805 million reduction in the value of this section's assets. This movement was however to a large degree offset by a significant increase in the 'real' discount rate (the difference between RPI and the discount rate based on corporate bond yields), as a result of a large increase in corporate bond yields in the period, driving an overall £2,520 million reduction to the value of the RMPP's calculated liabilities versus the year end. Although the surplus has decreased in absolute terms, the funding level on an accounting basis (proportion of assets versus liabilities) has improved since the year end as a result of the significant decrease in liabilities.

The nature of the risks and their mitigation are similar for the DBCBS, although the level of hedging is less than that of the RMPP. An IAS 19 deficit of £188 million (27 March 2022: £390 million) is shown on the balance sheet in respect of the DBCBS; however, this section is not in funding deficit and it is not anticipated that deficit payments will be required. The significant decrease in the deficit in this section in the period is again largely due to the considerable increase in the 'real' discount rate which has had the effect of significantly reducing liabilities. The value of the DBCBS assets has also decreased to offset this, but to a lesser extent than those of the RMPP, since the level of hedging is lower.

The recent turmoil in UK financial markets impacted defined benefit pension schemes with investment strategies designed to protect against interest and inflation rate movements. The RMPP Trustee has taken actions to protect the Plan and ensure that members' benefits remain secure, and the strong funding level has been maintained. There was no request for the Group to pay any additional funds to the Plan beyond the normal monthly employer contributions as required under the Plan rules.

The most recent triennial valuation of the RMPP at 31 March 2021 was agreed in May 2022. Based on a roll forward of the same assumptions used in that valuation the surplus at 31 March 2022 was estimated to be c. £500 million and, when updated to market conditions at 30th September, the funding position is estimated to have improved further.

The DBCBS is still estimated to have a small surplus at 30 September 2022 equal to the amount held in respect of the risk reserve for that section.

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

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

	DBCBS At 25 September 2022	RMPP⁸ At 25 September 2022	DBCBS At 27 March 2022	RMPP and RMSEPP At 27 March 2022
Retail Price Index (RPI)	3.6%	3.5%	3.8%	3.5%
Consumer Price Index (CPI)	3.2%	3.2%	3.4%	3.2%
Discount rate				
– nominal	5.2%	5.0%	2.8%	2.8%
– real (nominal less RPI) ⁹	1.6%	1.5%	(1.0)%	(0.7)%
Constructive obligation for increases	5.2%	-	5.2%	-

⁸ Since the RMSEPP was fully bought out in June 2022 no assumptions have been derived at 25 September 2022.

⁹ The real discount rate used at 25 September 2022 reflects the average duration of the RMPP of around 20 years and the DBCBS of 13 years.

8. Financial assets and liabilities

Classification, carrying amount and fair value of financial assets and liabilities

The following analysis shows the classification, carrying amount and fair value of the Group's financial assets.

	Level	Classification	At 25 September 2022 Carrying amount £m	At 25 September 2022 Fair value £m	At 27 March 2022 Carrying amount £m	At 27 March 2022 Fair value £m
Financial assets						
Cash	1		436	436	312	312
Cash equivalent investments	1		368	368	825	825
Money market funds		FVTPL	287	287	725	725
Short-term deposits – bank		Amortised cost	81	81	100	100
Cash and cash equivalents	1		804	804	1,137	1,137
Current asset investments – short-term deposits – bank	1	Amortised cost	-	-	70	70
Pension escrow investments	1	FVTPL	214	214	213	213
Trade and other receivables	2	Amortised cost	1,418	1,418	1,553	1,553
Derivative assets (current)	2	FVTPL	101	101	74	74
Derivative assets (non-current)	2	FVTPL	62	62	30	30
Total financial assets			2,599	2,599	3,077	3,077

The following analysis shows the classification, carrying amount and fair value of the Group's financial liabilities.

	Level	Classification	At 25 September 2022 Carrying amount £m	At 25 September 2022 Fair value £m	At 27 March 2022 Carrying amount £m	At 27 March 2022 Fair value £m
Financial liabilities						
Lease liabilities (current)	2	Amortised cost	(213)	(213)	(213)	(213)
Interest-bearing loans and borrowings:						
€500 million bond	2	Amortised cost	(445)	(433)	(416)	(429)
€550 million bond	2	Amortised cost	(488)	(438)	(456)	(453)
Lease liabilities (non-current)	2	Amortised cost	(1,151)	(1,002)	(1,128)	(1,110)
Trade and other payables	2	Amortised cost	(1,940)	(1,940)	(2,078)	(2,078)
Derivative liabilities (current)	2	FVTPL	(3)	(3)	(8)	(8)
Derivative liabilities (non-current)	2	FVTPL	-	-	(36)	(36)
Total financial liabilities			(4,240)	(4,029)	(4,335)	(4,327)
Net total financial liabilities			(1,641)	(1,430)	(1,258)	(1,250)

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss (FVTPL) and any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from operations and are not considered further in this Note.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting periods, in line with Group policy.

8. Financial assets and liabilities (continued)

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 Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period. 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 at the balance sheet date. For the €500 million and €550 million bonds, the disclosed fair value is calculated as the closing market bond price converted to Sterling using the closing spot Sterling/Euro exchange rate.

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.

9. Provisions

	Charged as specific items			Charged in operating costs				
	Industrial diseases £m	Regulatory fine £m	Other £m	Voluntary redundancy £m	Property decomm- issioning £m	Litigation claims £m	Other £m	Total £m
At 28 March 2022	(56)	(52)	(6)	(70)	(20)	(53)	(13)	(270)
Released/(charged)	9	-	-	8	(2)	(10)	1	6
Reclassifications	-	-	-	-	-	(2)	2	-
Utilised	2	52	-	58	1	12	-	125
Forex adjustment	-	-	-	-	-	(2)	(1)	(3)
At 25 September 2022	(45)	-	(6)	(4)	(21)	(55)	(11)	(142)
Disclosed as:								
Current	(9)	-	-	(4)	(3)	(40)	(2)	(58)
Non-current	(36)	-	(6)	-	(18)	(15)	(9)	(84)
At 25 September 2022	(45)	-	(6)	(4)	(21)	(55)	(11)	(142)
Disclosed as:								
Current	(8)	(52)	-	(70)	(5)	(39)	(2)	(176)
Non-current	(48)	-	(6)	-	(15)	(14)	(11)	(94)
At 27 March 2022	(56)	(52)	(6)	(70)	(20)	(53)	(13)	(270)

9. Provisions (continued)

Specific items provisions

Royal Mail 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. Royal Mail has a rigorous process for ensuring that only valid claims are accepted. In the first half year, the rate by which liabilities are discounted increased by 183 bps, which resulted in a £9 million release of the provision at 25 September 2022.

Royal Mail's appeal against the Competition Appeal Tribunal's judgment to uphold Ofcom's decision to fine it £50 million was rejected by the Court of Appeal (CoA) on 7 May 2021. On 7 June 2022, the Supreme Court refused Royal Mail permission to appeal the CoA judgment, which means that the appeal process has now concluded. The fine and interest (c.£52 million) was paid to Ofcom on 10 August 2022.

Operating costs provisions

In January 2022, Royal Mail announced a management restructure affecting over 3,000 managerial level employees, mainly within its operational function. The new management structure went live at the end of May 2022 with the majority of voluntary redundancies taking place in May and June 2022.

Property decommissioning obligations represent an estimate of the costs of removing fixtures and fittings and restoring the leased property to its original condition.

Provisions for litigation claims, based on best estimates as advised by external legal experts, mainly comprise outstanding liabilities in relation to road traffic accident and personal injury claims.

10. Contingent liabilities and contingent assets

Contingent liabilities

2022-23 Regulated Quality of Service

Our current performance on our Universal Service products' Quality of Service is below Ofcom's regulatory targets. We are actively engaging with Ofcom, explaining why current performance is below target due to the difficult circumstances we face. However, Ofcom may consider it necessary to open an investigation in due course when our full year Universal Service Quality of Service results are published, the outcome of which cannot be determined at this time.

Whistl Damages Claim

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position (see details of regulatory fine in Note 9). Whistl's High Court claim was paused until after the completion of the appeal by Royal Mail against the Ofcom decision. Following the exhaustion of Royal Mail's appeal against the Ofcom decision, the stay on Whistl's related damages claim has been lifted. Royal Mail believes Whistl's claim is without merit and will defend it robustly.

Contingent asset

Royal Mail 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 judgement later this calendar year or early 2023.

11. Events after the Reporting Period

Holding Company name change

On 3 October 2022 the Group's holding company changed its name from Royal Mail plc to International Distributions Services plc.

Rightsizing the UK business

We have begun the process of consulting on rightsizing the business in response to the impact of industrial action, delays in delivering agreed productivity improvements and lower parcel volumes. Short-term cost efficiencies are expected to be achieved through an estimated reduction of around 5,000 full time equivalent operational roles (FTEs) by March 2023 and c.10,000 by end of August 2023 (on a rolling 12-month basis). Based on current estimates, c.5,000-6,000 redundancies may be required by the end of August 2023.

CWU frontline pay offer

On Monday 24 October it was announced that, following an invitation from Acas, Royal Mail and CWU agreed to jointly engage with Acas facilitation, in an attempt to resolve the current disputes on Pay and Change. An opening session took place on Tuesday 25 October with the objective to reach an agreed approach for further facilitated talks.

On 31 October, Royal Mail proposed a new pay-for-change offer to the CWU worth 9% over two years.

On Friday 4 November, it was announced that there would be an intensive period of negotiations on all aspects of pay and change, facilitated by Acas, from Monday 7 November to Tuesday 15 November. On 16 November it was announced that talks are continuing to allow more time for a resolution to be reached.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF YEAR FINANCIAL REPORT

The Directors confirm that to the best of our knowledge:

- The condensed set of financial statements, which has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the UK, gives a true and fair view of the assets, liabilities, financial position and profit or loss of International Distributions Services plc as required by DTR 4.2.4R; and

The Interim Management Report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of International Distributions Services plc are as listed in the Royal Mail plc Annual Report and Financial Statements 2021-22, with the exception of the following changes:

Jourik Hooghe was appointed as a Non-Executive Director with effect from 1 June 2022.

A list of current Directors is maintained at <https://www.internationaldistributionsservices.com/en/>

By order of the Board

Mick Jeavons

Group Chief Financial Officer of International Distributions Services plc

16 November 2022

INDEPENDENT REVIEW REPORT TO INTERNATIONAL DISTRIBUTIONS SERVICES PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 25 September 2022 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 25 September 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the latest annual financial statements of the Group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Andrew Bradshaw
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
16 November 2022

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal', 'forecasts' or 'estimates' or similar expressions or negatives thereof.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on its behalf are expressly qualified in their entirety by the factors referred to above. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Group does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document and does not undertake any obligation to do so.