Royal Mail plc

Interim Financial Report for the half year ended 29 September 2013

ROYAL MAIL plc
INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 29 SEPTEMBER 2013

Royal Mail plc (RMG.L) today announced its results for the half year ended 29 September 2013.

Moya Greene, Chief Executive Officer, Royal Mail plc, said:
"Our first half financial performance was in line with our expectations of delivering low single digit revenue growth and margin expansion. The combination of increasing EBITDA and moderating investment spend underpins value creation for our shareholders."

Financial highlights

	Half year ended 29 Sept 2013	Half year ended 23 Sept 2012	Like-for-like change[1]
Revenue (£m)	4,520	4,355	2%
Operating costs before transformation costs (£m)*	(4,167)	(4,091)	flat
Transformation costs (£m)	(70)	(120)	
Operating profit after transformation costs (£m)*	283	144	
Operating profit margin after transformation costs (%)*			
- Like-for-like	5.2	3.3	+ 190bps
- Reported[2]	6.3	3.3	
Profit before taxation (£m)			
- Excluding specific items**	233	94	
- Reported[2]	1,580	113	
Notional earnings per share[3] (pence)			
- Excluding specific items**	16.8	6.1	
- Reported[2]	122.0	37.7	
EBITDA before transformation costs (£m)*	483	405	
Free cash flow (£m)	183	218	

* Before specific items.
** Reported results excluding a number of items which management believes better represent the trading and external financing of the Group. Note 2 provides the full definition of specific items.

Key points

- Revenue growth of two per cent was driven by strong growth in parcel revenue in UKPIL and GLS, which offset letter revenue decline. Parcel revenue now accounts for 51 per cent of Group revenue.
- Operating costs after transformation costs were flat, due to tight cost control and lower transformation costs. Transformation costs were lower than expected, in part due to delays in transformation expenditure related to the industrial relations situation. Transformation costs are now expected to be approximately £160 million for the full year.
- Operating profit after transformation costs of £283 million benefitted from a one-off VAT credit of £35 million, lower depreciation and amortisation of £10 million, as well as £50 million lower transformation costs.
- While the improved Group operating profit margin after transformation costs reflects continued tight cost control, the VAT credit and lower depreciation and amortisation benefitted margins by approximately one percentage point.

- Profit before taxation of £233 million and notional earnings per share of 16.8 pence (both excluding specific items) reflect the operating performance of the Group. Pension accounting standards require us to include a one-time, non-cash benefit of £1,350 million[4] as a result of the Pensions Reform in reported profit before taxation and reported notional earnings per share.
- EBITDA before transformation costs increased to £483 million.
- Net debt of £723 million was £183 million lower than at 31 March 2013. On 15 October 2013, Royal Mail refinanced and replaced all loans previously provided by HM Government. These loans[5] and existing finance leases are currently forecast to have a blended interest rate of approximately 3.5 per cent per annum over the life of the facilities.

Outlook

We remain focused on delivering our value drivers to achieve revenue growth, margin expansion and underlying free cash flow growth for the full year. It should be noted that the first half costs benefitted from certain one-off and other items of £45 million, which will not be repeated in the second half.

We are about to enter our busiest period of the year. Since September, as expected, there has been some customer reaction to the industrial relations situation. To date this has been limited to a slowdown in the rate of business customer acquisition in parcels and switching of some volume to competitors in anticipation of strike action. Depending on the strength of the seasonal parcels volume growth in late November and December, this may result in Royal Mail reporting broadly unchanged parcel volumes but significant revenue growth for the nine months to December 2013.

Our letters business had a good start to the second half and has particularly benefitted from energy company mailings. GLS continues to perform well.

In the absence of unforeseen circumstances, the Board intends to propose a final dividend of £133 million for the full year.

Notes

1. Throughout this document, margins and growth/decline rates are stated on a like-for-like basis, unless otherwise indicated. Like-for-like revenue and cost growth/decline percentages are calculated after adjusting for movements relating to foreign exchange effects in GLS' revenue and costs, and working days in UKPIL revenue. For volumes, like-for-like movements are adjusted for working days in UKPIL.

(£m)	Increase compared to prior year relating to:		
	Foreign exchange	Working days	Total
Revenue	43	48	91
Costs	40	n/a	40

The cumulative average translation rates for the half year ended 29 September 2013 are £1 = €1.1729, compared with £1 = €1.2445 for the half year ended 23 September 2012.

2. Reported: fully compliant with accounting standards (IFRS), including specific items.
3. Notional basic earnings per share assumes that one billion shares, as at 29 September 2013, existed for the whole of the half year ending on that date and for the comparative half year ending 23 September 2012.
4. The agreed changes due to Pensions Reform are considered to be a 'plan amendment', which meets the IAS 19 definition of a past service cost. The Pensions Reform resulted in a reduction in assessed liabilities of £1,350 million. In line with the accounting standard, this has been recorded in the income statement for H1 2013-14 as a one-time, non-cash benefit.
5. Includes arrangement and commitment fees.

BUSINESS PERFORMANCE

	Revenue (£m)			Operating profit after transformation costs (£m)			Operating profit margin after transformation costs (%)		
	Half year ended 29 Sept 2013	Half year ended 23 Sept 2012[1]	Like-for-like change	**Half year ended 29 Sept 2013**	Half year ended 23 Sept 2012	Like-for-like change	**Half year ended 29 Sept 2013**	Half year ended 23 Sept 2012	Like-for-like change
UKPIL	**3,711**	3,636	1%	**224**	97		4.8	2.7	210bps
GLS	**801**	712	6%	**53**	45	11%	6.6	6.3	30bps
Other	**8**	7	14%	**6**	2				
	4,520	4,355	2%	**283**	144		5.2	3.3	190bps

UK Parcels, International & Letters (UKPIL)

- Revenue increased by one per cent. Operating costs after transformation costs decreased by one per cent:
  - Parcel revenue grew nine per cent, driven by the impact of size-based pricing.
  - As expected, parcel volumes were broadly unchanged compared with the same period last year. Strong growth in account parcels and Parcelforce Worldwide was offset by lower volumes in consumer channels, driven by the impact of size-based pricing and a temporary slowdown in growth in e-retailing due to the good summer weather in the UK.
  - Letter revenue (including marketing mail) was four per cent lower. Excluding the impact of London 2012 philatelic sales in the prior period, revenue declined three per cent.
  - Addressed letter volumes decline of six per cent was within our expected range of four to six per cent, compared with a decline of nine per cent in the same period last year.
- Operating profit after transformation costs was £224 million, with operating profit margin after transformation costs increasing from 2.7 per cent to 4.8 per cent.

General Logistics Systems (GLS)

- GLS performed well, with revenue growth of six per cent, well ahead of Eurozone GDP growth for the period:
  - Revenue increased to £801 million, driven by growth in all the major countries.
  - Volumes increased six per cent to 193 million items.
- Operating profit was up 11 per cent. The operating profit margin improved to 6.6 per cent.

[1] There have been a number of minor restatements to H1 2012-13 comparatives to reflect:
- Refined methodology to define a small element of international mail formats impacting letter and parcel volumes and revenue
- Inclusion of non-revenue generating volumes increasing both UKPIL parcel and letter volumes
- Reclassification between Other and UKPIL impacting revenue, costs and profit (all less than or equal to £1 million).

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

In our first financial results as a listed company, I would like to welcome our new shareholders, including the many thousands of retail shareholders – some 150,000 of whom are Royal Mail employees - who took part in the recent Offer. I am pleased to announce that we are building on the improved financial performance we have achieved across the Group in recent years.

In the first half, our financial performance was in line with our expectations. Low single digit revenue growth has been achieved and operating costs after transformation costs were flat, thus improving margins. Free cash flow was positive again during the period.

The performance in our core UK business has improved, with UKPIL's operating profit after transformation costs increasing from £97 million to £224 million. UKPIL's operating margin after transformation costs increased from 2.7 per cent to 4.8 per cent. GLS, our ground-based, European deferred parcels delivery network, delivered an improved performance after a challenging 2012-13. Revenue was up six per cent. The operating margin improved to 6.6 per cent from 6.3 per cent in the prior period.

As previously announced, in the absence of unforeseen circumstances, the Directors intend to propose only a final dividend in respect of this financial year, to be paid in July 2014, of £133 million. This amount is approximately two-thirds of the notional full year dividend of £200 million that the Directors believe they would have proposed if the Company had been listed throughout this financial year.

Delivering our strategy

Our vision is to be recognised as the best delivery company in the UK and across Europe. We have made good progress in our parcels businesses; the decline in addressed letter volumes has moderated to within our expected range; and we are continuing to leverage our reputational and operational strengths to deliver improvements in our customer service.

Being a successful parcels business

The Group has three main parcels networks. UKPIL operates in the UK through the Royal Mail core network and Parcelforce Worldwide. GLS operates in continental Europe and the Republic of Ireland through one of the largest ground-based, deferred parcel delivery networks in Europe. We have a clear strategy to grow parcel revenue by leveraging structural trends in e-retailing and optimising our traffic mix.

Volume growth in the UK parcels market is being driven primarily by growth in e-retailing, which is driving B2C activity. Whilst the market saw a temporary slowdown in the growth of e-retailing during the summer, the IMRG Capgemini e-Retail Sales Index for October 2013 quotes average year-on-year total e-retail sales growth of 16 per cent from October 2012 to September 2013. We continue to expect the B2C and C2X segments combined to deliver volume growth of between 4.5 per cent and 5.5 per cent per annum, and the B2B segment to grow slightly above the UK GDP growth rate.

We introduced size-based pricing in April 2013 to ensure that parcels are delivered through the most appropriate UK network according to their size, value and urgency. Our core network is best at delivering smaller consumer goods, rather than bulkier parcels. Our core network's scale and configuration allows lower-cost delivery of these smaller parcels, which are delivered on foot. We changed prices as part of our size-based pricing approach and anticipated that some volume would transfer to Parcelforce Worldwide from the core network, with some larger, uneconomical items exiting our networks completely.

As expected, UK parcel volumes were broadly unchanged in the first half due to the impact of the size-based pricing approach and a temporary slowdown the growth of e-retailing due to the good summer weather in the UK. We saw a slightly higher rate of volume reduction than expected in the consumer, micro-SME and SME segments. Changes announced in October 2013 in response to feedback from customers will enable them to post a greater range of items through our Small Parcels format in time for Christmas. This will ensure Royal Mail offers the most competitive price in the market for shoe box sized parcels of up to 1kg.

Parcelforce Worldwide's volumes increased by nine per cent and we are expanding capacity through our previously announced investment programme. In September 2013, we opened the new Parcelforce Worldwide parcel processing centre in Chorley, complementing our existing centre in Coventry. We have also opened 10 new, replacement or extended Parcelforce Worldwide depots around the country.

GLS performed well in the first half, with revenue growth of six per cent. Approximately 70 per cent of GLS' revenue is generated in Germany, France and Italy. While revenue has grown in Germany, conditions continue to be challenging due to the highly competitive marketplace, and low levels of unemployment leading to increased subcontractor costs. In France, where we are in the early stages of a turnaround plan, revenue has increased marginally which, together with cost reductions has reduced losses. In GLS Italy revenue grew strongly, in part benefitting from competitor disruption. GLS continues to focus on increasing the scale of its operations in Europe on a targeted basis, including monitoring emerging markets for new opportunities.

Managing the decline in letters

While addressed letter volumes are in structural decline, our UKPIL letter business remains a key part of our future success. The decline in addressed letter volumes moderated to six per cent (H1 2012-13 nine per cent), in line with our forecast range of approximately four to six per cent per year. Letter revenue (including marketing mail) declined by four per cent. When the impact of London 2012 philatelic sales in the prior period is excluded, this decline was three per cent.

In March 2013, we announced that First Class and Second Class stamp prices for 2013-14 would be frozen at 2012-13 levels. We have been encouraged to see increasing levels of support from business mail customers with regard to giving their customers the choice to keep paper statements if they wish. However, we continued to see declines in business mail volumes as business customers – particularly in the financial services industry – sought to move some customer communications online.

Our marketing mail business delivered revenue of £545 million, down three per cent on the prior year. The same period in the prior year benefitted from additional marketing activity in the build-up to London 2012 and the Diamond Jubilee. In July 2013, we announced an investment of £70 million to introduce our 'Mailmark' barcode reading technology for large, bulk mail customers. This will significantly increase our ability to track addressed letters through our network for these customers.

We are seeing increased competition in the direct delivery of business mail, with TNT Post UK extending its alternative delivery operations to Greater Manchester. Unchecked, this could lead to cherry-picking of more profitable, higher-density delivery areas and could undermine the sustainability of the Universal Service. We are reassured that the regulator will act to protect the Universal Service given its primary duty, but we are not complacent. Our focus is on continuing to improve Royal Mail's service and efficiency as part of our transformation programme. We are also using the greater commercial freedom granted to Royal Mail by Ofcom to compete for business.

Being customer focused

The regulatory Quality of Service standard specifications Royal Mail is subject to are amongst the highest of any postal operator in any major European country. It is pleasing to note therefore that, on a cumulative basis in the first half, we exceeded our targets for First Class and Second Class mail. We delivered 93.2 per cent of First Class mail the next working day, against a target of 93 per cent. Our Second Class delivery performance was 98.8 per cent in three working days, against a target of 98.5 per cent.

We continue to focus on delivering a better parcels experience. We believe that our strong brands and high quality of service will help to drive growth. A recent survey in the UK conducted on behalf of Which? found that regular post was the consumer's favourite way to receive their online shopping, achieving a customer score of 80 per cent[1]. A separate survey found 76 per cent of consumers would be more likely to re-use a particular online retailer if they use Royal Mail for delivery (58 per cent said the same for Parcelforce Worldwide)[2].

The parcels sector is highly competitive, with a number of distinct market segments and multiple players. Our competitors have introduced many initiatives in the online parcels delivery market, aimed at taking share from Royal Mail. We aim to react quickly in response to competitor initiatives to ensure we continue to deliver what customers want. It is vital that we continue to invest in the customer experience. IT investment to enhance customer convenience, including tracking, is an important sectoral theme. In April 2013, we introduced our tracked returns service, which provides greater convenience for both consumers and online retailers. We have also introduced enhanced delivery information for our Special Delivery offering – a key product for us.

As previously announced, we are ready to capitalise on the increasing popularity of 'click and collect' networks and have introduced our own 'click and collect' service in Post Offices, providing more convenient parcel delivery options for online retailers and their customers. Post Office has one of the largest retail networks in the UK - its branches are in ideal locations to provide convenient, secure parcel collection facilities.

We have also launched our first major TV advertising campaign for some time. It focuses on our unique position as the UK's leading parcel delivery company. The campaign highlights the role our people play - they feature in the advert along with the voices of the Royal Mail choir – all across the country, six-days-a-week and in all weathers, to deliver the parcel that the consumer has ordered online for themselves, a family member or a friend. We make commerce happen by connecting customers, companies and communities.

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[1] Which?, November 2013.
[2] Hall & Partners, April 2013.

Our brand is a great strength. Our mean business customer satisfaction score, which tracks the satisfaction of business customers with the service they receive and products they have used from Royal Mail, remains constant at 74. The strength of our brand and reputation is one of the key ways we are maintaining our strong market position. We know there are no grounds for complacency, especially as we are now entering our busiest period of the year – Christmas. We plan all year round for this key time of year. So, we have opened 10 temporary parcel sort centres, and employed 21,000 extra temporary staff. They will work alongside approximately 124,000[3] postmen and women as we seek to deliver a great Christmas for our customers.

Transformation

Royal Mail is delivering what we believe is one of the largest industrial transformation programmes undertaken in the UK in recent history. This wide-ranging programme requires difficult change for our people. In the first half, we closed three Mail Centres in Derby, Darlington and Bradford. Leicester Mail Centre has closed since the end of the period and four more closures are expected in the second half of the year. We have begun modernising our 1,000th Delivery Office out of a total of approximately 1,400. However, in the first half we have seen a slowdown in transformation activity. Some of this was expected. However, the industrial relations environment has meant some activity has been deferred into next year.

Our ongoing transformation programme is also optimising our operations for continued growth in our parcels businesses. More than 38,500 new trolleys and over 13,000 shared vans are now in operation across our network. We have completed the roll out of around 74,000 handheld electronic scanners. This means that every postman and woman will have access to a scanner in time for this Christmas. The scanners enable us to track items in real time at key points throughout the network, through to the customer's doorstep. This is a key part of our strategy, as outlined in the previous section.

A reduction in gross hours of 3.3 per cent has helped to deliver a core network processing and delivery productivity improvement of 1.7 per cent in the first half. Productivity is the primary measure of our ability to efficiently process and deliver mail.

In November 2013, after the period end, Royal Mail received an APM Project Management Award for the transformation of mail collection, processing and delivery in London. Our investment programme, which included the transformation of our Mount Pleasant site, was designed to deliver an improved customer service for seven million people in Greater London.

Our people

Our people are the key to our transformation and the delivery of our strategic priorities. It is testament to the commitment of our UK workforce that the transformation has been delivered without compromising on the quality of our service. That is why I am pleased to report that, through the Free Shares Offer, approximately 10 per cent of shares in Royal Mail are now owned by, or on behalf of, eligible Royal Mail Group Limited employees – the overwhelming majority of our employees in the UK. Second only to the Government, our employees have the largest stake in their Company.

We are making substantial efforts to communicate with both frontline colleagues and managers during this very important time in our history. The senior management team and I have conducted more than 37 Town Hall meetings in the first half. More than 140 senior managers have visited sites as part of our

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[3] As reported at 31 March 2013.

engagement programme. As part of the Free Shares education programme, specialists from our share scheme administrator visited approximately 100 Royal Mail sites. Our face-to-face communications programme will continue in the coming months.

Discussions with the Communication Workers Union (CWU) on a new multi-year agreement are ongoing. Significant progress is being made on proposals for a legal framework to deliver a stable industrial relations environment, protections for employees and a competitive pay increase. A new agreement will create an agenda for change in Royal Mail and a new model for how we work together with the CWU. Building on pre-existing agreements, it will help us to complete our modernisation and build a strong platform for the future success of the Company.

BUSINESS AND FINANCIAL REVIEW

UKPIL

UK Parcels, International & Letters (UKPIL) comprises the Group's core UK and international parcel and letter delivery businesses under the Royal Mail and Parcelforce Worldwide brands and through the Royal Mail core network and the Parcelforce Worldwide network. In addition, UKPIL provides specialist delivery services and carries out a number of other letter-related activities, including marketing mail consulting services. It is also responsible for the processing of international mail under reciprocal arrangements with other overseas postal administrations.

Trading results (£m)

	Half year ended 29 Sept 2013	Half year ended 23 Sept 2012	Like-for-like change[1]
Revenue	3,711	3,636	1%
People costs	(2,320)	(2,261)	3%
Distribution & conveyance costs	(387)	(382)	1%
Infrastructure costs	(452)	(459)	(2%)
Other operating costs	(258)	(317)	(19%)
Operating costs	(3,417)	(3,419)	0%
Transformation costs	(70)	(120)	(42%)
Operating costs after transformation costs	(3,487)	(3,539)	(1)%
Operating profit after transformation costs	224	97	
Operating profit margin after transformation costs			
- Like-for-like	4.8%	2.7%	+210 bps
- Reported[2]	6.0%	2.7%	

Revenue (£m)

Letters	1,685	1,741	(5%)
Marketing mail	545	552	(3%)
Total letters (including marketing mail)	2,230	2,293	(4%)
Parcels	1,481	1,343	9%
Total	3,711	3,636	1%

Volumes (m)

Letters

Addressed letters	6,477	6,793	(6)%
Unaddressed letters	1,513	1,599	(7)%

Parcels

Core network	454	452	(1%)
Parcelforce Worldwide	36	32	9%
Total	490	484	0%

Trading performance

Revenue growth of one per cent contrasted with a decline of one per cent in operating costs after transformation costs. The revenue performance was driven primarily by changes to pricing and products in our parcels portfolio offsetting the decline in letters revenue. Operating profit margin after transformation costs improved to 4.8 per cent.

Parcels

Parcel revenue was £1,481 million, up nine per cent. Parcel revenue now accounts for 40 per cent of UKPIL revenue. Parcel volumes were broadly unchanged when compared with the same period in the prior year, as expected.

Letters, including marketing mail

Overall letter revenue (including marketing mail) of £2,230 million declined by four per cent. Excluding the impact of London 2012 philatelic sales in the prior year, letter revenue declined three per cent. The rate of decline in addressed letter volumes reduced to six per cent, in line with our forecast range.

Revenue for our marketing mail business of £545 million declined by three per cent, as the prior period benefitted from the additional marketing activity in the build-up to London 2012 and the Diamond Jubilee.

Operating costs were flat. Whilst the business continued to exercise tight cost control, the first half benefitted from a one-off VAT credit of £35 million and lower year on year depreciation and amortisation. The VAT credit arose as a result of the change in regulations in April 2012 which increased the scope of products attracting VAT, leading to an increased recovery rate. The credit has been allocated to the relevant cost lines and equates to one per cent of UKPIL operating costs.

People costs increased by three per cent, reflecting increased pay costs, due to an accrual for a frontline pay increase. Pensions costs increased by £26 million, largely due to the IAS 19 pension service cost rate increasing from 18.2 per cent to 20.3 per cent of pensionable pay. This was partially offset by an average reduction in UKPIL FTEs of two per cent, in part enabled by a 1.7 per cent improvement in processing and delivery productivity in the core network, slightly below the target of 2-3 per cent per year.

Distribution and conveyance costs increased by one per cent, primarily due to an increase in vehicle related costs and terminal dues.

Infrastructure costs decreased by two per cent reflecting a portion of the VAT credit and lower depreciation and amortisation, as a result of a different mix in depreciable assets. In the second half, the depreciation and amortisation charge is expected to be flat year-on-year.

Other operating costs decreased by 19 per cent, mainly due to tight cost control measures.

Transformation costs in the period of £70 million were £50 million lower than the same period in the prior year. This was largely due to lower voluntary redundancy costs in relation to the Mail Centre closure programme, which have been fully provided for. We now expect transformation costs will be approximately £160 million for 2013-14, reflecting a higher level of transformation activity in the second half.

GLS

General Logistics Systems (GLS) is the Group's European parcel business. The GLS Network is one of the largest ground-based deferred parcel delivery networks in Europe, covering 37 European countries and nation states with services provided through a combination of wholly-owned members of the GLS Group, network and service partners of the GLS Group, franchisees and agents.

GLS offers services in all areas of the couriers-express-parcels market, but is mainly active in the parcels segment, delivering parcels on a deferred basis. The majority of the parcels handled by GLS are in the B2B segment.

GLS brings a number of strategic benefits to the wider Group, including an important level of geographical earnings diversification, its ability to generate cash which can be used to fund investment in other parts of the Group's business, a means to capture growth in European cross-border parcel traffic and opportunities for sharing operational excellence within the Group.

Trading results (€m)

	Half year ended 29 Sept 2013	Half year ended 23 Sept 2012	Like-for-like change[1]
Revenue	940	886	6%
People costs	(209)	(203)	3%
Distribution & conveyance costs	(580)	(544)	7%
Infrastructure costs	(62)	(60)	4%
Other operating costs	(27)	(23)	19%
Operating costs	(878)	(830)	6%
Operating profit	62	56	11%

Trading results (£m)

Revenue	801	712	6%
Operating costs	(748)	(667)	6%
Operating profit	53	45	11%
Operating profit margin (%)	6.6	6.3	30 bps
Volumes (m)	193	182	6%

Trading performance

GLS delivered a robust revenue performance, well ahead of Eurozone GDP growth in the period. Revenue growth was achieved in all of the major countries in which we operate. Revenue was up six per cent to £801 million, driven by the increase in parcel volumes. Costs were up six per cent, in line with volume growth. In particular, distribution and conveyance costs were up seven per cent, reflecting higher volumes and increased sub-contractor costs in Germany. Other operating costs were up 19 per cent due to increased IT consultancy costs and turnaround-related costs in France. Operating profit increased from £45 million to £53 million, up 11 per cent. Operating profit margin improved to 6.6 per cent.

Approximately 70 per cent of GLS' revenue is generated in its three main markets: Germany, France and Italy. GLS Germany continues to operate in an extremely competitive market, with the business subject to significant cost pressures due to the impact of continued low unemployment levels. Improved delivery options to increase the rate of first time delivery are being put in place with the aim of reducing costs and increasing convenience.

In France, we are at an early stage of the turnaround programme. In the first half, revenue increased marginally and costs reduced, resulting in lower operating losses.

GLS Italy delivered a strong financial performance, growing organically and through acquisitions. GLS Italy continued to extend its ownership of the network, through the purchase of one franchisee in H1 2013-14. It has also benefitted from competitor disruption.

GLS continues to monitor emerging European markets for new opportunities. GLS Croatia, a new company, has made an encouraging start after it began operations in August 2013, following the admission of Croatia to the European Union in July 2013.

GROUP FINANCIAL PERFORMANCE

Revenue

Group revenue was £4,520 million (H1 2012-13 £4,355 million), up two per cent. Parcel revenue accounted for 51 per cent of Group revenue (H1 2012-13 47 per cent).

Operating profit after transformation costs

Operating profit after transformation costs was £283 million compared with £144 million in the prior period. Group operating profit margin after transformation costs improved to 5.2 per cent from 3.3 per cent, due to revenue growing at a faster rate than costs. One percentage point of this margin improvement was due to the VAT credit and lower depreciation and amortisation.

Specific items

There were a number of one-off specific items in the period. The accounting impact of the Pensions Reform (see note 10) was to increase the accounting pension surplus significantly, resulting in a one-time non-cash credit of £1,350 million. Specific items also arose in relation to transaction-related costs of £26 million and the charge associated with the Employee Free Shares Offer of £6 million. The Employee Free Shares Offer charge represents the initial charge to the income statement relating to the issuing of Free Shares, which is calculated from the start of the period when employees could expect to receive Free Shares and based on the mid-market closing price on the day of Admission. In H2 2013-14 the charge will be approximately £80 million, as the cost will accrue for the whole of H2 2013-14.

Total specific items before taxation were a credit of £1,347 million.

Net finance costs

Net finance costs were £50 million compared with £28 million in H1 2012-13, which benefitted from a one-off £22 million gain from the sale of gilts, which had been held in escrow to provide security to the Trustee of the Royal Mail Pension Plan (RMPP) to support pension-related payments. The finance costs are based on the borrowing facilities in place at the half year end. On 15 October 2013 the existing facilities were replaced with new borrowing facilities. Finance costs in H2 2013-14 will reflect these new facilities, which are currently forecast to attract a lower effective blended interest rate of approximately 3.5 per cent per annum over the life of the facilities, after accounting for the charges associated with commitment and arrangement fees and finance leases.

Net pension interest

Net pension interest credit, treated as a specific item, was £19 million. The net pension interest credit is calculated using the net pension surplus at the start of the financial year multiplied by the Plan's discount rate. Due to the substantial change in the RMPP surplus as a result of the Pensions Reform, the net pension interest for H2 2013-14 will be recalculated and is expected to be approximately £50 million.

Taxation

The effective tax rate on the profit before taxation was 23 per cent, comprising the current tax charge of £17 million and a deferred tax charge of £342 million. The Group current income tax charge of £17 million represented an effective rate on profit before taxation of one per cent (H1 2012-13 23 per cent). Whilst GLS' current effective tax rate is over 30 per cent, as expected, there is no UK current tax charge, as a result of the standard treatment of the HMRC-approved Employee Free Shares Offer as well as utilisation of some brought forward tax reliefs, including capital allowances.

The deferred tax charge was £342 million (H1 2012-13 £292 million credit). The movement in the deferred tax charge is principally due to the effect of the Pensions Reform. The deferred tax credit in H1 2012-13 related to UK tax and mainly recognised the benefits associated with carried forward tax reliefs, including capital allowances.

Notional earnings per share (EPS)

Notional EPS excluding specific items was 16.8 pence (Reported 122.0 pence). The notional EPS is calculated using the profit from continuing operations attributable to equity holders of the parent, both reported and excluding specific items, and assuming the one billion ordinary shares had been in existence throughout the first half of the year, as required by IAS 33 Earnings per Share. Going forward, EPS will be calculated using the weighted average number of shares in issue over the relevant period.

Cash flow

EBITDA before transformation costs of £483 million increased by £78 million due to the improved trading performance.

Trading working capital movements generated an outflow of £170 million compared with £94 million in the prior period. Both periods benefitted from one-off items. H1 2013-14 benefitted from the impact of the delay in finalising the frontline pay award of approximately £65 million, which will be paid when the new wage settlement is agreed. H1 2012-13 benefitted from the one-off impact of the buy forward of stamps in April 2012 of £100 million, an increase in the VAT creditor of £75 million due to an increase in the number of products that have become liable to VAT since April 2012 and the unwinding of the pension prepayment of £40 million made in March 2012.

Total investment reduced from £270 million to £212 million mainly as a result of a decrease in transformation capital expenditure and businesses transformation payments, partially offset by an increase in non-transformation capital expenditure. The principal investments were in GLS, the Parcelforce Worldwide expansion and 'Mailmark'. Full year investment is expected to be slightly lower than in 2012-13 due to the impact of delayed transformation expenditure.

Excluding the one-off working capital movements and specific items, underlying free cash flow was £103 million in H1 2013-14 compared with £14 million in H1 2012-13. H2 2013-14 will benefit from the unwinding of the remaining £150 million pension prepayment, partially offset by any payment of the delayed frontline pay award.

Net debt

Net debt was £723 million at 29 September 2013, £183 million lower than at 31 March 2013. The movement in the period reflects the free cash inflow.

Pensions

The IAS 19 pension position at 29 September 2013 was a surplus of £1,862 million compared with a surplus of £825 million as at 31 March 2013. The increased surplus reflects the impact of the Pensions Reform (see note 10).

The IAS 19 accounting position and key assumptions for the liability valuation are provided in note 10.

Notes

1. Throughout this document, margins and growth/decline rates are stated on a like-for-like basis, unless otherwise indicated. Like-for-like revenue and cost growth/decline percentages are calculated after adjusting for movements relating to foreign exchange effects in GLS' revenue and costs and working days in UKPIL revenue. For volumes, like-for-like movements are adjusted for working days in UKPIL.

(£m)	Increase compared to prior year relating to:		
	Foreign exchange	Working days	Total
Revenue	43	48	91
Costs	40	n/a	40

The cumulative average translation rates for the half year ended 29 September 2013 are £1 = €1.1729, compared with £1 = €1.2445 for the half year ended 23 September 2012.

2. Reported: fully compliant with accounting standards (IFRS), including specific items.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties remain the same as those disclosed on pages 8 to 43 of the Registration Document part of the Prospectus in relation to the initial public offer of shares in Royal Mail plc published on 27 September 2013. Those risks are summarised on pages 11 to 15 of the Summary part of that Prospectus and have been summarised further below. All of them have the potential to impact the Group's business, results of operations, financial condition and prospects adversely. Our overall risk management processes are designed to identify, evaluate and mitigate our business risks.

- *Letters decline and parcels growth*: The use of letters as a medium of communication has declined in recent years as a result of greater use of electronic forms of communication, including email and text messaging, which have become increasingly important, especially for businesses. This is known as e-substitution. Letter volumes in the UK may decline at a faster rate than forecast. While the Group aims to increase revenue in its parcel businesses to mitigate the continued decline in letter volumes and the slow or declining growth in letter revenue, such increase is contingent on continued growth in both the UK and the European parcel markets. It is possible that parcel volumes in the UK and Europe may fail to grow as forecast by the Group, grow at rates different from the Group's forecasts or decline.
- *Changes in customer preferences and competitor activity*: Customer behaviours are constantly evolving and competition is increasing. Consequently there is a risk that our product offerings and the customer experience we provide may not meet changing customer needs. In addition, customer or competitor actions could trigger significant volumes of physical mail bypassing Royal Mail, down-trading to lower revenue products and acceleration in e-substitution. In particular, increased "end to end" competition may lead to a significant decline in the volume of letters handled through the Royal Mail Core Network, which facilitates the delivery of the UK's universal postal service. Although Royal Mail would be handling fewer letters, it would still be required to operate a national network capable of delivering a next-day service six days per week to every address in the UK at uniform and affordable prices. The risks to maintaining the profitability of the Royal Mail Core Network are likely to increase with increased competition.
- *Economic environment*: Historically there has been a correlation between the state of the UK economy and the level of mail volumes. There is a risk that the continuation of flat or adverse economic conditions could impact our ability to stay profitable, either by reducing volumes or by encouraging down-trading to lower revenue products. Additionally, we have significant European operations, and current uncertainty and economic weaknesses in the Eurozone could impact these businesses.
- *Business modernisation*: In order to increase productivity and manage the Group's costs, we are undergoing a significant, extensive modernisation programme to improve our equipment and technical and IT infrastructure, and operating models. The success of the business strategy relies on successful extraction of cost, productivity and other benefits from the programme, whilst maintaining key business outcomes such as Quality of Service.
- *Risks inherent in the postal industry*: The postal industry has specific characteristics that bring particular operational and commercial risks. Operations are at risk of disruption by, for example, industrial action, adverse weather, health & safety incidents, operational change, terrorism or failure of critical suppliers. In addition to the new regulatory regime in the postal sector, there is a risk of non-compliance with a wide range of legal and regulatory requirements. The legal and regulatory environment (including at EU level) in which the Group operates, is subject to change.

- *VAT exemption applying to certain network access products*: Mandated network access services provided by Royal Mail are currently exempt from value added tax (VAT). This VAT exemption is the subject of judicial review proceedings. The imposition of VAT on mandated network access services provided by the Group could result in a loss of revenue and increased competition. As a result of the imposition of VAT on mandated network access services, end-users that use such network access services for distribution of their letters may accelerate their adoption of e-substitution or alternative means of communicating with their customers or switch to competing third party "end to end" delivery services if they become economically more attractive on a VAT-inclusive basis.
- *Value drivers*; The Group has established certain financial objectives or value drivers. These objectives are forward-looking statements and the Group's achievement of these objectives is subject to a range of sensitivities and external factors. There can be no assurance that the Group will achieve these objectives. In particular, the Group's earnings in the future could be highly volatile. As many of the Group's costs are fixed, any material reduction in volumes and revenue may have a material adverse effect.
- *Industrial relations:* There is extensive trade union recognition in respect of the Group's workforce in the UK and there is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action.

Royal Mail plc

Condensed consolidated income statement

	Notes	Half year ended 29 September 2013 Reported[1] £m	Specific items[2] £m	Excluding specific items[3] £m	Half year ended 23 September 2012 Reported[1] £m	Specific items[2] £m	Excluding specific items[3] £m
Revenue	4	**4,520**	**-**	**4,520**	4,355	-	4,355
People costs		**(2,546)**	**-**	**(2,546)**	(2,471)	-	(2,471)
Distribution and conveyance operating costs		**(880)**	**-**	**(880)**	(816)	-	(816)
Infrastructure costs (property, IT, depreciation/amortisation)		**(504)**	**-**	**(504)**	(505)	-	(505)
Other operating costs		**(237)**	**-**	**(237)**	(299)	-	(299)
Operating profit before transformation costs		**353**	**-**	**353**	264	-	264
Transformation costs	5	**(70)**	**-**	**(70)**	(120)	-	(120)
Operating profit after transformation costs		**283**	**-**	**283**	144	-	144
Operating specific items:							
Royal Mail Pension Plan (RMPP) amendment	6	**1,350**	**1,350**	**-**	-	-	-
Transaction related costs	6	**(26)**	**(26)**	**-**	(4)	(4)	-
Employee Free Shares costs	6	**(6)**	**(6)**	**-**	-	-	-
Other	6	**(9)**	**(9)**	**-**	(17)	(17)	-
Operating profit/(loss)		**1,592**	**1,309**	**283**	123	(21)	144
Profit on disposal of property, plant and equipment	6	**17**	**17**	**-**	3	3	-
Profit on disposal of associate undertaking	6	**2**	**2**	**-**	-	-	-
Earnings before interest and taxation (EBIT)		**1,611**	**1,328**	**283**	126	(18)	144
Finance costs	7	**(52)**	**-**	**(52)**	(52)	-	(52)
Finance income	7	**2**	**-**	**2**	24	22	2
Net pension interest	6	**19**	**19**	**-**	15	15	-
Profit from continuing operations before taxation		**1,580**	**1,347**	**233**	113	19	94
Current taxation (charge)/credit	8	**(17)**	**8**	**(25)**	(26)	-	(26)
Deferred taxation (charge)/credit	8	**(342)**	**(303)**	**(39)**	292	297	(5)
Profit for the period from continuing operations		**1,221**	**1,052**	**169**	379	316	63
Discontinued operations							
Profit after taxation for the period from Post Office Limited		**-**	**-**	**-**	2	2	-
Profit for the period		**1,221**	**1,052**	**169**	381	318	63
Profit for the period attributable to:							
Equity holder of the parent company		**1,220**	**1,052**	**168**	379	318	61
Non-controlling interest		**1**	**-**	**1**	2	-	2
Notional earnings per share – from continuing operations	11						
Basic		**122.0p**	**105.2p**	**16.8p**	37.7p	31.6p	6.1p
Diluted		**122.0p**	**105.2p**	**16.8p**	37.7p	31.6p	6.1p

[1] Reported - the reported results prepared on an IFRS compliant basis.

[2] Specific items - defined in note 2.

[3] Excluding specific items - reported results excluding specific items.

Details of cumulative average translation rates can be found in note 4.

Condensed consolidated statement of comprehensive income

	Half year ended 29 September 2013 Reported £m	Half year ended 23 September 2012 Reported £m
Profit for the period	**1,221**	381
Other comprehensive (expense)/income for the period:		
Items that will not be subsequently reclassified to profit or loss:		
Amounts relating to pensions accounting	**(219)**	(586)
IFRIC 14 adjustment relating to pensions	(24)	-
Actuarial losses on defined benefit schemes	(277)	(448)
Taxation on items taken directly to equity	82	(138)
Items that may be subsequently reclassified to profit or loss:		
Foreign exchange translation differences	**(4)**	(35)
Cash flow hedges	**(15)**	(16)
Losses on cash flow hedges deferred into equity	(15)	(15)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	-	(1)
Gains on financial assets released from equity to income	**-**	(22)
Total comprehensive income/(expense) for the period	**983**	(278)
Total comprehensive income/(expense) for the period attributable to:		
Equity holder of the parent company	**982**	(280)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)	**1**	2

Royal Mail plc

Condensed consolidated statement of cash flows

The condensed consolidated statement of cash flows below has been prepared on a 'Reported' basis. The comparative information for the half year ended 23 September 2012 also includes comparative information which excludes the Group's former Post Office Limited subsidiary, as reported in the statement of cash flows in the 2012-13 Annual and Interim financial statements, and has therefore been prepared on a non-GAAP basis. The only difference between the two comparative columns therefore, is the £820 million cash flows relating to the transfer of the former Post Office Limited subsidiary to Royal Mail Holdings plc on 1 April 2012.

	Notes	**Half year ended 29 September 2013 Reported £m**	Half year ended 23 September 2012 Non-GAAP £m	Half year ended 23 September 2012 Reported £m
Cash flow from operating activities				
Operating profit before transformation costs		**353**	264	264
Adjustment for:				
Depreciation and amortisation		**132**	142	142
Share of post taxation profit from associates		**(2)**	(1)	(1)
EBITDA before transformation costs	9	**483**	405	405
Working capital movements	9	**(105)**	121	121
Decrease in inventories		1	1	1
Decrease in receivables		39	108	108
(Decrease)/increase in payables		(148)	28	28
Net decrease/(increase) in derivative assets		3	(17)	(17)
Increase in provisions (non-specific items)		-	1	1
Difference between pension costs charged in operating profit and pension cash flows	9	**36**	9	9
Payments in respect of transformation costs[1]	9	**(96)**	(131)	(131)
Payments in respect of operating specific items	9	**(13)**	(18)	(18)
Cash inflow from operations		**305**	386	386
Income taxation paid	9	**(13)**	(13)	(13)
Net cash inflow from operating activities		**292**	373	373
Cash flows from investing activities				
Dividends received from associates	9	**2**	-	-
Finance income received	9	**2**	2	2
Proceeds from sale of property, plant and equipment	9	**25**	7	7
Proceeds from disposal of associate undertaking	9	**3**	-	-
Purchase of property plant and equipment[1]	9	**(91)**	(126)	(126)
Transformation investment in UKPIL		(21)	(75)	(75)
Other (GLS and business as usual UKPIL spend)		(70)	(51)	(51)
Acquisition of business (in GLS)[1]	9	**(1)**	-	-
Purchase of intangible assets (software)[1]	9	**(23)**	(13)	(13)
Payment of deferred consideration in respect of prior years' acquisitions[1]	9	**(1)**	-	-
Net outflow from transfer of Post Office Limited subsidiary to Royal Mail Holdings plc	9	**-**	n/a	(820)
Net sale of financial assets investments (non-current)		**-**	149	149
Net sale of financial asset investments (current)		**-**	30	30
Net cash (outflow)/inflow from investing activities		**(84)**	49	(771)
Net cash inflow/(outflow) before financing activities		**208**	422	(398)
Cash flows from financing activities				
Finance costs paid	9	**(25)**	(25)	(25)
Payment of capital element of obligations under finance lease contracts		**(36)**	(32)	(32)
Cash received on sale and leasebacks		**56**	33	33
Repayment of borrowings		**-**	(600)	(600)
Net cash outflow from financing activities		**(5)**	(624)	(624)
Net increase/(decrease) in cash and cash equivalents		**203**	(202)	(1,022)
Effect of foreign currency exchange rates on cash and cash equivalents		**-**	(3)	(3)
Cash and cash equivalents at the beginning of the period		**351**	473	1,293
Cash and cash equivalents at the end of the period		**554**	268	268

[1] Items included in total investment in note 9.

Condensed consolidated balance sheet

	Notes	At 29 September 2013 Reported £m	At 31 March 2013 Reported £m
Non-current assets			
Property, plant and equipment		**1,899**	1,916
Leasehold land payment		**3**	3
Goodwill (mainly investment in GLS)		**197**	196
Intangible assets (mainly software)		**156**	139
Investments in associates		**3**	3
Financial assets – pension escrow investment	7	**20**	20
– derivatives		**-**	3
Retirement benefit asset	10(b)	**1,862**	825
Other receivables		**8**	8
Deferred taxation assets		**9**	112
		4,157	3,225
Non-current assets held for sale		**-**	2
Current assets			
Inventories		**23**	24
Trade and other receivables		**962**	1,004
Financial assets – derivatives		**2**	9
– short-term deposits	7	**1**	1
Cash and cash equivalents	7	**554**	351
		1,542	1,389
Total assets		**5,699**	4,616
Current liabilities			
Trade and other payables		**(1,520)**	(1,611)
Financial liabilities – obligations under finance leases	7	**(82)**	(79)
– derivatives		**(8)**	(2)
Income taxation payable		**(13)**	(14)
Provisions		**(107)**	(119)
		(1,730)	(1,825)
Non-current liabilities			
Financial liabilities – interest bearing loans and borrowings	7	**(973)**	(973)
– obligations under finance leases	7	**(243)**	(226)
– derivatives		**(4)**	(1)
Provisions		**(111)**	(127)
Other payables		**(65)**	(36)
Deferred taxation liabilities		**(179)**	(23)
		(1,575)	(1,386)
Total liabilities		**(3,305)**	(3,211)
Net assets		**2,394**	1,405
Equity			
Share capital	13	**10**	-
Retained earnings – all distributable		**2,315**	1,318
Other reserves		**64**	83
Equity attributable to equity holder of the parent company		**2,389**	1,401
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		**5**	4
Total equity		**2,394**	1,405

Moya Greene
Chief Executive Officer

Matthew Lester
Chief Finance Officer

Royal Mail plc

Condensed consolidated statement of changes in equity

	Reported									
	Share premium £m	Share capital £m	Retained earnings £m	Financial assets reserve £m	Foreign currency translation reserve £m	Hedging reserve £m	Other reserves £m	Equity holder of the parent £m	Non-controlling interest £m	Total equity £m
At 25 March 2012	3,784	-	(6,442)	22	78	8	47	(2,503)	-	(2,503)
Profit for the period	-	-	379	-	-	-	-	379	2	381
Other comprehensive expense for the period	-	-	(586)	(22)	(35)	(16)	-	(659)	-	(659)
Capital reduction	(3,784)	-	3,784	-	-	-	-	-	-	-
Pension deficit transfer to HM Government on 1 April 2012	-	-	4,012	-	-	-	-	4,012	-	4,012
Loss on transfer of Post Office Limited subsidiary to parent company	-	-	(161)	-	-	-	(47)	(208)	-	(208)
At 23 September 2012	-	-	986	-	43	(8)	-	1,021	2	1,023
Profit for the period	-	-	215	-	-	-	-	215	2	217
Other comprehensive income for the period	-	-	147	-	30	18	-	195	-	195
Loss on transfer of Post Office Limited subsidiary to parent company	-	-	(30)	-	-	-	-	(30)	-	(30)
At 31 March 2013	-	-	1,318	-	73	10	-	1,401	4	1,405
Profit for the period	**-**	**-**	**1,220**	**-**	**-**	**-**	**-**	**1,220**	**1**	**1,221**
Other comprehensive expense for the period	**-**	**-**	**(219)**	**-**	**(4)**	**(15)**	**-**	**(238)**	**-**	**(238)**
Share capital issue (see note 13)	**-**	**10**	**(10)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Employee Free Shares issue (see note 14)	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**6**	**-**	**6**
At 29 September 2013	**-**	**10**	**2,315**	**-**	**69**	**(5)**	**-**	**2,389**	**5**	**2,394**

Notes to the condensed consolidated financial statements

1. Authorisation of financial statements

The condensed consolidated Interim financial statements of Royal Mail plc Group for the half year ended 29 September 2013 were authorised for issue by the Board on 26 November 2013 and the balance sheet was signed on the Board's behalf by Moya Greene and Matthew Lester. Royal Mail plc is a listed company whose parent company at the balance sheet date, Postal Services Holding Company plc, was owned by HM Government, domiciled in the United Kingdom.

2. Accounting policies

Basis of preparation and accounting

The incorporation of Royal Mail Limited on 6 September 2013, subsequently re-registered as Royal Mail plc on 19 September 2013, has resulted in Royal Mail plc becoming the immediate and ultimate parent of Royal Mail Group Limited (see note 13 for further details). These Interim condensed consolidated financial statements are therefore presented for the Royal Mail plc Group ('the Group'), whereas the 2012-13 Annual Report and special purpose Financial Statements ('Annual Report') were in respect of consolidated Royal Mail Group Limited. Accordingly, all references to the 2012-13 Annual Report and 2012-13 Interim financial statements in this document relate to the consolidated Royal Mail Group Limited entity.

The condensed consolidated Interim financial statements for the half year ended 29 September 2013 (2012 half year ended 23 September 2012) do not constitute statutory financial information as defined in section 434 of the Companies Act 2006. The condensed consolidated Interim financial statements are unaudited but have been reviewed by the auditor, Ernst & Young LLP, and their report is shown at the end of this document. The Royal Mail Group Limited Annual Report for the year ended 31 March 2013 did not constitute statutory financial statements as defined in section 434 and 435 of the Companies Act 2006, but were prepared in accordance with applicable International Financial Reporting Standards (IFRS) as issued by the IASB, except for the non-consolidation of the Group's Post Office Limited subsidiary up until its transfer to Royal Mail Holdings plc on 1 April 2012.

The condensed consolidated Interim financial statements for the half year ended 29 September 2013 have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union (EU). These condensed consolidated Interim financial statements should be read in conjunction with the Annual Report for the year ended 31 March 2013 which was prepared in accordance with IFRS as adopted by the EU, except for the non-consolidation of the Group's Post Office Limited subsidiary up until its transfer to Royal Mail Holdings plc on 1 April 2012.

These condensed consolidated Interim financial statements provide an update on the latest complete set of annual financial statements for the year ended 31 March 2013. Accordingly, they focus on key areas of the business which were covered by the 'core' notes in the 2012-13 Annual Report, and any other new activities, events and circumstances impacting the Group.

The accounting policies applied in the preparation of the condensed consolidated Interim financial statements are consistent with those in the Annual Report for the year ended 31 March 2013, except for the adoption of amended/revised and new accounting standards with effect from 1 April 2013 and new accounting policies relating to 'merger accounting' and 'share based payments' as detailed below:

IAS 1 'Presentation of Items of Other Comprehensive Income' (amended)

This amendment relates only to disclosure and requires the Group to present items in other comprehensive income (OCI) based on whether they can potentially be subsequently classified to profit or loss. Taxation associated with items presented before taxation must also be shown separately in OCI, depending on whether or not they can potentially be subsequently reclassified to profit or loss.

IAS 19 'Employee Benefits' (revised)

The key impact of this revision has been to replace the separate assumptions for expected return on plan assets and discounting of scheme liabilities, and replace them with one single discount rate for the net surplus or deficit. This net interest income/cost is measured based on the plans' discount rate. Asset returns greater or less than the accounting discount rate are recognised in the Statement of Comprehensive Income (SOCI). The effect of this change has been to recognise a net pension interest credit of £15 million for the half year ended 23 September 2012, compared with the amount previously recognised of £17 million. A corresponding adjustment applies to other comprehensive income, resulting in no overall change to total equity.

IFRS 13 'Fair Value Measurement'

This new standard applies to existing IFRSs that require or permit fair value measurements or disclosures. This standard does not have a significant impact on the financial performance or position of the Group.

Merger transaction of Royal Mail plc and Royal Mail Group Limited

As part of the Group reorganisation prior to the Initial Public Offering, Royal Mail plc acquired the entire share capital of Royal Mail Group Limited through issuance of its shares to the then parent company, Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company plc on 11 September 2013). As there were no changes to the shareholder group at the time of this transaction and Royal Mail plc is not a business, this transaction did not classify as a business combination as defined under IFRS 3 'Business Combinations'.

The consolidated financial statements of Royal Mail plc have therefore been prepared as a continuation of the existing Group.

Notes to the condensed consolidated financial statements (continued)

2. Accounting policies (continued)

Share based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of equity instruments at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Presentation of results

The results in the income statement have been disclosed in a number of ways as explained below:

Specific items (non-GAAP items)

The Group previously disclosed items that in management's judgement needed to be shown separately by virtue of their size, nature or incidence as 'exceptional items'. There are, however, other items of income/expense, after 'operating profit after transformation costs', that management now discloses separately, which do not ordinarily meet the definition of 'exceptional items' e.g. finance income on the sale of pension escrow gilts, pension interest and elements of taxation. The Group has decided, therefore, not to continue using the 'exceptional items' definition and instead refer to such items of income/expense as 'specific items'.

This new definition has been introduced on the basis that the financial results excluding these specific items are consistent with how financial and operational performance is measured by management in providing a meaningful analysis of the Group's trading results and cash flows respectively. These specific items may not be comparable to similarly termed measures used by other companies.

Items which are classified as specific are: RMPP plan amendment credit, transaction related costs, Employee Free Shares costs, historical employment costs, potential industrial diseases costs, certain property impairments, all profits from disposals of property and associate undertakings, net pension interest, the gain created when the pension escrow investments were sold, plus the related taxation effects of these items. Furthermore, in the half year ended 23 September 2012, the initial recognition of a deferred taxation asset relating to the Group's change in taxable profits, which permitted the Group to utilise accelerated capital allowances and trading losses, is treated as a specific item. In the half year ended 29 September 2013, the effect of the corporation tax rate change on the value of deferred tax balances is treated as a specific item.

Transfer of Post Office Limited (April 2012) disclosed in comparative information

These condensed consolidated Interim financial statements for the half year ended 29 September 2013 and 23 September 2012 have been prepared in line with IAS 34 'Interim Reporting' and include the full consolidated results of Royal Mail plc Group. The comparative information in the consolidated statement of cash flows for the half year ended 23 September 2012 includes an additional analysis which excludes the cash flows of the Group's former Post Office Limited (POL) subsidiary for the period 26 March 2012 up to 1 April 2012, at which point POL was transferred to Royal Mail Holdings plc. The Directors believe that this presentation provides meaningful comparisons of cash flows and is consistent with how the published 2012-13 Annual and Interim financial statements were presented.

Like-for-like revenue and cost growth calculations

Like-for-like percentage changes for revenue and costs have been calculated adjusting for the impact of the following:

- the number of working days in UKPIL revenue and;
- the impact of the weakening of Sterling with respect to the Euro for revenue and costs.

Significant accounting judgements, estimates and assumptions

The preparation of the condensed consolidated Interim financial statements requires management to make various judgements, estimates and assumptions when determining the carrying value of certain assets and liabilities. The significant judgements and estimates applied by the Group in these condensed consolidated Interim financial statements have been applied on a consistent basis with the Annual Report for the year ended 31 March 2013.

Restatement of 2012-13 taxation disclosure

The 2012-13 half year comparative taxation position has been restated for an additional £43 million deferred taxation liability, on the basis that the RMPP surplus at that date would be recoverable through reduced future contributions. Note 8 covers this in more detail.

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half year financial statements.

Notes to the condensed consolidated financial statements (continued)

2. Accounting policies (continued)

Accounting standards issued but not yet applied

The following new and revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10, IFRS 12 and IAS 27 Investment Entities (amendments)

IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures

IFRS 12 Disclosures of Interests in Other Entities

IAS 36 (amended) Impairment of Assets

IAS 39 (amended) Financial Instruments: Recognition and Measurement

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial performance or position of the Group in future periods.

3. Segment information

Business unit	Main statutory entities
UK Parcels, International & Letters (UKPIL) – UK operations	Royal Mail Group Limited Royal Mail Estates Limited Royal Mail Investments Limited
General Logistics Systems (GLS) – Other European operations	GLS Germany GmbH & Co. OHG GLS France S.A.S. GLS Italy S.p.A.
Other – UK operations	Romec Limited (51% owned subsidiary) NDC 2000 Limited (51% owned subsidiary) Quadrant Catering Ltd (51% owned associate)

Royal Mail plc Group is structured on a geographic business unit basis and these business units report into the Chief Executive's Committee and the Royal Mail plc Board. Each of these units have discrete revenue, costs, profit, cash flows, assets and people and therefore full and complete financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of a rigorous performance management process.

In addition to providing segmental disclosures for profit after taxation, consistent with the requirements of IFRS and how the Group is managed, the information below also includes details of free cash flow and EBITDA before transformation costs.

The majority of inter-segment revenue relates to the provision of facilities management and catering services to UKPIL. Trading between UKPIL and GLS is not material.

Transfer prices between the segments are set on a basis of charges reached through commercial negotiation with the respective business units that form part of the segments.

Seasonality

Mail volumes are subject to seasonal variation. The Group's busiest period is from September to December, when there is an increase in marketing mail volumes 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 the Group would expect to record higher revenue as greater volumes of letters and parcels are delivered through its networks. It also incurs higher costs as the Group, particularly in UKPIL, hires large numbers of temporary workers to assist in handling the increased workload. Other seasonal factors that can affect the Group's results of operations include the Easter period, the number of bank holidays in a reporting period and weather conditions. Within the year, mail volumes typically decline in the summer months due to the holiday period, and then increase during autumn through the peak period at Christmas.

Royal Mail plc

Notes to the condensed consolidated financial statements (continued)

3. Segment information (continued)

Half year ended 29 September 2013	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
External revenue	3,711	8	3,719	801	4,520
Inter-segment revenue	–	88	88	–[1]	88
Total segment revenue	**3,711**	**96**	**3,807**	**801**	**4,608**
Operating profit before transformation costs	**294**	**6**	**300**	**53**	**353**
Transformation costs	(70)	–	(70)	–	(70)
Operating profit after transformation costs	**224**	**6**	**230**	**53**	**283**
Operating specific items[2]:					
Royal Mail Pension Plan (RMPP) amendment	1,350	–	1,350	–	1,350
Transaction related costs	(22)	–	(22)	(4)	(26)
Employee Free Shares costs	(6)	–	(6)	–	(6)
Other	(9)	–	(9)	–	(9)
Operating profit	**1,537**	**6**	**1,543**	**49**	**1,592**
Profit on disposal of property, plant and equipment[2]	17	–	17	–	17
Profit on disposal of associate undertaking[2]	2	–	2	–	2
Earnings before interest and taxation (EBIT)	**1,556**	**6**	**1,562**	**49**	**1,611**
Net finance costs	not reported at this level		(51)	1	(50)
Net pension interest[2]			19	–	19
Profit from continuing operations before taxation			**1,530**	**50**	**1,580**
Taxation – non-specific items			(44)	(20)	(64)
– specific items[2]			(295)	–	(295)
Profit for the period from continuing operations			**1,191**	**30**	**1,221**
EBITDA before transformation costs	**409**	**4**	**413**	**70**	**483**
Free cash flow	not reported at this level		**130**	**53**	**183**

[1] Trading between GLS and UKPIL is not material.

[2] Classified as specific items as shown in the income statement.

Notes to the condensed consolidated financial statements (continued)

3. Segment information (continued)

Half year ended 23 September 2012	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
External revenue	3,636	7	3,643	712	4,355
Inter-segment revenue	-	70	70	-[1]	70
Total segment revenue	3,636	77	3,713	712	4,425
Operating profit before transformation costs from continuing operations	217	2	219	45	264
Transformation costs	(120)	-	(120)	-	(120)
Operating profit after transformation costs	97	2	99	45	144
Operating specific items[2]:					
Transaction related costs	(4)	-	(4)	-	(4)
Other	(17)	-	(17)	-	(17)
Operating profit from continuing operations	76	2	78	45	123
Profit on disposal of property, plant and equipment[2]	3	-	3	-	3
Earnings before interest and taxation (EBIT) from continuing operations	79	2	81	45	126
Net finance costs – non-specific items	not reported at this level		(54)	4	(50)
– specific items[2]			22	-	22
Net pension interest[2]			15	-	15
Profit from continuing operations before taxation			64	49	113
Taxation – non-specific items			(13)	(18)	(31)
– specific items[2]			297	-	297
Profit for the period from continuing operations			348	31	379
Profit after taxation for the period from discontinued operations			2	-	2
Profit for the period			350	31	381
EBITDA before transformation costs	344	1	345	60	405
Free cash flow	not reported at this level		219	(1)	218

[1] Trading between GLS and UKPIL is not material.

[2] Classified as specific items as shown in the income statement.

Notes to the condensed consolidated financial statements (continued)

4. Revenue and like-for-like revenue and cost growth/(decline)

Revenue	Half year ended 29 September 2013 £m	Half year ended 23 September 2012 £m
UKPIL	**3,711**	3,636
Letters	1,685	1,741
Marketing mail	545	552
Parcels	1,481	1,343
GLS - Parcels	**801**	712
Other	**8**	7
Total	**4,520**	4,355
Group:		
Parcels	**2,282**	2,055
Letters and other	**1,693**	1,748
Marketing mail	**545**	552
Total	**4,520**	4,355

Within UKPIL, stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate.

Like-for-like growth rates	Half year ended 29 September 2013 %	Year ended 31 March 2013 %	Half year ended 23 September 2012 %
Group revenue	**2**	5	5
- UKPIL parcels	**9**	13	13
- UKPIL letters and marketing mail	**(4)**	3	2
- GLS parcels	**6**	2	flat
Group costs	**flat**	2	2
- People	**3**	4	3
- Distribution and conveyance	**6**	4	2
- Infrastructure	**(1)**	(1)	1
- Other	**(26)**	1	(4)
- Transformation	**(42)**	(15)	(43)

The cumulative average translation rates for the half year ended 29 September 2013 are £1 = €1.1729, compared with £1 = €1.2445 for the half year ended 23 September 2012 and £1 = €1.2262 for the year ended 31 March 2013.

Notes to the condensed consolidated financial statements (continued)

5. Transformation costs

	Half year ended 29 September 2013 £m	Half year ended 23 September 2012 £m
Transformation costs:		
Business transformation payments	**(9)**	(10)
Restructuring costs:		
– Voluntary redundancy	**(7)**	(63)
– Project and property costs	**(54)**	(47)
	(70)	(120)

Business transformation payments represent payments linked to the achievement of key modernisation milestones, as part of the 2010 pay deal with the Communication Workers Union.

6. Specific items before taxation

The disclosure of specific items, separate from other items of income and expense, is explained in note 2.

	Half year ended 29 September 2013 £m	Half year ended 23 September 2012 £m
Operating specific items:		
Royal Mail Pension Plan (RMPP) amendment (see note 10)	**1,350**	–
Transaction related costs	**(26)**	(4)
Employee Free Shares costs (see note 14)	**(6)**	–
Other	**(9)**	(17)
Potential industrial diseases claims	6	–
Historical employment costs	(15)	–
Impairments	–	(17)
Total operating specific items	**1,309**	(21)
Profit on disposal of property, plant and equipment	**17**	3
Profit on disposal of associate undertaking	**2**	–
Finance income – release of gains held in equity on disposal of RMPP escrow investments	**-**	22
Net pension interest	**19**	15
Total specific items before taxation	**1,347**	19

Notes to the condensed consolidated financial statements (continued)

7. Net finance costs and net debt

The following table provides details of interest payable on loans and finance lease obligations, interest received from investments and loans relating to the facilities existing at 29 September 2013.

This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the relevant accounting standard IAS 19.

	Half year ended 29 September 2013 £m	Half year ended 23 September 2012 £m
Unwinding of discount relating to industrial diseases provision	**(1)**	(1)
Interest payable on financial liabilities	**(51)**	(51)
Loans and borrowings	(43)	(41)
Finance leases	(5)	(7)
Unused facility fees	(2)	(2)
Other facility fees	(1)	(1)
Finance costs	**(52)**	(52)
Release of gains held in equity on disposal of RMPP escrow investments	**-**	22
Interest receivable on other financial assets	**2**	2
Finance income	**2**	24
Net finance costs (excluding net pension interest)	**(50)**	(28)

Net debt is a metric which shows the Group's overall debt position, by netting the value of financial liabilities (excluding derivatives) against its cash and other liquid assets. The consolidated balance sheet shows these items gross within the different categories of assets and liabilities.

A summary of the Group's net debt position is shown below:

	Balance sheet category	**At 29 September 2013 £m**	At 31 March 2013 £m
Pension escrow investments	Non-current assets	**20**	20
Short-term deposits	Current assets	**1**	1
Cash and cash equivalents:			
- cash at bank and in hand	Current assets	**119**	136
- cash equivalent investments: short-term bank and local authority deposits/money market fund investments	Current assets	**435**	215
Obligations under finance leases	Current liabilities	**(82)**	(79)
Interest bearing loans and borrowings	Non-current liabilities	**(973)**	(973)
Obligations under finance leases	Non-current liabilities	**(243)**	(226)
Net debt		**(723)**	(906)

On 25 March 2013, the Group placed £20 million in a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) as part of a funding agreement with the RMSEPP Trustee. This is treated as an investment in the Group's balance sheet. RMSEPP was closed to future accruals on 31 December 2012.

Notes to the condensed consolidated financial statements (continued)

7. Net finance costs and net debt (continued)

Net debt has decreased overall by £183 million at the half year ended 29 September 2013 and by £280 million during the year ended 31 March 2013 as shown below:

	At 29 September 2013 £m	At 31 March 2013 £m
Net debt brought forward	**(906)**	(1,186)
Free cash flow	**183**	334
Increase in loans and borrowings (roll-up of interest on 12.0 per cent facility)[1]	**-**	(51)
Increase in new finance lease obligations (non-cash)	**-**	(4)
Foreign currency exchange impact on cash and cash equivalents	**-**	1
Net debt carried forward	**(723)**	(906)

[1]In the normal course of business the interest charge of £30 million incurred on the 12.0 per cent Subordinated Loan to 29 September 2013, is held in non-current other payables until March 2014, when it would be capitalised against the facility. Following the replacement of this facility (see below) this was repaid on 15 October 2013.

The table below shows details of the new facilities as at 15 October 2013:

Facility	Average balance £m	Average interest rate %	Basis of interest rate - LIBOR plus %	Facility end date	Facility £m	Drawn balance at 15 October 2013 £m	Average loan maturity date
Term Loan A	**50**	**1.5**	**1.00**	**12 Sep 2018**	**300**	**50**	**12 Sep 2018**
Term Loan B	**300**	**1.4**	**0.90**	**12 Sep 2016**	**300**	**300**	**12 Sep 2016**
Revolving loan facility C	**250**	**1.3**	**0.85**	**12 Sep 2018**	**800**	**250**	**15 Nov 2013**
Total facility/facilities utilised	**600**	**1.4**			**1,400**	**600**	

The Group's blended interest rate on loans and finance leases over the next five years is forecast to be as follows:

	Forecast interest rate at 15 October 2013 %
Current average interest rate on drawn down loans (see table above)	**1.4**
Market expectation of interest rate rises over the next five years	**1.2**
	2.6
Add arrangement and commitment fees	**0.9**
Forecast blended interest rate on loans and finance leases over the next five years	**3.5**

As finance leases are currently at a similar interest rate to loans, the impact of finance leases on the blended interest rate is not material.

Under the previous HM Government facilities, the equivalent blended interest rate was eight per cent.

Notes to the condensed consolidated financial statements (continued)

8. Taxation (including non-GAAP information on specific items)

	Half year ended 29 September 2013 £m	Half year ended 23 September 2012 £m
Current income taxation		
Current UK income taxation charge	-	(13)
Foreign taxation charge	**(16)**	(13)
Current income taxation charge	**(16)**	(26)
Amounts under provided in earlier years	**(1)**	-
Total current income taxation	**(17)**	(26)
Deferred income taxation		
Relating to origination and reversal of temporary differences	**(342)**	292
Current income taxation (charge)/credit reported in the consolidated income statement	**(359)**	266
Taxation on non-GAAP, specific items:		
Current taxation credit relating to specific items	**8**	-
Deferred taxation charge relating to specific items	**(307)**	-
Deferred taxation credit relating to specific items (one-off factors)	**4**	297

The taxation (charge)/credit in the income statement is calculated by applying the forecast effective taxation rates to the reported interim profit, after adjusting for specific items and profit after taxation from associates.

Effective taxation rate
The effective taxation rate for the period is 23 per cent and this comprises an effective rate on profit excluding specific items of 28 per cent and an effective rate on specific items of 22 per cent. The effective taxation rate on profit excluding specific items exceeds the UK statutory rate of 23 per cent due to:

- Group profits being subject to taxation in a range of territories with differing rates, some above the UK rate; and
- Costs attracting no taxation relief and some items where at present it is not possible to recognise a deferred taxation asset, mainly within GLS companies (described further below).

The lower effective taxation rate on profit excluding specific items in this period as compared to the period to September 2012 reflects the increased share of UK profits as a proportion of Group profits.

Impact of specific items (non-GAAP items)
The RMPP amendment credit explained in note 10 has the most significant effect on the taxation charge for specific items. Aside from the taxation effect of the specific items identified in note 6, this charge also includes the effect of the corporation taxation rate change referred to below.

The RMPP amendment credit primarily attracts an income statement deferred taxation charge, with an element charged directly to equity in accordance with the IFRIC 14 adjustment described in note 10(b).

The impact of the specific items (mostly the RMPP amendment credit) is to reduce the overall effective taxation rate by increasing the UK share of the profit before taxation. This is due to the UK statutory corporation taxation rate being generally lower than elsewhere in the European territories in which GLS is profitable.

Current taxation
GLS pays taxation in a number of territories, with the majority of profits in the period to 29 September 2013 earned in territories where the taxation rate is above the UK statutory taxation rate. A further significant factor is that certain subsidiaries, notably GLS France, are not at this stage able to recognise taxation credits on losses made during the period. These contribute to GLS having a higher effective taxation rate for the period than the UK business.

Substantially all of the current taxation due for the Group for the period is in respect of GLS, although due to deductions for the amortisation of goodwill, primarily in Germany, the current taxation rate for GLS was below its effective rate.

Taxable profits in the UK are expected to be fully covered by a combination of losses and capital allowance claims and a statutory deduction in respect of shares allocated under an approved share scheme in the second half of the year to March 2014.

Notes to the condensed consolidated financial statements (continued)

8. Taxation (including non-GAAP information on specific items) (continued)

Deferred taxation
In addition to the RMPP amendment credit effects described above, the decrease in the pension surplus due to actuarial factors gives rise to a deferred taxation credit of £82 million through equity.

At 23 September 2012, UK deferred taxation assets were recognised on the balance sheet, producing a significant taxation credit in the income statement. At 29 September 2013 those deferred taxation assets are recognised, to the extent that they remain in existence at the balance sheet date, in accordance with when they are expected to reverse.

At 31 March 2013 UK deferred taxation was recognised at the future enacted taxation rate of 23 per cent in accordance with accounting standards. In July 2013 taxation rates of 21 per cent for 2014-15 and 20 per cent for subsequent years were enacted. These interim statements therefore recognise a net UK deferred taxation liability at those revised future rates, dependent on when temporary differences are expected to reverse.

2012-13 half year (comparative) disclosures
The 2012-13 half year comparative taxation position has been restated for an additional £43 million deferred taxation liability, on the basis that the Royal Mail Pension Plan (RMPP) surplus at that date would be recoverable through reduced future contributions. This amount comprises a charge to equity of £138 million in respect of deferred taxation on the pension surplus and a credit of £95 million to income in relation to additional deferred taxation assets recognisable by reference to the pensions surplus. This is in contrast to the treatment at the 2012-13 half year, when the surplus was regarded as recoverable by a refund of contributions subject to withholding taxation per IFRIC 14, which would have resulted in no further taxation liability on the net amount refunded.

Notes to the condensed consolidated financial statements (continued)

9. Cash flow information (including non-GAAP information on specific items)

The Group uses the following analysis of free cash flow (a non IFRS measure) to monitor its cash performance. This measure eliminates inflows/(outflows) between net debt items (see note 7) and includes finance cash costs paid.

The half year ended 23 September 2012 additional non-GAAP analysis represents comparative information which excludes the Group's former Post Office Limited subsidiary, as reported in the statement of cash flows in the 2012-13 Annual and Interim financial statements.

A reconciliation of 'net cash inflow/(outflow) before financing activities' in the consolidated statement of cash flows to 'free cash inflow/(outflow)' is included within this note.

	Half year ended 29 September 2013 Reported £m	Half year ended 23 September 2012 Non-GAAP £m	Half year ended 23 September 2012 Reported £m
EBITDA before transformation costs (see consolidated statement of cash flows)	**483**	405	405
Trading working capital movements	**(170)**	(94)	(94)
Difference between pension costs charged in operating profit and pension cash flows	**36**	9	9
Pension costs recorded in the income statement	245	218	218
Cash payment relating to pensions	(204)	(205)	(205)
Deficit correction payments	(5)	(4)	(4)
Total investment[1]	**(212)**	(270)	(270)
Voluntary redundancy	(30)	(45)	(45)
Business transformation payments	(11)	(40)	(40)
One-off project and property costs	(55)	(46)	(46)
Total payments in respect of transformation costs	(96)	(131)	(131)
Transformation investment - capital expenditure	(21)	(75)	(75)
Total transformation investment in UKPIL	(117)	(206)	(206)
Other non-transformation spend (IT (incl. software), GLS and business as usual UKPIL spend)	(95)	(64)	(64)
Taxation paid	**(13)**	(13)	(13)
Net finance costs paid	**(23)**	(23)	(23)
Dividends from associates	**2**	-	-
Underlying cash inflow	**103**	14	14
Transfer of Post Office Limited (discontinued operation) to Royal Mail Holdings plc	**-**	-	(820)
One-off working capital movements	**65**	215	215
Operating specific items (mainly transaction related payments)	**(13)**	(18)	(18)
Disposal of property and associate undertaking	**28**	7	7
Free cash inflow/(outflow)	**183**	218	(602)

[1] Total investment is represented by several different line items in the consolidated statement of cash flows.

Notes to the condensed consolidated financial statements (continued)

9. Cash flow information (including non-GAAP information on specific items) (continued)

Working capital movements

	Half year ended 29 September 2013 Reported £m	[2]Half year ended 23 September 2012 Non-GAAP £m	Half year ended 23 September 2012 Reported £m
One-off working capital movements:			
Pay deal accrual for 2013-14	**65**	-	-
Buy forward of stamps in April 2012	**-**	100	100
Impact of applying VAT to postal products in 2012-13	**-**	75	75
Unwinding of pension prepayment made in March 2012	**-**	40	40
Total one-off working capital movements	**65**	215	215
Trading working capital movements	**(170)**	(94)	(94)
Total working capital movements	**(105)**	121	121

Free cash flow

The following analysis provides a reconciliation of 'net cash inflow/(outflow) before financing activities' in the consolidated statement of cash flows and free cash inflow/(outflow).

	Half year ended 29 September 2013 Reported £m	[2]Half year ended 23 September 2012 Non-GAAP £m	Half year ended 23 September 2012 Reported £m
Net cash inflow/(outflow) before financing activities in the statement of cash flows	**208**	422	(398)
Net sale of gilts and Treasury bills (financial asset investments – non-current)	**-**	(149)	(149)
Net sale of bank deposits (financial asset investments – current)	**-**	(30)	(30)
Finance costs paid	**(25)**	(25)	(25)
Free cash inflow/(outflow)	**183**	218	(602)

[2] This half year ended 23 September 2012 additional analysis represents comparative information which excludes the Group's former Post Office Limited subsidiary, as reported in the statement of cash flows in the 2012-13 Annual and Interim financial statements.

Notes to the condensed consolidated financial statements (continued)

10. Employee benefits – pensions under IAS 19

Pensions Reform

In June 2013 Royal Mail Group launched a consultation with Royal Mail Pension Plan (RMPP) members with the aim of keeping the Plan open to future accrual, subject to certain conditions, at least until the next periodic pension review is concluded in March 2018. The consultation period closed on Sunday 25 August 2013. On 26 September 2013 the Company agreed with the RMPP Trustee to implement the Pensions Reform with effect from 1 April 2014 and has announced the agreed changes to the Plan.

Under the Pensions Reform, basic pay elements of members' pensionable pay (after subtraction of the Lower Earnings Deduction for Section C members) will increase by RPI (up to five per cent) each year regardless of whether employees' actual basic pay increases by more or less, subject to potential additional increases to take account of certain increments or progressions within pay groups.

Accounting for the Pensions Reform

The agreed changes due to the Pensions Reform are considered to be a 'plan amendment' which meets the IAS 19 definition of a past service cost, and their effect has been recognised in the financial statements of the Group for the half year ended 29 September 2013.

The defined benefit obligation has initially been calculated on an accounting basis assuming that increases in basic pensionable pay will average one per cent above RPI each year over the longer term, consistent with the assumption made historically. The resulting actuarial gains or losses have been recorded in the statement of other comprehensive income.

The impact of the 'plan amendment' has then been calculated with the financial effect of the change in assumptions arising from the Pensions Reform – particularly the assumption that basic pensionable pay under the Plan will increase by RPI up to five per cent each year – being accounted for as a past service credit, resulting in a one-off, non-cash, specific adjustment in the income statement for the half year ended 29 September 2013 of £1,350 million.

RMPP cash funding

The equivalent actuarial or cash funding surplus at 29 September 2013 is £1,495 million. This surplus will be used to fund the gap between the existing Company contributions of around £380 million per annum to RMPP and the estimated cost of future accrual for RMPP. This allows the Plan to remain open for the benefit of the members over the period up to March 2018, without requiring either the Company or individuals to make unaffordable increases to their cash contributions.

Notes to the condensed consolidated financial statements (continued)

10. Employee benefits – pensions under IAS 19 (continued)

a) Major long-term assumptions used for accounting purposes – RMPP and RMSEPP

The major assumptions were as follows:

	At 29 September 2013 % pa	At 31 March 2013 % pa
Inflation assumption (RPI)	**3.3**	3.3
Inflation assumption (CPI)	**2.3**	2.3
Discount rate – nominal	**4.6**	4.8
– real[1]	**1.3**	1.5
Rate of increase in salaries	**RPI**	RPI + 1%
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**CPI**	RPI
Rate of increase for deferred pensions – all other members	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[2]	**RPI**	RPI
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	RPI
Rate of pension increases – RMSEPP all other members[2]	**RPI**	RPI

[1] The real discount rate selected reflects the long duration of the schemes.
[2] Section C members (who joined RMPP on or after April 1987) and RMSEPP all other members, have this increase capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

The following disclosures relate to the gains/losses and surplus in the schemes recognised for the RMPP and RMSEPP defined benefit plans in the financial statements of the Group:

The real discount rate has decreased to 1.3 per cent since March 2013 when it was 1.5 per cent.

Demographic assumptions, for example mortality, remain unchanged from those made in March 2013.

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

Key assumption change	**Potential increase in liabilities £m**
Pension increase of +0.1% p.a.	**35**
Change in discount rate -0.1% p.a.	**35**
Additional 1 year life expectancy	**30**

b) Plans' assets and liabilities

The combined plans' assets and liabilities were as follows:

	Market value	
	At 29 September 2013 £m	At 31 March 2013 £m
Fair value of plans' assets	**3,523**	3,343
Present value of plans' liabilities	**(1,632)**	(2,513)
Surplus in schemes (pre IFRIC 14 adjustment)	**1,891**	830
IFRIC 14 adjustment	**(29)**	(5)
Surplus in schemes	**1,862**	825

The surplus in RMSEPP is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of withholding taxation.

The surplus in RMPP is assumed to be available partially as a reduction to contributions and partially as a refund in accordance with IFRIC 14. The element assumed to be available as a refund is included net of withholding taxation, which is shown as an IFRIC 14 adjustment. The Directors do not believe that the current excess of pension scheme assets over the liabilities on an accounting basis will result in an excess of pension assets on a funding basis. However, the Directors are required to account for the pension scheme, based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS.

There were no open equity derivatives within this portfolio at 29 September 2013.

Notes to the condensed consolidated financial statements (continued)

10. Employee benefits – pensions under IAS 19 (continued)

b) Plans' assets and liabilities (continued)

The RMPP Trustee has elected to use interest rate and inflation rate swaps ('derivatives') to deliver the investment strategy whilst managing risk as described on page 79 of the 2012-13 Annual Report. The interest rate and inflation rate swaps are used to hedge the exposure to movements in interest rates and inflation (which are key, long-term assumptions used to estimate future pension liabilities). The economic exposure of these swaps held in a specific managed portfolio for this purpose at 29 September 2013 is £3.3 billion (March 2013 £1.53 billion).

c) Movement in plans' assets and liabilities – RMPP and RMSEPP

Changes in the value of the plans' assets and analysis is as follows:

	Half year ended 29 September 2013 £m	Full year ended 31 March 2013 £m
Plans' assets at beginning of period	**3,343**	28,616
Increase in value of pension assets - 26 to 31 March 2012	**-**	224
Transfer of pension assets to HM Government	**-**	(26,485)
Company contributions paid	**204**	433
Employee contributions paid	**67**	136
Finance income[3]	**87**	159
Actuarial (losses)/gains ((decrease)/increase in asset market values)	**(166)**	277
Benefits paid to members	**(12)**	(17)
Plans' assets at end of period	**3,523**	3,343

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	Half year ended 29 September 2013 £m	Full year ended 31 March 2013 £m
Plans' liabilities at beginning of period	**(2,513)**	(31,332)
Increase in value of pension liabilities - 26 to 31 March 2012	**-**	(652)
Transfer of pension liabilities to HM Government	**-**	30,211
Current service cost	**(231)**	(412)
Pay accruals included in above pension costs	**5**	-
Past service credit due to Plan amendment	**1,350**	-
Employee contributions	**(67)**	(136)
Curtailment costs[4]	**(9)**	(17)
Finance cost[3]	**(68)**	(129)
Actuarial losses (net changes in long-term assumptions)	**(111)**	(63)
Benefits paid to members	**12**	17
Plans' liabilities at end of period	**(1,632)**	(2,513)

[3] The finance income is the result of applying the Plans' discount rate as at 31 March 2013 to the Plans' assets at that date. Similarly, the finance cost results from applying the Plans' discount rate as at 31 March 2013 to the Plans' liabilities at that date.

[4] The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

Notes to the condensed consolidated financial statements (continued)

11. Notional earnings per share (including non-GAAP information on specific items)

	Half year ended 29 September 2013		Half year ended 23 September 2012	
	Reported	**Excluding specific items**	Reported	Excluding Specific items
Profit from continuing operations attributable to equity holders of the parent (£m)	**1,220**	**168**	377	61
Number of shares (million)	**1,000**	**1,000**	1,000	1,000
Basic earnings per share (pence)	**122.0**	**16.8**	37.7	6.1

The notional basic earnings per share assumes that one billion shares, as at 29 September 2013, existed for the whole of the half year ending on that date and for the comparative half year ending 23 September 2012.

12. Related party transactions

During the period the Group entered into the following transactions with related parties:

	Half year ended 29 September 2013 £m	Half year ended 23 September 2012 £m
Sales/recharges to:		
- RMPP	**2**	3
- Post Office Limited	**18**	18
Purchases/recharges from:		
- Post Office Limited (mainly commission/counter services)	**169**	172
- Associates	**12**	16
Amounts owed from:		
- Post Office Limited	**11**	9
Amounts owed to:		
- Associates	**3**	4

The Group has taken advantage of the exemption conferred by *IAS 24 Related Party Disclosures,* whereby transactions between the Group and other HM Government owned entities and with HM Government itself are not disclosed unless they are individually or collectively significant.

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the half year are unsecured, interest free and settlement is made in cash.

On 1 April 2012 Post Office Limited became a related party to Royal Mail Group Limited and the transactions summarised above are in respect of trading between the two entities from that date. Quadrant Catering Limited was an associate company of the Group throughout the reporting periods above. G3 Worldwide Mail N.V. ('Spring') was an associate company of the Group until its disposal on 2 April 2013.

Key management compensation
The basis of remuneration of key management personnel remains consistent with that disclosed in the 2012-13 Annual Report for the year ended 31 March 2013.

Notes to the condensed consolidated financial statements (continued)

13. Organisation structure and share capital changes

A new company Royal Mail Limited was incorporated on 6 September 2013 with share capital of 100 ordinary shares of £1.50 each (total £150) issued to Royal Mail Holdings plc. Royal Mail Holdings plc was renamed Postal Services Holding Company plc ('PSH') on 11 September 2013. On 12 September 2013, the special share in Royal Mail Group Limited, held by HM Government, was redeemed at par value of £1.

Subsequently, also on 12 September 2013, share capital of 999,999,900 ordinary shares of £1.50 each (total £1,499,999,850) was issued by Royal Mail Limited to PSH in consideration for the transfer from PSH of the entire issued share capital of Royal Mail Group Limited.

Following this transfer, and therefore as at 12 September 2013, the issued share capital of Royal Mail Limited comprised 1,000,000,000 ordinary shares of £1.50 each (total £1,500,000,000).

On 17 September 2013, Royal Mail Limited approved a reduction of capital by way of solvency statement to cancel £1.49 from each issued ordinary share of £1.50. This reduction of capital was registered on 18 September 2013, and reduced share capital from £1,500 million to £10 million and increased distributable reserves by £1,490 million.

Following this reduction, and therefore as at 18 September 2013, the issued share capital of Royal Mail Limited comprised 1,000,000,000 ordinary shares of £0.01 each (total £10,000,000).

On 19 September 2013, Royal Mail Limited was re-registered as Royal Mail plc.

Royal Mail plc subsequently listed on the premium segment of the official list and the main market of the London Stock Exchange on 15 October 2013 (see note 15).

14. Employee Free Shares

Ordinary shares representing 10 per cent of the value of Royal Mail plc were granted free of charge to eligible employees on 15 October 2013, the date of the Initial Public Offering. These free shares are held in an HMRC-approved Share Incentive Plan (SIP) and each eligible full-time employee was eligible to receive a total of 725 free shares at the date of the Initial Public Offering. However, under HMRC rules, employees can be given a maximum of £3,000 worth of free shares in any taxation year.

The initial market value of the award was measured at the closing mid-price of Royal Mail plc's shares on 15 October 2013 (489 pence per share). This valued an eligible full-time employee's award at £3,545.25, in excess of the £3,000 maximum. Accordingly, 613 shares have been awarded to each eligible full-time employee as their 2013 SIP allocation. The Company intends to allocate a further 112 shares to eligible full-time employees as soon as possible after 6 April 2014 as a 2014 SIP allocation, subject to them remaining employees of Royal Mail Group Limited. Part-time eligible employees will be allocated a pro-rata number of shares. Eligible employees may receive more, or fewer, further shares than the Company expects, depending on the number of unallocated shares and the number of eligible employees at that time.

The fair value of the award of free shares is estimated as £489 million, which will be charged to the income statement on a straight line basis over the period of vesting (three years for the 2013 SIP and four years for the 2014 SIP). A charge to the Group income statement of £6 million has been made for the half year ended 29 September 2013 for both SIP allocations as they were granted as one award.

The free shares will be held in a Trust funded by Royal Mail. The Trust will be under the control of the Royal Mail and will be operating for its benefit. At March 2014 the Trust will be included in Royal Mail's consolidated financial statements.

15. Events after the reporting period

London Stock Exchange listing

Royal Mail plc listed on the premium segment of the official list and the main market of the London Stock Exchange on 15 October 2013. The Offer comprised 521.7 million existing ordinary shares, representing 52.2 per cent of Royal Mail plc's share capital on admission. In addition to the Offer, Royal Mail plc's eligible UK employees received a total of just over 100 million shares under the Employee Free Share Offer, representing 10 per cent of the Company's existing ordinary shares. Following admission, the Employee Free Share Offer and the exercise of the over-allotment arrangement (which accounted for a further 78 million ordinary shares as described in the Royal Mail plc Prospectus), HM Government held 29.9 per cent of the ordinary shares. The ordinary shares have the International Security Identification Number (ISIN) GB00BDVZYZ77 and Stock Exchange Daily Official List (SEDOL) number BDVZYZ7. The ordinary shares are traded on the London Stock Exchange under the ticker symbol "RMG".

New funding arrangements

On 12 September 2013 Royal Mail plc entered into new debt facility agreements with its banking syndicate comprising £600 million term loan facilities and an £800 million revolving credit facility. On 15 October 2013 these new debt facilities were utilised as detailed in note 7.

Statement of Directors' responsibilities in relation to the Interim financial statements

The Directors confirm that to the best of their knowledge:

- the condensed set of Financial Statements has been prepared in accordance with IAS 34 as adopted by the European Union;
- the Interim Management Report includes a fair review of the important events during the first six months and a description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R; and
- the Interim Management Report includes a fair review of related party transactions and changes therein, as required by DTR 4.2.8R.

A list of current Directors is maintained on the Royal Mail plc website: http://www.royalmailgroup.com/about-us/management-committees/royal-mail-plc-board.

By order of the Board

Moya Greene **Matthew Lester**

26 November 2013

Independent review report to Royal Mail plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the six months ended 29 September 2013 which comprises the Interim consolidated income statement, Interim consolidated statement of comprehensive income, Interim consolidated statement of changes in equity, Interim consolidated balance sheet, Interim statement of consolidated cash flows and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

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 United Kingdom. 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. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the six months ended 29 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
26 November 2013

Royal Mail plc

Corporate information

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Royal Mail plc
100 Victoria Embankment
London
EC4Y 0HQ
Telephone: 020 7250 2888
Registered No: 08680755

Corporate website
Additional corporate and other information can be accessed on the following website (www.royalmailgroup.com). Information made available on the website is not intended to be, and should not be regarded as being, part of the Interim Financial Report.

The maintenance and integrity of the Group's websites is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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Analysts' presentation
An analysts' presentation will be held in London at 09:30 on 27 November 2013 and a simultaneous webcast will be available at http://www.royalmailgroup.com/results.

Royal Mail plc

Forward looking statements

Certain statements contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "forecasts", "plans", "projects", "predicts", "prepares", "anticipates", "expects", "intends", "may", "will", "should", "target" or "objective" or, in each case, their negative or other variations or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. The Group's actual results of operations, financial condition and the development of the business sectors in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, and persons receiving this document should not place undue reliance on any forward-looking statements.

The Group disclaims any obligation or undertaking to update or revise any forward-looking statements contained in this document to reflect any change in its expectations or any change in events, conditions or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules or the Disclosure and Transparency Rules of the Financial Conduct Authority.