

Royal Mail plc

Preliminary Results for the year ended 30 March 2014

Thursday 22 May 2014



Highlights

Royal Mail plc (RMG.L) today announced its unaudited results for the year ended 30 March 2014.

“Our performance was in line with our expectations. We delivered two per cent revenue growth, controlled operating costs and drove strong free cash flow.

“We are facing a couple of headwinds. The competitive environment on the parcels side is more intense. We are taking steps to remain the leader in this growing market.

“On the letters side, the headwind is direct delivery and we have strategies in place to counter its adverse financial impact. However, without timely regulatory action, direct delivery could undermine the economics of the Universal Service and our ability to generate sustainably a five to ten per cent EBIT margin in our reported business¹.

“Our key value drivers of single digit revenue growth, margin expansion and underlying free cash flow growth remain the objectives for the Group for the 2014-15 financial year.”

Moya Greene, Chief Executive Officer, Royal Mail plc

Financial highlights

Group	Reported ² 52 weeks 2014	Adjusted ³ 52 weeks 2013	Change
Revenue (£m) ⁴	9,456	9,146	2%
Operating profit before transformation costs (£m)	671	598	
Transformation costs (£m)	(241)	(195)	
Operating profit after transformation costs (£m)	430	403	
Operating profit margin after transformation costs (%)			
- Like-for-like	4.2	4.4	(20bps)
- Reported	4.5	4.4	
Profit before taxation (£m)			
- Excluding specific items	363	304	
- Reported	1,666	283	
Notional earnings per share (pence)			
- Excluding specific items	26.3	21.0	
- Reported	127.7	52.5	
EBITDA before transformation costs (£m)	942	915	
Free cash flow (£m)	398	334	£64m
Net debt (£m)	(555)	(906)	£351m
Recommended final dividend per share (pence)	13.3		

¹ The reported business is a subset of UKPIL including network access, and excluding Parcelforce Worldwide and the Royal Mail Property unit. The reported business, as defined by Ofcom, is the entity which provides the Universal Service and takes account of all the costs of both the regulated and unregulated products that depend on the core Universal Service activities.

² Reported - prepared in accordance with International Financial Reporting Standards (IFRSs).

³ Adjusted - reported 2012-13 results adjusted to exclude the consolidation of POL up to 1 April 2012 and the 53rd week's additional revenue and costs. In addition, £32 million POL separation costs, taken directly to equity in the Reported basis, were taken through the income statement in the Adjusted basis. See note 1 'Basis of Preparation' for further details.

⁴ Throughout this document, growth/decline rates and margins are stated on a like-for-like basis, unless otherwise indicated. Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange 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)	Movement compared with prior year relating to:		
	Foreign exchange	Working days	Total
Revenue	52	36	88
Costs	48	N/A	48

The cumulative average translation rates for the year ended 30 March 2014 were £1 = €1.185, compared with £1 = €1.226 for the year ended 31 March 2013.

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Business unit (£m)	Revenue			Operating profit after transformation costs	
	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change	Reported 52 weeks 2014	Adjusted 52 weeks 2013
UK Parcels, International & Letters (UKPIL)	7,787	7,633	2%	309	294
General Logistics Systems (GLS)	1,651	1,498	7%	108	101
Other businesses	18	15	n/m	13	8
Group	9,456	9,146	2%	430	403

Revenue and volume

- Group revenue increased by two per cent, due to parcel revenue growth in both UKPIL and GLS. Parcels are the largest contributor to Group revenue, accounting for 51 per cent.
- UKPIL revenue was £7,787 million, up two per cent. UKPIL parcel revenue increased by seven per cent. As expected, parcel volumes (1,068 million items) were flat compared with 2012-13.
- UKPIL letter revenue (including marketing mail) declined to £4,625 million, a two per cent reduction. The four per cent decline in addressed letter volumes for the full year was at the better end of our forecast range of four to six per cent per annum. Marketing mail revenue, part of letter revenue, was £1,111 million.
- GLS revenue was £1,651 million, up seven per cent. Volumes increased six per cent, with growth in both domestic and international volumes.

Profit and margins

- Group operating profit before transformation costs grew to £671 million.
- Transformation costs of £241 million for the year include a provision of £104 million in relation to the management reorganisation programme, announced on 25 March 2014, which will be implemented in 2014-15.
- Group operating profit after transformation costs increased to £430 million. The operating profit margin reduced from 4.4 per cent to 4.2 per cent, as a result of the provision for the management reorganisation programme.
- UKPIL generated operating profit after transformation costs of £309 million. The operating profit margin decreased from 3.9 per cent to 3.5 per cent, again as a result of the provision for the management reorganisation programme.
- GLS operating profit was £108 million. The operating profit margin decreased from 6.7 per cent to 6.5 per cent due to the full year effect of further increases in sub-contractor rates in Germany.
- Profit before taxation (excluding specific items) of £363 million reflects the trading performance of the Group. Accounting standards require us to include a one-time, non-cash benefit of £1,350 million as a result of the Pensions Reform in reported profit before taxation and reported notional earnings per share.

Notional earnings per share (EPS)

- Notional EPS excluding specific items was 26.3 pence.

Cash flow and balance sheet

- EBITDA before transformation costs grew to £942 million, due to improved trading performance.
- Net cash investment of £581 million represents £617 million investment after cash from asset disposals of £36 million.
- Free cash flow increased to £398 million. This has driven a reduction in net debt to £555 million.

Dividends

- As previously indicated, the Board has recommended a final dividend of 13.3 pence per share, subject to shareholder approval at the Annual General Meeting, to be held on 24 July 2014.

Transformation and cost control

- Collections, processing and delivery productivity improved by 1.7 per cent, as we reduced the number of frontline hours at a faster rate than the reduction in the level of workload.
- Eight Mail Centres closed this financial year, taking the total number of Mail Centres remaining to 40. We have completed or commenced modernisation in 94 per cent of our Delivery Offices.
- Tight cost control meant non-people costs in UKPIL reduced by three per cent.

Regulation

- The Ofcom investigation into changes to access⁵ pricing puts this commercial response to changing market conditions on hold.

⁵ As the Universal Service provider, Royal Mail is required to provide access at Inward Mail Centres for final mile deliveries.

- Based on our estimates of the impact of TNT Post UK's publicly-stated plans, direct delivery could reduce Royal Mail revenue by over £200 million in 2017-18. See regulation section of Chief Executive's Review for more information.
- With our proposed access price changes suspended and unfettered direct delivery rollout, there is a reasonable prospect that Ofcom's indicative EBIT margin range of between five and ten per cent for Royal Mail's reported business may never sustainably be achieved.
- We are preparing a regulatory submission calling on Ofcom to take action now and carry out a full review of direct delivery.

Summary outlook

- We are facing increasing challenges in the parcels and letters markets in the UK. However, our key value drivers of single digit revenue growth, margin expansion and underlying free cash flow growth remain the objectives for the Group for 2014-15.
- The Board's intention remains to pursue a progressive dividend policy, having regard to the normalised earnings progression of the Group.

Chief Executive Officer's review

I am pleased to report another good performance. We have built a foundation for sustained, steady performance against a backdrop of significant structural and operational change.

The Group's operating profit after transformation costs increased to £430 million from £403 million. This was due to parcel revenue growth more than offsetting letter volume declines. Operating profit margin declined from 4.4 to 4.2 per cent, due to the provision for our management reorganisation programme. Profit before taxation excluding specific items increased to £363 million and our notional earnings per share was 26.3 pence. Free cash flow increased to £398 million, primarily due to an improved trading performance and reduced investment spend.

UKPIL revenue was up two per cent at £7,787 million. Parcel revenue increased by seven per cent to £3,162 million while volumes were flat, mainly due to the impact of size-based pricing on consumers and small and medium-sized enterprises (SMEs) and the industrial relations environment at the end of 2013. The operating profit margin before transformation costs increased, as costs grew at a slower rate than revenue. However, the provision for the management reorganisation programme reduced the operating profit margin after transformation costs, to 3.5 per cent.

GLS delivered revenue growth across all its markets. Total revenue was £1,651 million and operating profits were £108 million. The operating profit margin was slightly lower than last year at 6.5 per cent. Despite increasing revenue in Germany, significant competitor investment in capacity and increasing sub-contractor rates put pressure on margins. Revenue growth was driven by a strong performance in Italy due to our network of owned and franchised operations. We are making progress with our turnaround programme in France.

Our vision

Our vision is to be recognised as the best delivery company in the UK and across Europe.

We are the leading provider of postal and delivery services in the UK. GLS operates one of the largest ground-based, deferred parcel delivery networks in Europe.

A clear strategy

Our strategy is based on three priorities:

- 1) being a successful **parcels** business;
- 2) managing the decline in **letters**;
- 3) being **customer** focused.

We are focused on delivering efficiency and productivity improvements as our mail mix changes. We must increase the pace at which we deliver change – whether large or small – if we are to succeed. Our strategy is also underpinned by a focus on managing our business successfully, which includes people, customer and financial measures.

Parcels

Our parcels strategy: key points

- Getting the basics right: improving our first time delivery rates through initiatives like Delivery to Neighbour.
- Getting the technology right: including making it easier for our customers to access our networks and rolling out FlexDelivery in GLS.
- Expanding and automating our networks: detailed planning for parcels systems upgrades and automation in the core Royal Mail network; expanding the geographic footprint of GLS through organic growth and selective acquisitions.

UKPIL collects and delivers parcels and letters predominantly through the Royal Mail core network and Parcelforce Worldwide. We offer deferred, express and courier services across a number of segments. Over recent years, e-retailing has driven parcel volume

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increases in the UK. Competition is intense and capacity is increasing. We are focused on maintaining our leading position by becoming increasingly flexible and efficient, and offering additional service features and options. While our volumes are driven largely by growth in e-commerce, we do not benefit from growth in all areas of e-retailing. For example, we do not operate in all online segments and are under-represented in some areas, such as returns for clothing and shoes. We are now focusing on faster growing market segments. We are increasing the proportion of items we can carry cost-effectively on foot, enabled by trolleys.

Our parcel customer base is large and diverse. Around a quarter of our domestic parcel revenue, excluding Parcelforce Worldwide, is generated by large and medium-sized companies, whilst approximately three quarters is generated by consumers, micro-SMEs and SMEs. Our single largest parcel customer accounts for approximately six per cent of UKPIL parcel revenue. Changes to its minimum order for free delivery and the expansion of its own delivery capabilities are expected to reduce available volume. However, we believe the breadth of our customer base and our strategy of supporting SMEs to grow through e-commerce means we are not as exposed to the actions of our largest customers as some of our competitors.

In April 2013, we introduced size-based pricing for consumers and SMEs to ensure that parcels are delivered through the most appropriate UK network. This approach has driven significant growth in revenue, while parcel volumes were flat. Declines in consumer volumes were greater than expected. We recognised this quickly and took action to fix it – expanding small parcels dimensions in October 2013.

We are also making it easier for customers to receive and return parcels. Royal Mail is to pilot Sunday afternoon opening at around 100 of its delivery offices across the UK later this summer. We will also trial Sunday parcel deliveries later this summer to addresses within the M25 motorway. Parcelforce Worldwide will also launch a Sunday delivery service in June for online shoppers through participating e-retailers.

We have added tracking to all contract returns services, so customers can check whether items have gone back to the seller and the seller can see when an item is coming. Working with the Post Office, Royal Mail has launched Local Collect – the UK's largest click and collect network. Receiving a parcel at home is still the UK consumer's preferred method of delivery. If this is not convenient, customers can choose one of around 10,500 participating post offices as a parcel collection point. We have completed the expansion of the capacity of Parcelforce Worldwide, with a domestic hub opened in Chorley in 2013 and eleven depots newly opened or upgraded across the UK in the financial year.

Delivery companies are increasingly technology companies, as they seek to provide improved tracking and delivery solutions. In 2011, UKPIL began a five year IT transformation programme, one objective of which was to support the delivery of our parcels strategy. We completed the issue of more than 74,000 handheld scanners to our postmen and women in time for Christmas 2013. Looking forward, key areas of investment will provide additional tracking systems, including expanding barcoding and SMS messaging.

GLS is a strategically important part of Royal Mail Group. It provides geographical diversification of our earnings. Its experience and focus on parcel delivery means it is a core component of Royal Mail's vision of being recognised as the best delivery company in the UK and across Europe.

Business-to-business (B2B) parcel customers form GLS' core market, representing more than 70 per cent of all parcel volumes it delivered in the year. It is mainly active in the deferred parcels segment – the least time-sensitive type of delivery. 94 per cent of GLS' revenue came from deferred parcels.

GLS continued its introduction and enhancement of FlexDelivery. This is a monitoring and tracking service that allows customers to change the delivery time and location of parcels. FlexDelivery is currently available in ten markets, with plans to roll it out to more countries. It is also available for cross-border traffic in selected markets.

GLS operates through wholly-owned and partner companies, in 37 countries and nation states across Europe, with strategies developed based on the dynamics of each local market. However, every business focuses on reliable quality with a strong customer emphasis, optimising the use of technology to provide the services and flexibility customers expect.

Letters

Our letters strategy: key points

- Managing the structural decline in the letters market by adding value to customer mailings: rolling out Mailmark™ barcoding technology and promoting the value of marketing mail.
- Calling on Ofcom to address the potential threat to the economics of the Universal Service created by the uncertainty caused by its Competition Act investigation, access pricing policy review and the unfettered growth of direct delivery competition.
- Leveraging the benefits of our investments in letter automation by increasing the number of letters sorted into delivery order and optimising mail handling techniques.

Our letters performance was at the better end of our expectations. Revenue was down two per cent. Addressed letter volumes declined by four per cent during the year. The decline in addressed letter volumes moderated in the second half. This was due to strengthening economic conditions, alongside one-off impacts such as energy companies writing to customers about price rises in October 2013, and an increase in stamped mail volumes in December 2013, including Christmas cards.

In March 2014, we began the rollout of Mailmark™, which provides barcode technology and online reporting for machine-readable business, advertising and publishing mail. Mailmark™ will deliver a number of additional benefits for customers, including timely reporting on performance and predicted delivery times, and more accurate and transparent billing.

Marketing mail revenue was £1,111 million. Research has demonstrated that using marketing mail in combination with other media significantly increases communications effectiveness. Our MarketReach business aims to prove and promote the commercial value of mail and enables customers to realise that value within their own businesses. These additional services complement the extensive UK delivery network, which Royal Mail uses for the distribution of customers' marketing mail.

As we seek to win business, we are flexing our services to provide what customers want. During March 2014, we were awarded a significant contract to collect and deliver mail for 14 councils across London. This collaborative agreement, where mail services have been procured centrally in order to gain efficiencies, is the first of its kind for Royal Mail and the councils.

Regulation

We are proud to deliver the Universal Service. But, the sustainability of the Universal Service depends on Royal Mail being able to use revenue from easy-to-serve urban areas to cover the cost of a nationwide network capable of serving all addresses at a uniform price.

On 10 January 2014, we announced a number of changes to Royal Mail's access contracts. The changes were intended to help secure the provision of the Universal Service, against the backdrop of a continuing decline in letter volumes. Following a complaint by TNT Post UK, Ofcom opened an investigation into some of the access contract changes on 21 February 2014. The price changes subject to Ofcom's investigation are suspended until the outcome of this investigation. On 9 April 2014, Ofcom confirmed that it would use its powers under the Competition Act 1998 to investigate the complaint.

The planned changes to access contracts are an important part of our commercial response to changing market conditions, including the expansion of direct delivery⁶ competition. We believe TNT Post UK's complaint is unfounded. We believe the changes are fair, reasonable and fully within the guidance provided by Ofcom⁷. We are cooperating fully with Ofcom to ensure the investigation is completed as quickly as possible, so that our planned changes can be put into effect.

On 9 April 2014, following the end of the reporting period, Ofcom also announced a policy review of the access conditions imposed on Royal Mail in March 2012, and Ofcom's guidance on those conditions. Ofcom has said it will complete this by the end of 2014. We are proactively engaging with Ofcom on this review.

TNT Post UK now has direct delivery operations in much of London and in Manchester and in Liverpool. It has stated its intention to take its own direct delivery service to a number of other cities, with the aim of covering around 42 per cent of addresses by 2017.

⁶ Direct delivery refers to a situation where other postal operators convey mail from customer to recipient, entirely using their own delivery network and not Royal Mail.

⁷ Ofcom: End-to-end competition in the postal sector: Final guidance on Ofcom's approach to assessing the impact on the Universal Postal Service of 27 March 2013 and 'Securing the Universal Postal Service: Decision on the new regulatory framework'. Ofcom statement of 27 March 2012.

TNT Post UK can cherry-pick easy-to-serve urban areas; delivering easy-to-handle post to homes less frequently than Royal Mail and to no defined quality standard. Royal Mail is required to deliver six-days-a-week, overnight, throughout the whole country, to stringent quality standards and at a uniform, affordable tariff. Moreover, we are also required to deliver any items TNT Post UK does not consider economic to deliver itself. If TNT Post UK is successful in delivering its stated objectives, this could threaten the fundamental economics of the Universal Service. Based on our estimates of the impact of TNT Post UK's publicly-stated plans, this could reduce Royal Mail revenue by over £200 million in 2017-18⁸. At the same time, our ability to reduce costs to offset this would be limited by our obligations to deliver the Universal Service.

Our analysis is that, without timely intervention from the regulator, direct delivery competition will have a serious impact on the sustainability of the Universal Service. Ofcom has stated that an EBIT margin range of between five and ten per cent for Royal Mail's reported business is appropriate and consistent with the need for Royal Mail to earn a reasonable commercial rate of return⁹. With our proposed access price changes remaining suspended and unfettered direct delivery rollout, there is a reasonable prospect that this level of margin may never sustainably be achieved.

We do not believe the current situation serves the best interests of consumers. Ofcom has acknowledged in a recent guidance document its duty, powers and willingness to act to protect the Universal Service if required¹⁰. However, effective regulatory action could take some time to implement. Meanwhile, the Competition Act investigation and Ofcom's access policy review may create a significant period of uncertainty in the UK postal market. This uncertainty, combined with our Universal Service commitments, means our ability to respond commercially is constrained. At the same time, direct delivery operators are continuing to expand their operations. This is why we are preparing a regulatory submission calling on Ofcom to take action now and carry out a full review of direct delivery. Such a review would be in line with Ofcom's primary duty to secure the provision of the Universal Service. It would also allow for full consideration of what regulatory interventions may be necessary. At the same time, we are raising the issue with HM Government and are seeking a legislative amendment that would require a review of direct delivery if Ofcom does not initiate one in a timely manner.

Customers

We have a trusted brand. Our most recent Corporate Image Report, conducted by Ipsos MORI in November 2013, indicated that 71 per cent of customers believe Royal Mail's services are good value for money. Our own research indicates that our mean business customer satisfaction score is 75. This is an increase on 74 last year, and 70 in 2011-12. It is strategically important that we maintain this customer loyalty.

Our regulated Quality of Service specifications are amongst the highest of any major European country. I am delighted to report that we exceeded our regulatory targets for both First and Second Class mail in 2013-14. 93.2 per cent of First Class mail was delivered the following day, and 98.9 per cent of Second Class mail was delivered within three days of posting. We have delivered a significant improvement on prior years against our internal composite parcels measure¹¹. We achieved a performance of 95.1 per cent, meeting our target.

Overall, complaints were down six per cent on last year. Improving our performance in this important area is a key strategic focus. Four issues account for the majority of complaints: redirection, misdeliveries, redeliveries and 'Something for You' cards. Our performance has improved for three of these complaints, the exception being Something for You cards. Our Delivery to Neighbour initiative is a key focus as we seek to improve the effectiveness of our delivery operations and reduce redeliveries. Recent Ofcom research found that 94 per cent of customers were satisfied with this service.

Transformation and cost control

Royal Mail is continuing to transform as we seek to mitigate falling letter volumes and manage increasing parcel volumes in an increasingly competitive parcels market. As a matter of course, we look to organise similar tasks into single areas to avoid unnecessary duplication. Since 2003, more than 50,000 people have left the UK business, with 12,000 leaving in the last four years.

⁸ Based on: TNT Post UK's stated ambition of 42.3 per cent delivery point coverage in 2017; expected addressed inland letter market volumes of approximately 11 billion items in 2017-18, using Royal Mail's forecast range of a 4-6 per cent per annum decline in addressed letter market volumes; our estimate that TNT Post UK achieves a 20 per cent local market share in areas where it operates in 2017-18; and an annual RPI increase in our Average Unit Revenue per Downstream Access item.

⁹ "Securing the Universal Postal Service: Decision on the new regulatory framework", Ofcom Statement of 27 March 2012, paragraph 5.47

¹⁰ "Final guidance on Ofcom's approach to assessing end-to-end competition", Ofcom statement of 27 March 2013.

¹¹ An internal measure for all retail parcel products in the Royal Mail core network.

On 25 March 2014, we launched a consultation with our unions on a proposal to achieve a net reduction of 1,300 roles, mainly within our managerial population. We recognise that this change is tough on our people. But, we must continuously improve our efficiency. This is a key way to sustain the Universal Service and secure good quality jobs for our people.

As we have said before, the initial phase of our transformation is largely complete. Almost all of our Delivery Offices have now commenced or completed modernisation. We continue to drive improvements in the network to be more productive and effective. We are now focusing on standardising processes and embedding examples of best practice. Relatively small changes, implemented across our business, can deliver significant efficiency benefits. We will be launching a nationwide campaign to ensure Delivery to Neighbour is deployed consistently where appropriate. Improving our rate of first time delivery is a key strategic focus across our operations. Our expansion programme in Parcelforce Worldwide is now complete. We are continuing to plan for automation in the Royal Mail core network.

The productivity improvement of 1.7 per cent was disappointing. Whilst we reduced collections, processing and delivery hours by 2.9 per cent, the industrial relations environment meant we were unable to extract more hours to compensate for the impact on workload associated with flat parcel volumes. Most of Royal Mail's non-people costs are subject to inflationary pressures. This year we were particularly successful in addressing this. Non-people costs were down by three per cent in UKPIL.

Our people

Following our recent flotation, the overwhelming majority of our UK employees are also shareholders in our Company. Free Shares gave our people a direct stake in the Company and its future success. Each eligible full-time employee who participated in the Free Shares Offer now has 729 shares. They, along with all shareholders, will receive a final dividend in July 2014, subject to shareholder approval.

In December 2013, we announced an agreement in principle with the Communication Workers' Union (CWU). This was approved by its members in February 2014. The agreement is wide ranging in its coverage and focused in its support of the business. It represents a joint commitment to radically improve industrial relations and create a can-do culture in the interests of customers, employees and the Company. We are focused on bedding down this agreement to ensure that we provide a stable and unique platform for problem-solving and for jointly moving the business forward at a faster pace.

Outlook

Our key value drivers of single digit revenue growth, margin expansion and underlying free cash flow growth remain the objectives for the Group for the 2014-15 financial year. However, while we are satisfied with our progress in 2013-14, we are facing increasing challenges in the parcels and letters markets in the UK.

We intend to pursue a progressive dividend policy having regard to the normalised earnings progression of the Group. As the regulatory position on direct delivery becomes clearer, the Board would expect to provide more clarity on our dividend policy.

Royal Mail in the private sector

Many of the significant achievements in recent years have been facilitated by the Government. The Postal Services Act 2011 itself was a landmark piece of legislation. The transfer of the historic liabilities and almost all of the assets of the Royal Mail Pension Plan (RMPP) to the Government, and the reform of the regulatory landscape were two further essential steps on the road to privatisation. The Government, including the Shareholder Executive, Minister of State for Business and Enterprise Michael Fallon and Secretary of State for Business, Innovation and Skills Vince Cable, all deserve thanks for the perseverance and drive which they have displayed during this complicated process.

We must continue to deliver change at an increasing pace to meet the challenges of the changing mix of mail, the liberalised UK postal market, intense parcel competition, and a need to become more productive and efficient. Royal Mail's transformation is being delivered whilst maintaining our high Quality of Service levels. I would like to thank all my colleagues for the fortitude and conscientiousness with which they have embraced these changes. I am confident that, with their continued diligence and support, we will be able to make ongoing progress in delivering our strategy.

Moya Greene
Chief Executive Officer
22 May 2014

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UK Parcels, International & Letters (UKPIL)

Trading results

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
Revenue ¹²	7,787	7,633	2%
- Letters & other mail	3,514	3,582	(2%)
- Marketing mail	1,111	1,118	(1%)
Total letters	4,625	4,700	(2%)
- Parcels	3,162	2,933	7%
Operating profit after transformation costs	309	294	
Operating profit margin after transformation costs	3.5%	3.9%	(40bps)
Volumes (m)			
<i>Royal Mail core network parcels</i>	991	994	(1%)
<i>Parcelforce Worldwide</i>	77	70	8%
Total parcels	1,068	1,064	Flat
<i>Addressed letters (including international)</i>	13,342	13,869	(4%)
<i>Unaddressed letters</i>	3,143	3,258	(4%)

About UKPIL

UKPIL is the UK's designated provider of the Universal Service. Its network is unrivalled in the UK in terms of size, coverage and geographical reach. UKPIL comprises the core UK and international parcel and letter delivery businesses operated through the Royal Mail core network and Parcelforce Worldwide. It has a leading position in the overall UK parcel market, with an estimated 38¹³ per cent revenue share.

UKPIL also carries out a number of letter-related business activities, including marketing mail consulting services. It is responsible for the design and production of the UK's stamps and philatelic products. It also processes international mail under reciprocal arrangements with other overseas postal administrations.

Trading performance

UKPIL revenue increased by two per cent to £7,787 million. Parcel revenue increased by seven per cent. UKPIL parcel volumes were flat, mainly as a result of the impact of size-based pricing in the consumer and SME segments over the year. We saw growth in account parcel volumes, despite some customer reaction to the threat of industrial action in the run up to Christmas. Parcelforce Worldwide volumes grew strongly. Parcels accounted for 41 per cent of UKPIL revenue (2013 38 per cent).

Total letter revenue decreased by two per cent. Addressed letter volume decline of four per cent was at the better end of our forecast range, benefiting from strengthening economic conditions, energy company customer mailings at the end of 2013 and increased stamped mail volumes in December 2013, including Christmas cards. Marketing mail revenue, including unaddressed letters, was £1,111 million, down one per cent, mainly due to additional marketing activity in the build up to London 2012 and the Diamond Jubilee in the prior year.

We did not increase stamp prices in 2013. However, there were changes to other products, such as access mail. In March 2014, we announced tariff changes across the portfolio of products, including First and Second Class stamps. We thought carefully about the

¹² 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.

¹³ Triangle estimates at December 2013 based on latest competitor data and market insight and Royal Mail 2013-14 financial year end revenue. Excludes international traffic.

impact of all our tariff increases on our customers and our own business. Our stamp prices remain among the best value in Europe. First and Second Class stamp prices for letters up to 100 grams remain well below the European average¹⁴.

Operating costs

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
People costs	(4,818)	(4,641)	4%
Distribution and conveyance costs	(855)	(850)	1%
Infrastructure costs	(946)	(951)	(1%)
Other operating costs	(618)	(702)	(12%)
Operating costs before transformation costs	(7,237)	(7,144)	1%
Transformation costs	(241)	(195)	
Operating costs after transformation costs	(7,478)	(7,339)	2%

Operating costs before transformation costs increased by one per cent, below the rate of revenue growth, to £7,237 million. A four per cent increase in people costs was substantially mitigated by a three per cent decline in non-people costs.

One-off benefits in the first half of £42 million in relation to a VAT credit and lower depreciation and amortisation charge were offset by a £44 million higher pension charge (mainly due to the IAS 19 pension service charge rate increasing from 18.2 per cent to 20.3 per cent of pensionable pay).

People costs increased by four per cent, mainly due to the three per cent pay award, higher pension charge, and the move to a shorter working week. Collections, processing and delivery operations delivered a productivity improvement of 1.7 per cent, below our two to three per cent target. Whilst gross hours reduced by 2.9 per cent, this was not sufficient to compensate for the reduced workload resulting from flat parcel volumes.

Non-people costs were down three per cent. There continue to be increases in terminal dues with overseas postal administrations (distribution and conveyance costs) and IT (infrastructure costs). However, our cost management and procurement programmes were particularly successful.

Transformation costs

(£m)	Reported 52 weeks 2014	Adjusted ¹⁵ 52 weeks 2013
Voluntary redundancy – management reorganisation programme	(102)	–
Voluntary redundancy – other	(14)	(78)
Project and property costs (including £2m of management reorganisation programme costs)	(108)	(95)
Business transformation payments	(17)	(22)
Total	(241)	(195)

Transformation costs increased to £241 million, due to a provision for the management reorganisation programme of £104 million, mainly relating to voluntary redundancy costs. The programme is expected to generate annual cost savings of approximately £50 million, of which approximately £25 million is expected to be realised in 2014-15.

Other voluntary redundancy costs were lower than the prior year due to the timing of announcements with respect to Mail Centre closures, the majority of which were provided for in 2012-13.

Project and property costs mainly relate to Mail Centre closures and Delivery Office revisions.

The £17 million business transformation payments relate to the Business Transformation 2010 Agreement, under which colleagues receive payments of up to £1,000 based on specific milestones and specific bonuses with respect to transforming the network. Remaining payments of around £10 million are expected to be made in 2014-15 as the Delivery Office modernisation process is completed.

¹⁴ European average is 63 pence for inland stamp prices up to 100 grams, first and second class combined.

¹⁵ Transformation costs are the same on both a Reported and an Adjusted basis.

Operating profit after transformation costs

Operating profit after transformation costs was £309 million, up £15 million on an adjusted basis including the increased transformation costs as a result of the management reorganisation programme. Operating profit margin after transformation costs reduced to 3.5 per cent (2013 3.9 per cent).

General Logistics Systems (GLS)

Trading results

	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
Revenue (£m)	1,651	1,498	
Operating profit (£m)	108	101	
Revenue (€m)	1,957	1,837	7%
Operating profit (€m)	128	123	4%
Operating profit margin (%)	6.5	6.7	(20bps)
Volumes (m)	404	380	6%

About GLS

GLS is one of the largest ground-based, deferred parcel delivery companies in Europe. Its reach across Europe spans 37 countries and nation states through a combination of wholly-owned and partner companies. Germany, France and Italy, GLS' main markets, accounted for around 70 per cent of GLS' revenue. Approximately 94 per cent of GLS' revenue came from deferred parcels. The remainder was split between logistics (four per cent) and express parcels (two per cent).

Trading performance

GLS' revenue was £1,651 million, with all countries delivering year-on-year revenue growth. Excluding the positive impact of foreign exchange of £52 million, revenue increased by seven per cent. Parcel volumes increased by six per cent, with growth in both domestic and international volumes.

Operating costs

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
People costs	(367)	(337)	5%
Distribution and conveyance costs	(1,015)	(920)	7%
Infrastructure costs	(108)	(100)	4%
Other operating costs	(53)	(40)	29%
Total operating costs	(1,543)	(1,397)	7%

Operating costs rose by seven per cent, driven by the increase in distribution and conveyance costs as a result of higher volumes and a full year impact of increased sub-contractor rates in Germany. Infrastructure costs increased, largely due to a higher depreciation charge. Other operating costs were higher due to a non-recurring indirect taxation charge, higher IT costs and restructuring costs in France.

Operating profit increased to £108 million, representing a margin of 6.5 per cent (2013 6.7 per cent).

Germany

The competitive environment, coupled with a challenging labour market, has had a continued impact on the GLS Germany business. GLS Germany saw revenue growth of three per cent and remains the largest market for GLS by revenue. The initiative to consolidate sub-contractors to address increasing costs was not sufficient to offset further increases in costs caused by low unemployment rates and high demand for drivers, associated with increased competitor capacity. As a result, margins remain under pressure.

France

The turnaround programme in GLS France is making progress. While loss-making overall, performance for the year was slightly ahead of the restructuring plan, with operating losses reducing by €3 million to €27 million. The cost reduction element of the turnaround has progressed well during the year. Over the past few years, GLS France has undertaken an operational overhaul, changing from an 'express' delivery service provider to a deferred delivery service provider. This included the sale of its 'In Night'

Royal Mail plc

Preliminary results for the year ended 30 March 2014

business, an overnight courier service, in 2011-12. GLS France will focus on improving quality, achieving greater operational efficiency and growing volumes from new and existing customers.

Italy

Despite an unfavourable economic environment, GLS Italy achieved strong organic growth, which has led to a strengthening of its market position. Performance was further enhanced by the acquisition of three franchise areas as well as competitor disruption, leading to an overall increase in revenue of 16 per cent. The GLS network in Italy is partially wholly-owned, with the rest of the operations covered by franchisees. The franchise system remains stable and represents a good platform for future growth.

Other developed European markets (includes Austria, Belgium, Netherlands, Denmark, Ireland, Spain and Portugal)

Revenue increased across other developed European markets which represent 21 per cent (2013 21 per cent) of total GLS revenue. Whilst all countries saw revenue growth, the strongest was seen in Spain and Portugal.

Developing/emerging European markets (includes Hungary, Slovenia, Slovakia, Czech Republic, Romania, Poland and Croatia)

Performance throughout the rest of Europe has been strong, with a good increase in revenue from developing/emerging European markets. The largest growth was in Slovakia and Czech Republic in addition to the new business launched in Croatia in August 2013, where we have been pleased with the progress.

Financial review

Revenue

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
UKPIL			
- Letters	4,625	4,700	(2%)
- Parcels	3,162	2,933	7%
GLS	1,651	1,498	7%
Other	18	15	n/m
Group	9,456	9,146	2%

Group revenue increased by two per cent, due to parcel revenue growth in UKPIL and in GLS. Parcel revenue accounted for 51 per cent of Group revenue (2013 48 per cent).

Group operating costs

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
People costs	(5,282)	(5,077)	4%
Distribution and conveyance costs	(1,869)	(1,771)	4%
Infrastructure costs	(1,051)	(1,047)	flat
Other operating costs	(583)	(653)	(11%)
Operating costs before transformation costs	(8,785)	(8,548)	2%
Transformation costs	(241)	(195)	
Group operating costs after transformation costs	(9,026)	(8,743)	3%

Operating costs before transformation costs increased by two per cent. The business continues to exercise tight cost control, which particularly benefited other operating costs. Operating costs also benefited from a one-off VAT credit of £35 million and lower year-on-year depreciation and amortisation of £7 million, due to a different mix in depreciable assets. The VAT credit arose as a result of a change in regulation, which increased the scope of products attracting VAT from April 2012, leading to an increased recovery rate. The one-off benefits were offset by a £45 million higher pension charge (mainly due to the IAS 19 service charge rate increasing from 18.2 per cent to 20.3 per cent of pensionable pay).

People costs increased by four per cent, driven by an increase in UKPIL people costs. Tight cost control in non-people costs in UKPIL, which reduced by three per cent, mitigated the impact of increased volumes in GLS and higher sub-contractor rates in GLS Germany in distribution and conveyance costs. Infrastructure costs were flat, with lower property and depreciation and amortisation costs being offset by higher IT costs. Other operating costs decreased by 11 per cent due to tight cost control, predominantly in UKPIL.

Operating profit before transformation costs

All the business segments generated increased operating profit before transformation costs, resulting in a Group operating profit before transformation costs of £671 million (2013 £598 million), with the margin increasing by 20 basis points.

Operating profit after transformation costs

Transformation costs were £241 million (2013 £195 million) and are described in the 'UK Parcels, International & Letters (UKPIL)' section of this report.

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013
UKPIL	309	294
GLS	108	101
Other	13	8
Group operating profit after transformation costs	430	403

The Group reported operating profit after transformation costs of £430 million (2013 £403 million), with UKPIL contributing around 72 per cent (2013 73 per cent) to the Group total. The operating profit margin after transformation costs declined to 4.2 per cent (2013 4.4 per cent) due to the recognition of a £104 million provision relating to the management reorganisation programme, which impacted margins by approximately one percentage point.

Specific items

(£m)	Reported 52 weeks 2014	Adjusted ¹⁶ 52 weeks 2013
Operating specific items:		
Royal Mail Pension Plan amendment (non-cash)	1,350	-
Transaction-related costs	(28)	(10)
Employee Free Shares costs (non-cash) ¹⁷	(94)	-
Business-related costs	(15)	(67)
Total operating specific items	1,213	(77)
Non-operating specific items:		
Profit on disposal of property, plant and equipment	19	4
Profit on disposal of associate undertaking	2	-
Release of gains held in equity on disposal of pension escrow gilts	-	22
Net pension interest (non-cash)	69	30
Total specific items	1,303	(21)

There were a number of specific items recognised during the year. The accounting impact of the Pensions Reform 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 £28 million (2013 £10 million) and the charge associated with the Employee Free Shares Offer of £94 million. The Employee Free Shares Offer charge represents the charge to the income statement relating to the issuing of Free Shares, which is calculated from the start of the period when employees become eligible for the shares and is based on the mid-market closing price on the day of admission to the London Stock Exchange. In 2014-15 the charge is expected to be around £170 million.

Business-related costs of £15 million (2013 £67 million) largely comprise £15 million historical employment costs, a £7 million release (2013 £28 million charge) of the industrial diseases claims provision and £5 million of POL separation costs (2013 £20 million) relating to facilities management. The prior year also included £20 million of asset impairments (mainly property).

Non-operating specific items comprise property disposal gains of £19 million (2013 £4 million) and £2 million from the sale of the Group's associate investment in G3 Worldwide Mail N.V. (Spring) and net pension interest. Net pension interest is non-cash and is calculated by applying the discount rate at the beginning of the year for the schemes' liabilities to the net pension surplus. Due to the substantial change in the RMPP surplus resulting from the Pensions Reform, the net pension interest was recalculated to £69 million (2013 £30 million) for the full year. The net pension interest for 2014-15 based on the discount rate for the schemes' liabilities and net pension surplus is expected to be around £75 million.

¹⁶ The 'Business-related costs' and 'Profit on disposal of property, plant and equipment' specific items on an Adjusted basis are different than on a Reported basis due to the treatment of the costs of POL separation (see Basis of preparation note in financial statements for further details).

¹⁷ Includes £3 million provision for National Insurance, which will be cash settled.

Net finance costs (excluding specific items)

The net finance costs of £67 million (2013 £99 million) comprise finance costs of £71 million (2013 £104 million), offset by finance income of £4 million (2013 £5 million). 2014-15 will see the full year benefit of refinancing our Government funding in 2013-14. The blended interest rate on the Group's borrowings, including finance leases, is expected to be 3.5 per cent in 2014-15.

Taxation

The effective tax rate on the reported profit before taxation was 23 per cent, comprising the current tax charge of £37 million (2013 £38 million), mainly in respect of GLS, and a deferred tax charge of £349 million (2013 £284 million credit), principally in relation to the Pensions Reform. The UK current tax charge is minimal, primarily as a result of the statutory treatment of the HMRC-approved Employee Free Shares Offer as well as utilisation of some brought forward tax reliefs, including losses and capital allowances. GLS' current tax rate was 34 per cent reflecting higher European corporation tax rates on profits and losses, primarily in France, for which no deferred taxation credit has been recognised. The deferred tax charge is principally due to the effect of the Pensions Reform. The deferred tax credit in the prior year arose as a result of the recognition of a deferred tax asset in respect of carried forward tax reliefs in the UK, including losses and capital allowances.

Excluding specific items, the Group tax charge was £97 million, representing an effective tax rate of 27 per cent.

Notional earnings per share (EPS)

Notional EPS, excluding specific items was 26.3 pence (Reported 127.7 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 assumes that the one billion ordinary shares in issue at the date of the Company's flotation had been in existence throughout the current reporting year. Going forward, EPS will be calculated using the weighted average number of shares in issue over the relevant period.

Dividends

The Board is recommending a final dividend of 13.3 pence per share, payable on 31 July 2014 to shareholders on the register on 4 July 2014, subject to shareholder approval at the AGM on 24 July 2014.

Summary free cash flow

(£m)	Reported 52 weeks 2014	Non-GAAP ¹⁸ 53 weeks 2013
EBITDA before transformation costs	942	915
Trading working capital movements	(57)	(60)
Difference between pension costs charged in operating profit and pension cash flows	58	(3)
Total investment	(617)	(665)
Other – taxation, net finance costs, dividend from associate undertaking	(69)	(81)
Underlying cash flow	257	106
One-off working capital movements	140	202
Cash cost of operating specific items	(35)	(26)
Proceeds from disposal of assets and associate undertaking (non-operating specific items)	36	52
Free cash flow	398	334

Free cash flow increased to £398 million (2013 £334 million) primarily due to trading performance and reduced investment spend.

EBITDA before transformation costs of £942 million (2013 £915 million) increased due to the improved trading performance explained above. Trading working capital movements generated an outflow of £57 million (2013 £60 million outflow) due to a number of factors including the level of VAT payments. Both years benefited from one-off working capital items. In 2013-14, there was a one-off benefit of £150 million in respect of the March 2012 pension prepayment and £20 million relating to the buy forward of stamps partially offset by a £30 million unwinding of the prior year buy forward. In 2012-13, working capital benefited from the buy forward of stamps of £87 million, an increase in the VAT creditor of £75 million, due to an increase in the number of products that have become subject to the standard rate of VAT since April 2012, and the unwinding of the pension prepayment of £40 million.

¹⁸ Cash flows are the same on both a Reported and Adjusted basis. This non-GAAP presentation excludes £820 million cash flows relating to POL on its transfer to Royal Mail Holdings plc on 1 April 2012.

In 2014-15, there will be a one-off benefit to working capital of approximately £45 million due to the timing of payroll payments in respect of monthly paid staff.

Payments in respect of transformation operating expenditure of £201 million (2013 £230 million) comprised £111 million (2013 £100 million) project and property costs, £71 million (2013 £75 million) voluntary redundancy payments and £19 million (2013 £55 million) business transformation payments. Transformation capital expenditure was £83 million (2013 £177 million). Non-transformation capital expenditure was £333 million (2013 £258 million) primarily in respect of GLS, Parcelforce Worldwide expansion and Mailmark™.

The level of investment in the year is the amount of cash EBITDA that needs to be re-invested back into the business to sustain its operations and enable future growth. It comprises both operating expenditure (including voluntary redundancy payments) and capital expenditure, which is currently running well ahead of depreciation. This investment is needed to transform the operations of the UK business to meet the changing mix of traffic and to drive efficiencies in people costs. Net investment totalled £581 million in 2013-14, reflecting total investment of £617 million offset by the re-investment of operating property and business disposals of £36 million.

Taxation and interest cash costs of £71 million (2013 £81 million) comprise £33 million (2013 £44 million) relating to net interest paid and £38 million (2013 £37 million) relating to current taxation payments.

Cash inflows associated with operating property and business disposals were £36 million (2013 £52 million).

Net debt

Net debt decreased by £351 million to £555 million for the year ended 30 March 2014, mainly due to cash flow generated, offset by £45 million of 2013-14 finance costs settled on early repayment of HM Government loans and the costs associated with obtaining new loan facilities. At the date of listing, all principal and interest on HM Government loans were repaid and £600 million of Syndicated bank loans were drawdown.

Property

The Group's property portfolio can be divided into two classes: surplus or soon to be surplus sites with the potential for development ('development properties'); and 'operational properties', used for the Group's day-to-day operations. The vast majority of the Group's properties are operational properties.

As set out in the Prospectus¹⁹, the Group has identified three potential development sites in London: Nine Elms; Mount Pleasant; and Paddington (the 'London Development Portfolio'). Depending on future changes to the configuration of the operational network, some other sites may have the potential to become development properties, but none would be of similar scale to the London Development Portfolio.

Additionally, each year there will be lower value disposals arising from localised changes to the network. The proceeds from these disposals will be re-invested to fund partially the modernisation of the Royal Mail Delivery Office network. With new external facilities now in place, we can seek to optimise the realisable value of any development properties as they become surplus, but we will adopt a flexible approach as to the manner in which this is achieved.

Pensions Reform

On 26 September 2013, the Company agreed with the Royal Mail Pension Plan Trustee to implement the Pensions Reform with effect from 1 April 2014. Under this agreement, members' pensionable pay will increase by RPI (up to a maximum of five per cent), regardless of whether actual basic pay increases by more or less than this amount. This change is considered to be a 'plan amendment' which meets the IAS 19 definition of a past service cost and accordingly a non-cash £1,350 million credit (specific item) has been recognised in the Group income statement.

¹⁹ Prospectus in relation to the Initial Public Offering, dated 27 September 2013.

Pension balance sheet amounts

The IAS 19 pension position at 30 March 2014 was a surplus of £1,723 million compared with a surplus of £825 million at 31 March 2013. The increased surplus reflects the impact of the Pensions Reform of £1,350 million, partially offset by the impact on liabilities of a lower discount rate. This discount rate is driven by the estimated real rate of return available on AA corporate bonds of similar duration to the schemes' liabilities (28 years).

Outlook for 2014-15

We continue to expect to see overall volume growth in the UK parcel market in 2014-15, with the B2C/C2X segment growing at around 4.5 per cent to 5.5 per cent and the B2B segment growing at slightly above GDP. However, we expect that the increased competitive activity in the market will put pressure on pricing.

We continue to expect UK addressed letter market volumes to decline by four to six per cent per annum²⁰. For 2014-15, we expect to be at the better end of this range. The impact of upcoming European and local elections in May 2014 and forecast improvement in GDP will more than offset the expected impact from the increased rollout of direct delivery competition in 2014-15.

GLS experienced good revenue growth in 2013-14, in part helped by competitor disruption in Italy that is not expected to be repeated in 2014-15. Therefore, the rate of GLS revenue growth in 2014-15 is expected to be slightly lower than in 2013-14. The profit improvement resulting from the continued turnaround in France is expected to be offset by increased IT investment across the network.

We continue to focus on cost control. The management reorganisation programme announced in March 2014 is expected to deliver annualised cost savings of £50 million, of which approximately £25 million will be realised in 2014-15. However, there is expected to be an increase in the pension charge of £70-80 million, mainly driven by the increase in the IAS 19 pension service charge rate from 20.3 per cent to 23.6 per cent as a result of market conditions. The expected increase is based on the current pensionable payroll and the final charge will be dependent on the level and mix of pensionable pay in 2014-15. In addition, 2014-15 will not benefit from the one-off VAT credit of £35 million in 2013-14. Depreciation and amortisation is expected to increase by around £20 million, reflecting continuing investment. These items will have an impact on the year-on-year movements in operating costs, particularly in the first half of the year.

Excluding the one-off VAT credit and expected increase in the pension charge, we are targeting around a 50 basis point expansion in Group operating profit margin before transformation costs for the full year.

Transformation costs are expected to be in the range of £120-140 million, largely depending on the level of voluntary redundancies.

We expect the cumulative net cash investment over 2013-14 and 2014-15 to remain at around £1.2 billion, as the reduced costs of implementing certain projects in 2013-14 will help offset the cash costs of the management reorganisation programme in 2014-15.

Matthew Lester
Chief Finance Officer
22 May 2014

²⁰ Excluding election mail.

Consolidated income statement

For the 52 weeks ended 30 March 2014, 52 weeks ended 24 March 2013 and 53 weeks ended 31 March 2013

	Notes	52 weeks ended 30 March 2014			52 weeks ended 24 March 2013			53 weeks ended
		Reported ¹ (unaudited) £m	Specific items ² (unaudited) £m	Excluding specific items (unaudited) £m	Adjusted ³ (unaudited) £m	Specific items ² (unaudited) £m	Excluding specific items (unaudited) £m	Reported ¹ £m
Continuing operations:								
Revenue	2	9,456	-	9,456	9,146	-	9,146	9,279
Operating costs		(8,785)	-	(8,785)	(8,548)	-	(8,548)	(8,644)
People costs		(5,282)	-	(5,282)	(5,077)	-	(5,077)	(5,147)
Distribution and conveyance costs		(1,869)	-	(1,869)	(1,771)	-	(1,771)	(1,785)
Infrastructure costs		(1,051)	-	(1,051)	(1,047)	-	(1,047)	(1,052)
Other operating costs		(583)	-	(583)	(653)	-	(653)	(660)
Operating profit before transformation costs		671	-	671	598	-	598	635
Transformation costs	3	(241)	-	(241)	(195)	-	(195)	(195)
Operating profit after transformation costs		430	-	430	403	-	403	440
Operating specific items:								
Royal Mail Pension Plan amendment	4	1,350	1,350	-	-	-	-	-
Transaction-related costs	4	(28)	(28)	-	(10)	(10)	-	(10)
Employee Free Shares costs	4	(94)	(94)	-	-	-	-	-
Business-related costs	4	(15)	(15)	-	(67)	(67)	-	(47)
Operating profit/(loss)		1,643	1,213	430	326	(77)	403	383
Non-operating specific items:								
Profit on disposal of property, plant and equipment		19	19	-	4	4	-	16
Profit on disposal of associate undertaking		2	2	-	-	-	-	-
Earnings before interest and taxation		1,664	1,234	430	330	(73)	403	399
Finance costs	5	(71)	-	(71)	(104)	-	(104)	(104)
Finance income	5	4	-	4	27	22	5	27
Net pension interest (non-operating specific item)	8	69	69	-	30	30	-	30
Profit/(loss) from continuing operations before taxation		1,666	1,303	363	283	(21)	304	352
Taxation (charge)/credit	6	(386)	(289)	(97)	246	336	(90)	246
Profit for the period from continuing operations		1,280	1,014	266	529	315	214	598
Discontinued operations:								
Profit after taxation for the period from Post Office Limited		-	-	-	-	-	-	2
Profit for the period		1,280	1,014	266	529	315	214	600
Profit for the period attributable to:								
Equity holders of the parent company		1,277	1,014	263	525	315	210	596
Non-controlling interests		3	-	3	4	-	4	4
Notional earnings per share:								
Basic and diluted – continuing operations	9	127.7p	101.4p	26.3p	52.5p	31.5p	21.0p	59.4p
Basic and diluted – total Group		127.7p	101.4p	26.3p	52.5p	31.5p	21.0p	59.6p

¹ Reported – prepared in accordance with International Financial Reporting Standards (IFRSs), requiring Post Office Limited (POL) to be consolidated up until its transfer to Royal Mail Holdings plc on 1 April 2012.

² Specific items – see note 1 to the financial statements.

³ Adjusted – Reported 2012-13 results adjusted to exclude the consolidation of POL up to 1 April 2012 and the 53rd week's additional revenue and costs. In addition, £32 million of POL separation costs taken to equity in the Reported basis are taken through the income statement in the Adjusted basis. See note 1 'Basis of Preparation' for further details.

Consolidated statement of comprehensive income

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	Notes	52 weeks 2014 Reported (unaudited) £m	53 weeks 2013 Reported £m
Profit for the period from continuing operations		1,280	598
Other comprehensive (expense)/income for the period:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		(344)	(439)
IFRIC 14 adjustment relating to pension surplus	8	(8)	(5)
Changes in long-term assumptions - defined benefit schemes' assets/liabilities	8	(453)	(246)
Taxation on above items	6	117	(188)
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		(12)	(5)
Designated cash flow hedges		(19)	2
Losses on cash flow hedges deferred into equity		(24)	(1)
Losses on cash flow hedges released from equity to income		4	2
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		-	(1)
Taxation on above items	6	1	2
Release of gains held in equity on disposal of pension escrow gilts	5	-	(22)
Total comprehensive income for the period		905	134
Total comprehensive income for the period attributable to:			
Equity holders of the parent company		902	130
Non-controlling interests		3	4

Consolidated statement of cash flows

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

The consolidated statement of cash flows for the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013 has been prepared on a Reported basis in accordance with IFRSs. The comparative information for 2012-13 is also presented on a non-GAAP basis which excludes the Group's former POL subsidiary. The only difference between the Reported and non-GAAP presentation is the £820 million cash which belonged to POL, transferred to Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited) on 1 April 2012.

	52 weeks 2014 Reported (unaudited) £m	53 weeks 2013 Non-GAAP (unaudited) £m	53 weeks 2013 Reported £m
Cash flow from operating activities			
Operating profit before transformation costs	671	635	635
Adjustment for:			
Depreciation	241	238	238
Amortisation	33	43	43
Share of post-tax profit from associates	(3)	(1)	(1)
EBITDA before transformation costs	942	915	915
Working capital movements	83	142	142
Decrease in inventories	2	8	8
Decrease in receivables	81	25	25
Increase in payables	19	136	136
Net increase in derivative assets	(2)	(15)	(15)
Decrease in provisions	(17)	(12)	(12)
Difference between pension costs charged in operating profit and pension cash flows	58	(3)	(3)
Cash cost of transformation operating expenditure ¹	(201)	(230)	(230)
Cash cost of operating specific items	(35)	(26)	(26)
Cash inflow from operations	847	798	798
Income taxation paid	(38)	(37)	(37)
Net cash inflow from operating activities	809	761	761
Cash flows from investing activities:			
Dividend received from associate undertaking	2	-	-
Finance income received	4	5	5
Proceeds from sale of property, plant and equipment (non-operating specific item)	33	52	52
Proceeds from sale of associate undertaking (non-operating specific item)	3	-	-
Purchase of property, plant and equipment ¹	(341)	(388)	(388)
Transformation investment - capital expenditure	(83)	(177)	(177)
Non-transformation investment - capital expenditure	(258)	(211)	(211)
Acquisition of business ¹	(2)	(3)	(3)
Purchase of intangible assets (software) ¹	(69)	(41)	(41)
Payment of deferred consideration in respect of prior years' acquisitions ¹	(4)	(3)	(3)
Net outflow from transfer of Post Office Limited to Royal Mail Holdings plc	-	-	(820)
Net sale of financial assets investments (non-current)	-	129	129
Net sale of financial assets investments (current)	-	30	30
Net cash outflow from investing activities	(374)	(219)	(1,039)
Net cash inflow/(outflow) before financing activities	435	542	(278)
Cash flows from financing activities:			
Finance costs paid on refinancing of loan facilities	(45)	-	-
Other finance costs paid	(37)	(49)	(49)
Payment of capital element of obligations under finance lease contracts	(73)	(74)	(74)
Cash received on sale and leasebacks	109	58	58
New loans	600	-	-
Repayment of borrowings	(973)	(600)	(600)
Net cash outflow from financing activities	(419)	(665)	(665)
Net decrease in cash and cash equivalents	16	(123)	(943)
Effect of foreign currency exchange rates on cash and cash equivalents	(1)	1	1
Cash and cash equivalents at the beginning of the period	351	473	1,293
Cash and cash equivalents at the end of the period	366	351	351

¹ Items included in total investment - see note 7.

Consolidated balance sheet

At 30 March 2014 and 31 March 2013

	Notes	At 30 March 2014 Reported (unaudited) £m	At 31 March 2013 Reported £m
Non-current assets			
Property, plant and equipment		1,989	1,916
Leasehold land payment		3	3
Goodwill (mainly investment in GLS)		197	196
Intangible assets (mainly software)		195	139
Investments in associates		4	3
Financial assets		20	20
– pension escrow investments			
– derivatives		3	3
Retirement benefit asset	8	1,723	825
– net of IFRIC 14 adjustment			
Other receivables		13	8
Deferred taxation assets	6	9	112
		4,156	3,225
Non-current assets held for sale		3	2
Current assets			
Inventories		22	24
Trade and other receivables		926	1,004
Financial assets		2	9
– derivatives			
– short-term deposits		1	1
Cash and cash equivalents		366	351
		1,317	1,389
Total assets		5,476	4,616
Current liabilities			
Trade and other payables		(1,652)	(1,611)
Financial liabilities		(87)	(79)
– obligations under finance leases			
– derivatives		(12)	(2)
Income taxation payable		(14)	(14)
Provisions		(173)	(119)
		(1,938)	(1,825)
Non-current liabilities			
Financial liabilities		(600)	(973)
– interest bearing loans and borrowings			
– obligations under finance leases		(255)	(226)
– derivatives		(5)	(1)
Provisions		(95)	(127)
Other payables		(31)	(36)
Deferred taxation liabilities	6	(151)	(23)
		(1,137)	(1,386)
Total liabilities		(3,075)	(3,211)
Net assets		2,401	1,405
Equity			
Share capital		10	-
Retained earnings		2,332	1,318
Other reserves		52	83
Equity attributable to parent company		2,394	1,401
Non-controlling interests		7	4
Total equity		2,401	1,405

Consolidated statement of changes in equity

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	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 holders of the parent £m	Non- controlling interests £m	Total equity £m
Reported at 26 March 2012	3,784	-	(6,442)	22	78	8	47	(2,503)	-	(2,503)
Profit for the period from continuing operations	-	-	594	-	-	-	-	594	4	598
Other comprehensive income/(expense) for the period	-	-	(439)	(22)	(5)	2	-	(464)	-	(464)
Capital reduction	(3,784)	-	3,784	-	-	-	-	-	-	-
Pension deficit transfer to HM Government on 1 April 2012 (note 8(c))	-	-	4,012	-	-	-	-	4,012	-	4,012
Loss on transfer of subsidiary to parent company (discontinued operation)	-	-	(191)	-	-	-	(47)	(238)	-	(238)
Reported at 31 March 2013	-	-	1,318	-	73	10	-	1,401	4	1,405
Profit for the period from continuing operations	-	-	1,277	-	-	-	-	1,277	3	1,280
Other comprehensive income/(expense) for the period	-	-	(344)	-	(12)	(19)	-	(375)	-	(375)
Share capital issue (note 10)	-	10	(10)	-	-	-	-	-	-	-
Employee Free Shares issue¹ (note 11)	-	-	91	-	-	-	-	91	-	91
Reported at 30 March 2014 (unaudited)	-	10	2,332	-	61	(9)	-	2,394	7	2,401

¹ Excludes £3 million National Insurance, charged to the income statement, included in provisions on the balance sheet.

Notes to the Preliminary consolidated financial statements

1. Basis of preparation

This note explains how these Royal Mail plc Group ('the Group') Preliminary consolidated financial statements have been prepared, including details of the incorporation of Royal Mail plc ('the Company'), specific items, the adjustment to the comparative year relating to the transfer of Post Office Limited (POL) to Royal Mail Holdings plc on 1 April 2012, and the adjustment for the 53rd week in 2012-13.

Introduction

The Group's Preliminary consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as they apply to the financial statements of the Group for the 52 weeks ended 30 March 2014 (2013 53 weeks ended 31 March 2013). To date, no audit opinion has been provided on these financial statements.

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 the Company becoming the immediate and ultimate parent of Royal Mail Group Limited (see note 10 for further details). The Preliminary consolidated financial statements are therefore presented for the Royal Mail plc Group and its subsidiaries, whereas the 2012-13 Annual Report and Special Purpose Financial Statements (Annual Report) and Prospectus in relation to the Initial Public Offering of Royal Mail plc, dated 27 September 2013 ('the Prospectus') were in respect of consolidated Royal Mail Group Limited. Accordingly, all references to the 2012-13 Annual Report and Prospectus in this document relate to the consolidated Royal Mail Group Limited entity.

The Company is incorporated in the United Kingdom (UK) and the financial statements are produced in accordance with the Companies Act 2006 and applicable IFRSs. The UK is the Company's country of domicile.

The Group Preliminary consolidated financial statements are presented in Sterling, as that is the currency of the primary economic environment in which the Group operates, and all values are rounded to the nearest whole million except where otherwise indicated. The consolidated financial statements have been prepared on an historic cost basis, except for pension assets and derivative financial instruments, which have been measured at fair value.

The results of POL have been consolidated and disclosed as a 'discontinued operation' in the income statement for the period 26 March 2012 up to 1 April 2012, at which point POL was transferred to Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited).

Presentation of results

The Preliminary consolidated financial statements have been prepared in accordance with IFRSs i.e. on a Reported basis. The income statement and cash flow statement also include non-GAAP adjustments in respect of the following:

Specific items

The Group previously disclosed items that in management's judgment needed to be shown separately by virtue of their nature 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, net pension interest and elements of taxation. The Group has decided therefore, not to continue using the 'exceptional items' definition and instead to refer to such items of income/expense as 'specific items'.

1. Basis of preparation (continued)

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. These specific items may not be comparable with similarly termed measures used by other companies.

Items which are classified as specific are: RMPP (Royal Mail (RM) section – see note 8) amendment credit, transaction-related costs, Employee Free Shares costs, certain costs not associated with the transformation of the operational network, historical employment costs, potential industrial diseases claims costs, certain property impairments, all profits from disposals of property and associate undertakings, net pension interest, the gain created on the sale of pension escrow investments, plus the related taxation effects of these items. Taxation specific items include the impact of the pension transfer pursuant to the Postal Services Act 2011 and the impact of changes in taxation law.

Impact of 53rd week in 2013

The 2012-13 comparative year was a 53 week year and, to provide meaningful comparisons of revenues and costs, the income statement also includes comparative results on an Adjusted 52 week basis. The adjustment eliminates the 53rd week's revenue and incremental operating costs associated with that revenue.

GLS reports results for a 52 week year ending 31 March. No adjustments have therefore been made for GLS.

Transfer of Post Office Limited (POL)

The 2012-13 comparative Reported results in these Preliminary financial statements relate to the 53 week year ended 31 March 2013 and include the full consolidated results of the Group, including the Group's former subsidiary, POL, for the period 26 March 2012 to 31 March 2012. POL was subsequently transferred to Royal Mail Holdings plc on 1 April 2012.

The 2012-13 comparative Adjusted results in the income statement exclude POL, and are consistent with those presented in the Prospectus, with an adjustment to eliminate the 53rd week's revenue and costs (£37 million profit impact – see above and page F66 in the Prospectus). In excluding POL from these comparative results, costs incurred by the Group relating to the transfer of POL (£20 million IT separation costs and £12 million loss on transfer of properties) were deemed, for the purpose of providing Royal Mail Group excluding POL financial information, to be external, third party costs and were taken directly to the income statement.

On a Reported basis, these £32 million costs of POL separation have been treated, as required by IFRSs, as transactions with the parent (at the time Royal Mail Holdings plc) and taken directly through equity (included in 'Loss on transfer of subsidiary to parent company (discontinued operation)' in the Consolidated statement of changes in equity), not through the income statement. Consequently, the Reported 'profit for the period from continuing operations' is £32 million higher than that in the Adjusted results, in addition to the £37 million higher profit impact of the 53rd week as explained above.

The comparative information in the consolidated statement of cash flows also includes non-GAAP disclosures which exclude the cash position of POL up to the date of its transfer to Royal Mail Holdings plc. The Directors believe that this presentation provides meaningful comparisons of cash flows and is consistent with how the cash flow statement was presented in the 2012-13 Annual Report and Prospectus.

Other than the 'discontinued operation' disclosure in the income statement and the Reported cash flows in the cash flow statement, on the basis of materiality, no other disclosures (e.g. segment reporting) in respect of POL have been made in these financial statements, for the period that it was still part 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 of shares, the Company 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 Limited). 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.

1. Basis of preparation (continued)

Estimation and accounting judgments

The preparation of the Group consolidated financial statements requires management to make various judgements, estimates and assumptions when determining the carrying value of certain assets and liabilities. Actual results may differ from the estimates.

2. Segment information

The Group's revenue, certain costs and profit before financing and taxation are segmented in this note, aligned with how the business is managed.

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)

The Company 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 has 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 accounting standards 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.

2. Segment information (continued)
Reported 52 weeks ended 30 March 2014

	UK operations			Other European operations	
	UKPIL £m	Other £m	Total £m	GLS £m	Total £m
Continuing operations					
External revenue	7,787	18	7,805	1,651	9,456
Inter-segment revenue	-	176	176	- ¹	176
Total segment revenue	7,787	194	7,981	1,651	9,632
Operating profit before transformation costs	550	13	563	108	671
Transformation costs	(241)	-	(241)	-	(241)
Operating profit after transformation costs	309	13	322	108	430
Operating specific items:					
Royal Mail Pension Plan amendment	1,350	-	1,350	-	1,350
Transaction-related costs	(24)	-	(24)	(4)	(28)
Employee Free Shares costs	(94)	-	(94)	-	(94)
Business-related costs	(15)	-	(15)	-	(15)
Operating profit	1,526	13	1,539	104	1,643
Non-operating specific items:					
Profit on disposal of property, plant and equipment	19	-	19	-	19
Profit on disposal of associate undertaking	2	-	2	-	2
Earnings before interest and taxation	1,547	13	1,560	104	1,664
Net finance costs			(70)	3	(67)
Net pension interest (non-operating specific item)			69	-	69
Profit before taxation			1,559	107	1,666
Taxation – specific items			(289)	-	(289)
– other			(56)	(41)	(97)
Profit for the period after taxation			1,214	66	1,280
EBITDA before transformation costs	791	10	801	141	942
Free cash flow²			338	60	398

Reported 53 weeks ended 31 March 2013

	UK operations			Other European operations	
	UKPIL £m	Other £m	Total £m	GLS £m	Total £m
Continuing operations					
External revenue	7,766	15	7,781	1,498	9,279
Inter-segment revenue	-	148	148	- ¹	148
Total segment revenue	7,766	163	7,929	1,498	9,427
Operating profit before transformation costs	526	8	534	101	635
Transformation costs	(195)	-	(195)	-	(195)
Operating profit after transformation costs	331	8	339	101	440
Operating specific items:					
Transaction-related costs	(10)	-	(10)	-	(10)
Business-related costs	(47)	-	(47)	-	(47)
Operating profit	274	8	282	101	383
Non-operating specific items:					
Profit on disposal of property, plant and equipment	16	-	16	-	16
Earnings before interest and taxation	290	8	298	101	399
Net finance costs			(82)	5	(77)
Net pension interest (non-operating specific item)			30	-	30
Profit before taxation			246	106	352
Taxation – specific items			336	-	336
– other			(57)	(33)	(90)
Profit for the period after taxation			525	73	598
EBITDA before transformation costs	775	8	783	132	915
Free cash flow²			309	25	334

¹ Trading between GLS and UKPIL is not material.

² Free cash flow is a non-GAAP measure used by management.

2. Segment information (continued)

The total UK costs before transformation costs were £7,242 million (2013 £7,247 million).

The following amounts are included within operating profit before transformation costs:

Reported 52 weeks ended 30 March 2014

	UK operations			Other European operations	Total £m
	UKPIL	Other	Total	GLS	
	£m	£m	£m	£m	
Depreciation	(212)	-	(212)	(29)	(241)
Amortisation of intangible assets (mainly software)	(29)	-	(29)	(4)	(33)
Share of post-tax profit from associates	-	3	3	-	3

Reported 53 weeks ended 31 March 2013

	UK operations			Other European operations	Total £m
	UKPIL	Other	Total	GLS	
	£m	£m	£m	£m	
Depreciation	(210)	(1)	(211)	(27)	(238)
Amortisation of intangible assets (mainly software)	(39)	-	(39)	(4)	(43)
Share of post-tax profit from associates	-	1	1	-	1

3. Transformation costs

Transformation costs are included within the cost base and profit that management monitors to assess financial and trading performance. They relate directly to the transformation programme that has spanned several years and which therefore warrant separate disclosure as shown below.

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Voluntary redundancy – management reorganisation programme (MRP)	(102)	-
Voluntary redundancy – other	(14)	(78)
Project and property costs (including £2m of MRP costs)	(108)	(95)
Business transformation payments	(17)	(22)
Total transformation costs	(241)	(195)

The £17 million business transformation payments represent payments linked to the achievement of key milestones in transforming the network, as part of the Business Transformation Agreement 2010.

4. Specific items

These are costs which fall outside the Group's normal trading activity and which in management's view need to be disclosed separately to provide greater visibility of the trading results of the business. This note also includes Adjusted (non-GAAP) comparative information which includes the costs of POL separation (see note 1 for further details).

Specific items before taxation

	52 weeks 2014 Reported £m	52 weeks 2013 Adjusted £m	53 weeks 2013 Reported £m
Operating specific items:			
Royal Mail Pension Plan amendment	1,350	-	-
Transaction-related costs	(28)	(10)	(10)
Employee Free Shares costs	(94)	-	-
Business-related costs	(15)	(67)	(47)
Potential industrial diseases claims	7	(28)	(28)
Impairments	-	(20)	(20)
Other	(22)	(19)	1
Total operating specific items	1,213	(77)	(57)
Non-operating specific items:			
Profit on disposal of property, plant and equipment	19	4	16
Profit on disposal of associate undertaking	2	-	-
Finance income – release of gains held in equity on disposal of RMPP (RM section) escrow investments	-	22	22
Net pension interest	69	30	30
Total non-operating specific items	90	56	68
Total specific items before taxation	1,303	(21)	11

Other operating specific items of £22 million (2013 Adjusted £19 million) mainly comprise historical employment costs of £15 million (2013 Adjusted £nil) and £5 million POL separation costs (2013 Adjusted £20 million) relating to facilities management.

Specific items - taxation

	52 weeks 2014 Reported £m	52 weeks 2013 Adjusted £m	53 weeks 2013 Reported £m
Taxation effect of above items	(301)	(7)	(7)
Taxation specific items	12	343	343
Impact of change in taxation law ¹	12	-	-
Impact of Postal Services Act 2011 ²	-	343	343
Total	(289)	336	336

¹ A taxation credit was recognised for the remeasurement of deferred taxation balances as a result of the change in UK statutory corporation taxation rates.

² The taxation credit shown in specific items for 2012-13 reflects the benefit of UK taxation attributes (including prior year taxation losses and deferred capital allowances) not previously recognised as deferred taxation assets. Deferred taxation assets are recognised only to the extent that the Group is expected to have future taxable profits and therefore obtain a real taxation saving from future taxation deductions. Following the Postal Services Act 2011 and the transfer of the historic pension deficit, expectations of future profitability increased and it became appropriate to recognise a net deferred taxation asset in the UK. In addition to this one-off material deferred taxation credit, the Group also reported a one-off benefit from the utilisation of prior year taxation losses in 2012-13.

5. Net finance costs and net debt

This note provides details of:

- Interest payable on loans and finance lease obligations and interest received from investments and loans. 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; and
- Net debt – a non-GAAP measure 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 balance sheet shows these items gross within the different categories of assets and liabilities.

Net finance costs

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Unwinding of discount relating to industrial diseases provision	(3)	(1)
Interest payable on financial liabilities	(68)	(103)
HM Government facilities:		
Loans and borrowings	(47)	(82)
Unused facility fees	(2)	(5)
Other facility fees	(3)	(3)
Syndicated bank loan facility:		
Loans and borrowings	(3)	-
Unused facility fees	(1)	-
Other facility fees	(2)	-
Finance leases	(10)	(13)
Finance costs	(71)	(104)
Release of gains held in equity on disposal of pension escrow gilts – specific item	-	22
Interest receivable on other financial assets	4	5
Finance income	4	27
Net finance costs	(67)	(77)

Net debt

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
	(942)	(1,278)
Obligations under finance leases	(87)	(79)
Interest bearing loans and borrowings	(600)	(973)
Obligations under finance leases	(255)	(226)
Cash and cash equivalents and other financial assets:		
Cash at bank and in hand	51	136
Cash equivalent investments (short-term bank and local authority deposits/money market fund investments) and other financial assets	316	216
Pension escrow investments (RMSEPP)	20	20
Total net debt	(555)	(906)

Excluding the balances relating to POL, transferred to Royal Mail Holdings plc on 1 April 2012, net debt has decreased by £351 million during the year ended 30 March 2014 and by £280 million during the year ended 31 March 2013 as shown below.

	2014 Reported £m	2013 Reported £m
Net debt brought forward at 1 April 2013 and 26 March 2012	(906)	(753)
Adjustment for transfer of POL to Royal Mail Holdings plc on 1 April 2012	-	(433)
Net debt brought forward excluding the Post Office Limited subsidiary	(906)	(1,186)
Free cash flow	398	334
Finance costs paid on refinancing of loan facilities	(45)	-
Increase in loans and borrowings (roll-up interest on 12.0 per cent facility)	-	(51)
Increase in new finance lease obligations (non-cash)	(1)	(4)
Foreign currency exchange impact on cash and cash equivalents	(1)	1
Net debt carried forward at 30 March 2014 and 31 March 2013	(555)	(906)

Royal Mail plc

5. Net finance costs and net debt (continued)

At the date of the Company's listing on the London Stock Exchange, £973 million of HM Government loans were repaid and £600 million of Syndicated bank loans were drawn down. Below is a summary of loans and borrowings at the year end, the respective average interest rates, and facilities available.

Syndicated bank loan facilities

	At 31 March 2014 Reported						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate at 30 March 2014 - LIBOR plus %	Average maturity date of loan drawn down year	Average maturity date of loan facility year
Term Loan A	300	-	300	1.5	1.00	2018	2018
Term Loan B	300	-	300	1.4	0.90	2016	2016
Revolving credit facilities	-	800	800	-	0.85	-	2018
Total	600	800	1,400	1.4		2017	2018

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

	Interest rate %
Current average interest rate on drawn down loans (see table above)	1.4
Cost of fixing interest rates on £150 million of Term Loan A	0.3
Market expectation of interest rate rises over the next five years on remaining loans	0.9
	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

Interest rates on £150 million of Term Loan A have been fixed over the life of the loan facility by entering into interest rate swaps as part of the Group's interest rate hedge programme.

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 8.8 per cent.

6. Taxation

This note provides details about current taxation charges/(credits) on profit and deferred taxation charges/(credits) relating to the impact of past events on expected future taxation. The note also provides the taxation impact of specific items.

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Taxation (charged)/credited in the income statement		
Current income taxation:		
Current UK income taxation charge	(1)	(11)
Foreign taxation	(34)	(28)
Current income taxation charge	(35)	(39)
Amounts (under)/over provided in earlier years	(2)	1
Total current income taxation charge	(37)	(38)
Deferred income taxation:		
Effect of change in taxation rates	12	-
Relating to origination and reversal of temporary differences	(368)	284
Amounts over provided in previous years	7	-
Taxation (charge)/credit in the consolidated income statement	(386)	246
Taxation on non-GAAP, specific items:		
Taxation (charge)/credit relating to specific items	(289)	336
Taxation relating to items charged or credited to other comprehensive income		
Deferred taxation		
Actuarial gains/(losses) on defined benefit pension schemes	117	(188)
Net gains on revaluation of cash flow hedges	1	2
Total credit/(charge) in the consolidated statement of other comprehensive income	118	(186)

Reconciliation of the total taxation (charge)/credit

Reconciliations between the taxation charge and the product of accounting profit multiplied by the UK rate of corporation taxation for the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013 are as follows:

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Profit before taxation	1,666	352
At UK standard rate of corporation taxation of 23% (2013 24%)	(383)	(84)
Effect of higher taxes on overseas earnings	(2)	(1)
Taxation over provided in prior years	5	1
Non-taxable income	-	9
Non-deductible expenses	(10)	(11)
Associate's profit after taxation charge included in Group pre-taxation profit	1	-
Net (increase)/decrease in taxation charge resulting from (derecognition)/recognition of deferred taxation assets	(9)	332
Effect of change in taxation rates	12	-
Taxation (charge)/credit in the income statement	(386)	246

6. Taxation (continued)

Deferred taxation

	Balance sheet		Income statement	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Deferred taxation by balance sheet category				
Liabilities				
Accelerated capital allowances	(1)	-	-	1
Pensions temporary differences	(339)	(222)	(235)	(34)
Employee Free Shares Offer	(65)	-	(65)	-
Goodwill qualifying for taxation allowances	(28)	(23)	(5)	(6)
Deferred taxation liabilities	(433)	(245)		
Assets				
Deferred capital allowances	169	244	(76)	244
Provisions and other	30	37	(8)	33
Losses available for offset against future taxable income	90	51	40	46
Hedging derivatives temporary differences	2	2	-	-
Deferred taxation assets	291	334		
Net deferred taxation (liability)/asset (see below)	(142)	89		
Consolidated income statement			(349)	284

	Balance sheet	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Deferred taxation - balance sheet presentation		
Liabilities		
GLS group	(30)	(23)
Net UK position	(121)	-
Deferred taxation liabilities	(151)	(23)
Assets		
GLS group	9	7
Net UK position	-	105
Deferred taxation assets	9	112
Net deferred taxation (liability)/asset	(142)	89

Effective taxation

The effective taxation rate on reported profit for the Group is 23 per cent.

GLS pays taxation in a number of territories, with the majority of its profits in the period to 30 March 2014 earned in territories where the taxation rate is above the UK statutory taxation rate. Certain subsidiaries, notably GLS France, are not at this stage able to recognise taxation credits on losses made during the period and this contributes to GLS having a higher effective taxation rate for the period than the UK business.

Current taxation

Substantially all of the current taxation due for the Group for the period is in respect of GLS.

UK taxable profits in 2013-14 are almost fully covered by a combination of brought forward losses, capital allowance claims and a statutory deduction in respect of shares allocated to employees under the HM Revenue & Customs (HMRC)-approved Employee Free Shares Offer.

Owing to the above items and the RMPP (RM section) amendment credit, which does not give rise to a current taxation charge, the current taxation rate for the Group is 2 per cent.

6. Taxation (continued)

Deferred taxation

The UK deferred taxation liability is a net amount comprising a number of taxation assets and liabilities which will reverse in future periods. The UK position has changed from a net deferred taxation asset at 31 March 2013 to a net deferred taxation liability at 30 March 2014, primarily due to the effects of the Pensions Reform in the year. The pension surplus created as a result of the Pensions Reform gives rise to a deferred taxation liability that is expected to reverse over a much longer period than the other deferred taxation assets and liabilities. The RMPP (RM section) amendment credit of £1,350 million, included in profit before taxation, generates the majority of the deferred taxation charge in the income statement, whilst the decrease in the pension surplus due to actuarial revaluation gives rise to a deferred taxation credit of £117 million in other comprehensive income.

A new UK deferred taxation liability arises in 2013-14 in relation to the HMRC-approved Employee Free Shares Offer. As an HMRC-approved share incentive plan, a full taxation deduction is given for the value of the shares in the period in which they are first allocated to employees, whereas the accounting charge accrues over the life of the scheme. To the extent that the taxation deduction exceeds UK taxable profits in the period, the taxation losses carried forward are increased.

The deferred taxation balances within GLS arise in various jurisdictions, with reversal at varying times and rates and so balances in different jurisdictions are not offset against one another.

Under the Postal Services Act 2011, UK trading losses which arose due to employer's pension contributions paid which were unused at 31 March 2013 are extinguished. Losses and deferred taxation assets carried forward are stated above, net of the extinguished amount.

At 30 March 2014, the Group had unrecognised deferred taxation assets of £63 million (2013 £66 million) comprising £63 million (2013 £54 million) relating to taxation losses, mainly in GLS, that are available to offset and £nil (2013 £12 million) relating to other temporary differences.

The Group has capital losses carried forward, the taxation effect of which is £5 million (2013 £4 million) and temporary differences relating to capital losses of £61 million (2013 £73 million). The Group has rolled over capital gains of £43 million (2013 £53 million); no taxation liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

In the 2012 Autumn Statement, the Chancellor of the Exchequer announced that the main rate of corporation taxation would be 21 per cent for the year commencing 1 April 2014 and in the March 2013 Budget he announced that the rate would be further reduced to 20 per cent with effect from 1 April 2015. Both of these rate changes were included in Finance Act 2013 which was substantively enacted on 2 July 2013. In accordance with accounting standards the effect of these rate reductions on deferred tax balances has been reflected in these accounts. A net UK deferred taxation liability is recognised and measured at the future rates, dependent on when temporary differences are expected to reverse.

6. Taxation (continued)

Non-GAAP analysis of taxation charge

Below we present current and deferred taxation between the reported, specific and excluding specific items columns on a 52 week basis only. The break out of taxation between current and deferred taxation between the specific and excluding specific items columns requires estimation and assumptions and is non-GAAP information. Management believe that this provides additional information on movements relating to one-off items and the movements relating to the trading results (which the excluding specific items column represents).

	52 weeks 2014			52 weeks 2013		
	Reported (unaudited)	Specific items (unaudited)	Excluding specific items (unaudited)	Adjusted (unaudited)	Specific Items (unaudited)	Excluding specific items (unaudited)
	£m	£m	£m	£m	£m	£m
Profit before taxation	1,666	1,303	363	283	(21)	304
Current taxation	(37)	12	(49)	(38)	-	(38)
Deferred taxation	(349)	(301)	(48)	284	336	(52)
Profit for the period	1,280	1,014	266	529	315	214

The taxation credit shown in the specific items column for 2012-13 reflects the benefit of UK taxation attributes (including prior year taxation losses and deferred capital allowances) not previously recognised as deferred taxation assets. Deferred taxation assets are recognised only to the extent that the Group is expected to have future taxable profits and therefore obtain a real taxation saving from future taxation deductions. Following the Postal Services Act 2011 and the transfer of the historic pension deficit, expectations of future profitability increased and it became appropriate to recognise a net deferred taxation asset in the UK. In addition to this one-off material deferred taxation credit, the Group also reported a one-off benefit from the utilisation of prior year taxation losses in 2012-13.

In 2013-14 the current and deferred taxation amounts shown in the excluding specific items column are based on an assumption of what the taxation charge and allocation would have been, excluding the taxation impact of specific items. For example, excluding the taxation consequences of the specific items in 2013-14, we would have utilised brought forward losses against taxable profits arising, to the extent available.

7. Cash flow

The Company uses free cash flow to monitor and manage its cash performance. This measure eliminates inflows/outflows between net debt items (see note 5) and includes finance cash costs paid. This note provides a reconciliation of 'net cash inflow/(outflow) before financing activities' in the consolidated statement of cash flows to 'free cash inflow/(outflow)' which is a non-GAAP measure. This note also includes non-GAAP information for the 2012-13 comparative year (the only difference between this and the Reported information being the exclusion of the £820 million POL cash balance on its transfer to Royal Mail Holdings plc – see note 1 Basis of Preparation for further details) and non-GAAP information relating to specific items.

	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
EBITDA before transformation costs (see consolidated statement of cash flows)	942	915	915
Trading working capital movements	(57)	(60)	(60)
Difference between pension costs charged in operating profit and pension cash flows	58	(3)	(3)
Total Group ongoing pension costs in the income statement	479	434	434
Total Group cash flows relating to ongoing pension costs	(411)	(409)	(409)
Deficit correction payments	(10)	(28)	(28)
Total investment ¹	(617)	(665)	(665)
Business transformation payments	(19)	(55)	(55)
Voluntary redundancy	(71)	(75)	(75)
One-off project and property costs	(111)	(100)	(100)
Transformation investment – operating expenditure	(201)	(230)	(230)
Transformation investment – capital expenditure	(83)	(177)	(177)
Total transformation investment	(284)	(407)	(407)
Non-transformation investment – capital expenditure	(333)	(258)	(258)
Taxation paid	(38)	(37)	(37)
Net finance costs paid (excluding finance costs paid on refinancing of loan facilities)	(33)	(44)	(44)
Dividend received from associate undertaking	2	-	-
Underlying cash inflow	257	106	106
Transfer of POL (discontinued operation) to Royal Mail Holdings plc	-	-	(820)
One-off working capital movements	140	202	202
Cash cost of operating specific items	(35)	(26)	(26)
Proceeds from disposal of property, plant and equipment and associate undertaking (non-operating specific items)	36	52	52
Free cash inflow/(outflow)	398	334	(486)

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

7. Cash flow (continued)

Working capital movements

	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
One-off working capital movements:			
Buy forward of stamps	20	87	87
Unwind of prior year buy forward of stamps	(30)	-	-
Impact of applying VAT to postal products in 2012-13	-	75	75
Unwinding of pension prepayment made in March 2012	150	40	40
Total one-off working capital movements	140	202	202
Trading working capital movements	(57)	(60)	(60)
Total working capital movements	83	142	142

Free cash flow reconciliation

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).

	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
Net cash inflow/(outflow) before financing activities	435	542	(278)
Net sale of gilts and Treasury bills (financial asset investments – non-current)	-	(129)	(129)
Net sale of bank deposits (financial asset investments – current)	-	(30)	(30)
Other finance costs paid	(37)	(49)	(49)
Free cash inflow/(outflow)	398	334	(486)

8. Employee benefits – pensions

At 30 March 2014, a pension asset of £1,723 million has been recognised compared with £825 million at 31 March 2013. This increase reflects the impact of the Pensions Reform as explained further in this note.

Summary pension information

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Pension costs:		
Ongoing:		
UK defined benefit scheme (income statement rates ¹ 20.3%, 18.2%)	(448)	(412)
UK defined contribution scheme	(25)	(17)
Total UK ongoing pension costs	(473)	(429)
Total GLS defined contribution type scheme costs	(6)	(5)
Total Group ongoing pension costs	(479)	(434)
Difference between income statement charge and cash flows (cash flow rates ² 17.1% for both years)	68	25
Total Group pension cash outflows relating to ongoing pension costs	(411)	(409)
	At 30 March 2014 '000	At 31 March 2013 '000
UK pension schemes – active membership:		
UK defined benefit scheme	106	112
UK defined contribution scheme	36	33
Total	142	145

¹ This service cost is charged to the income statement. It represents the cost (as a percentage of pensionable payroll) of the increase over the year in the defined benefit obligation due to members earning one more year of pension benefits. It is calculated in accordance with IAS 19 and is based on market yields (high quality corporate bonds and inflation) at the beginning of the Company's reporting year.

² This is the employer contribution rate which forms part of the payroll expense and is paid into the Royal Mail Pension Plan (RMPP) (RM section). The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail.

8. Employee benefits – pensions (continued)

UK Defined Contribution Scheme

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

UK Defined Benefit schemes

Royal Mail Group Limited had one of the largest defined benefit pension schemes in the UK (based on membership and assets), called the RMPP. On 1 April 2012 (one week into the 2012-13 reporting year) – after the granting of State Aid approval by the European Commission to HM Government on 21 March 2012 – almost all of the historic pension liabilities and pension assets of RMPP, built up until 31 March 2012, were transferred to a new HM Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

On this date, RMPP was also sectionalised, with Royal Mail Group Limited and POL each responsible for their own sections from 1 April 2012 onwards.

The transfer left the Royal Mail section of the RMPP (RM section) fully funded on an actuarial basis. This means that, using long-term actuarial assumptions agreed at that date, it was predicted the Company would have to make no further cash deficit correction payments.

Royal Mail Pension Plan (RMPP)

The RMPP (RM section) is funded by the payment of contributions to separate trustee administered funds. RMPP (RM section) includes sections A, B, and C, each with different terms and conditions:

Section A is for members (or beneficiaries of members) who joined before 1 December 1971;

Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987 or to members of Section A who chose to receive Section B benefits; and

Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Benefits provided are based on career salary blocks for years' service, revalued annually.

Following conclusion of the March 2012 actuarial valuation, the regular future service contribution rate for RMPP (RM section), expressed as a percentage of pensionable pay, remained at 17.1 per cent (2013 17.1 per cent). Following the State Aid clearance granted on 21 March 2012, and the subsequent transfer of almost all of the RMPP (RM section) assets and liabilities to HM Government on 1 April 2012, no RMPP (RM section) cash deficit correction payment was made during the year. The Group expects to contribute around £400 million to the RMPP (RM section) in respect of normal cash service costs in 2014-15.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The Group also contributes to a smaller defined benefit scheme for executives, Royal Mail Senior Executives Pension Plan (RMSEPP) – which closed in December 2012 to future accrual. The 2012-13 contributions were made at 35.9 per cent until 31 December 2012. The Company and the Trustee have reached agreement over the March 2012 actuarial valuation. As the plan is closed to future accrual there will be no regular future service contributions. The Company is required to continue to make deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed (no later than 30 September 2018) as part of a funding agreement with the Trustee. Deficit correction payments in 2013-14 were £10 million (2013 £28 million including a special one-off payment of £19 million).

On 25 March 2013, the Group placed £20 million into a money market fund investment established to provide security to RMSEPP, as part of a funding agreement with the RMSEPP Trustee. This is treated as an investment in the Group's balance sheet.

A liability of £1 million (2013 £1 million) has been recognised for future payment of pension benefits to a past Director.

Pensions Reform

In June 2013, the Company began a consultation with RMPP (RM section) members on a proposal to ensure the RMPP (RM section) could remain open to future accrual, subject to certain conditions, at least until the conclusion of the next periodic review in March 2018. Subsequently, on 26 September 2013 the Company agreed with the RMPP Trustee to implement a Pensions Reform with effect from 1 April 2014.

8. Employee benefits – pensions (continued)

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.

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 as such £1,350 million has been recognised in the income statement of the Group for the year ended 30 March 2014.

Accounting and actuarial surplus/(deficit) position (RMPP (RM section) and RMSEPP)

	Accounting (IAS 19)		Actuarial/cash funding	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 31 March 2014 Reported £m	At 31 March 2013 Reported £m
Fair value of schemes' assets (see (b) below)	3,833	3,343	3,873	3,343
Present value of schemes' liabilities	(2,097)	(2,513)	(2,451)	(3,505)
Surplus/(deficit) in schemes' (pre IFRIC 14)	1,736	830	1,422	(162)
IFRIC 14 adjustment	(13)	(5)	n/a	n/a
Surplus/(deficit)	1,723	825	1,422	(162)

There is no element of the present value of the schemes' liabilities above that arises from schemes that are wholly unfunded.

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 (RM section) is assumed to be recoverable as a reduction to future employer contributions. Therefore, no IFRIC 14 adjustment is required. 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 IFRSs.

The actuarial/cash funding surplus of £1,422 million (2013 deficit of £162 million) allows the RMPP (RM section) to remain open for the benefit of the members at least until March 2018, subject to certain conditions (as part of the Pensions Reform agreement), without requiring either the Company or individuals to make unaffordable increases to their cash contributions.

The following disclosures relate to the major assumptions, sensitivities, gains/losses and surplus/deficit in the RMPP (RM section) and RMSEPP defined benefit schemes.

IAS 19 Accounting

a) Major long-term assumptions – RMPP (RM section) and RMSEPP

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

	At 30 March 2014 Reported % p.a.	At 31 March 2013 Reported % p.a.
Retail Price Index (RPI)	3.4	3.3
Consumer Price Index (CPI)	2.4	2.3
Discount rate		
- nominal	4.5	4.8
- real (nominal less RPI) ³	1.1	1.5
Rate of increase in pensionable salaries ⁴	RPI-0.1%	RPI+1%
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP ⁵	CPI	RPI
Rate of increase for deferred pensions – all other members	CPI	CPI
Rate of pension increases – RMPP (RM section) Sections A/B	CPI	CPI
Rate of pension increases – RMPP (RM section) Section C ⁴	RPI-0.1%	RPI-0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP ⁵	CPI	RPI
Rate of pension increases – RMSEPP all other members ⁴	RPI-0.1%	RPI-0.1%
Life expectancy from age 60 – for a current 40/60 year old male RMPP (RM section) member	29/27 years	29/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP (RM section) member	32/30 years	32/29 years

³ The real discount rate used reflects the long duration of the RMPP (RM section) scheme of around 28 years.

⁴ The rate of increase in salaries, and the rate of pension increase for Section C members (who joined RMPP on or after April 1987) and RMSEPP 'all other members', is 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.

⁵ This rate of increase is set by reference to CPI, following a High Court ruling on 11 June 2013.

8. Employee benefits – pensions (continued)

Mortality

The mortality assumptions for RMPP (RM section) are based on the latest Self Administered Pension Scheme (SAPS) S1 mortality tables with appropriate scaling factors (106 per cent for male pensioners and 101 per cent for female pensioners). Future improvements are based on the CMI 2012 core projections with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for RMPP (RM section) liabilities

The RMPP (RM section) liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP (RM section) liabilities is shown in the table below.

Key assumption change	Potential increase in liabilities £m
Additional one year of life expectancy	50
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	50
Decrease in discount rate of 0.1% p.a.	50
Increase in CPI assumption (assuming RPI kept constant) of 0.1% p.a.	15

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes opposite to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

The average duration of the RMPP (RM section) obligation is 28 years (2013 28 years).

b) Schemes' assets – RMPP (RM section) and RMSEPP

	At 30 March 2014			At 31 March 2013 ⁶		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	28	82	110	80	88	168
Overseas	321	-	321	371	-	371
Bonds						
Fixed interest – UK	101	8	109	75	-	75
– Overseas	371	-	371	270	-	270
Index linked – UK	156	-	156	287	-	287
– Overseas	-	-	-	3	-	3
Pooled investments						
Managed funds	303	-	303	80	-	80
Unit Trusts	1,864	-	1,864	1,298	-	1,298
Property (UK)	250	-	250	218	-	218
Cash and cash equivalents	345	-	345	553	-	553
Other	5	-	5	20	-	20
Derivatives	(1)	-	(1)	-	-	-
Total schemes' assets	3,743	90	3,833	3,255	88	3,343

⁶ The categorisation of the schemes' assets at 31 March 2013 has been restated as a result of IAS 19 'Employee Benefits' (revised).

There were no open equity derivatives within this portfolio at 30 March 2014 (at 31 March 2013 £nil). Included within the pension assets are £2.0 billion (2013 £1.4 billion) of HM Government Bonds. The schemes' assets do not include property occupied by the Group, the Group's own shares, or assets used by the Group.

8. Employee benefits – pensions (continued)

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the scheme and to provide, together with contributions, the financial resource from which benefits are paid. Investment is inevitably exposed to risks. The investment risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP (RM section) uses derivatives (such as swaps and futures) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that balance these requirements.

The RMPP Trustee has elected to use interest rate and inflation rate swaps ('derivatives') to deliver the investment strategy whilst managing risk. These derivatives are recorded at market value within the table above and are commonly used by pension funds. 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 (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 30 March 2014 is £3.8 billion (March 2013 £1.5 billion).

The spread of investments continues to balance security and growth in order to pay the RMPP (RM section) benefits when they become due.

8. Employee benefits – pensions (continued)

c) Movement in schemes' assets, liabilities and net position – RMPP (RM section) and RMSEPP

Changes in the present value of the defined benefit pension liabilities, fair value of the schemes' assets and the net defined benefit asset/(obligation) are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit asset/(liability)	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Opening net retirement benefit surplus/(deficit) – pre IFRIC 14 adjustment	3,343	30,745	(2,513)	(33,667)	830	(2,922)
Amounts included in the income statement:						
Ongoing UK defined benefit pension scheme costs	-	-	(448)	(412)	(448)	(412)
Royal Mail Pension Plan amendment	-	-	1,350	-	1,350	-
Pension interest income/(cost) ⁷	172	159	(103)	(129)	69	30
Total included in profit from continuing operations before taxation	172	159	799	(541)	971	(382)
Amounts included in other comprehensive income – remeasurement gains/(losses):						
Actuarial gain/(loss) arising from:						
Demographic assumptions	-	-	4	-	4	-
Financial assumptions	-	-	(256)	(865)	(256)	(865)
Experience adjustment	-	-	2	101	2	101
Return on schemes' assets (excluding interest income) ⁸	(203)	518	-	-	(203)	518
Total actuarial (losses)/gains on defined benefit schemes	(203)	518	(250)	(764)	(453)	(246)
Amounts taken directly to equity:						
Transfer of historic pension deficit to HM Government	-	(28,438)	-	32,450	-	4,012
Transfer of Post Office Limited subsidiary to parent	-	(193)	-	145	-	(48)
Total included in the statement of changes in equity	-	(28,631)	-	32,595	-	3,964
Other:						
Employer contributions	407	435	-	-	407	435
Employee contributions	136	136	(136)	(136)	-	-
Benefits paid	(25)	(17)	25	17	-	-
Curtailment costs	-	-	(20)	(17)	(20)	(17)
Movement in pension-related accruals	3	(2)	(2)	-	1	(2)
Total other movements	521	552	(133)	(136)	388	416
Closing net retirement benefit surplus/(deficit) – pre IFRIC 14 adjustment	3,833	3,343	(2,097)	(2,513)	1,736	830

⁷ The pension interest income is the result of applying the schemes' discount rate at 31 March 2013 to the schemes' assets at that date. Similarly, the pension interest cost results from applying the schemes' discount rate as at 31 March 2013 to the schemes' liabilities at that date. The pension interest for the position at 31 March 2013 has been restated for the effect of IAS 19 'Employee Benefits' (revised) – see 'Significant accounting policies' section.

⁸ Includes asset returns, movements on pension prepayments and changes to brought forward estimates.

In addition to the above items which affect the defined benefit asset, additional curtailment costs of £34 million (2013 £11 million) were recognised in the income statement on a consistent basis with the associated redundancy costs. Estimates of both are included in any redundancy provision raised.

9. Notional earnings per share

This note explains the calculation of the Group's earnings per share. The calculation for both reporting years is based on the 1,000,000,000 shares that were issued in September 2013 and which were subsequently listed on the London Stock Exchange in October 2013. It is therefore deemed to be 'notional' earnings per share as the shares were not in existence for the whole of the reporting years. The note also includes non-GAAP information relating to specific items.

	52 weeks 2014		52 weeks 2013	53 weeks 2013	
	Reported ¹ (unaudited)	Excluding specific items (unaudited)	Adjusted ² (unaudited)	Excluding specific items (unaudited)	Reported ¹
Profit from continuing operations attributable to equity holders of the parent (£m)	1,277	263	525	210	594
Number of shares (million)	1,000	1,000	1,000	1,000	1,000
Basic and diluted notional earnings per share (pence) ³	127.7	26.3	52.5	21.0	59.4

¹ Prepared in accordance with IFRS.

² Prepared in accordance with IFRS, except for the non-consolidation of POL, and excluding the impact of the 53rd week in 2013.

³ The basic and diluted notional earnings per share have been calculated based on the one billion shares in issue at 30 March 2014, being in existence for the entirety of both reporting years.

In future reporting periods, earnings per share will be calculated using the weighted average number of shares in issue over the relevant period.

10. Organisation structure and share capital changes

This note explains the incorporation of Royal Mail plc and the subsequent changes in share capital following the Company's listing on the London Stock Exchange on 15 October 2013.

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 on 11 September 2013 (and was subsequently renamed Postal Services Holding Company Limited ('PSH') on 12 December 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 (50,001 £1.00 shares).

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.

11. Share-based payment

This note provides details about the Free Shares allocated to employees, including the associated accounting charge to the Group's income statement under IFRS 2, and the number of shares held in the Share Incentive Plan (SIP) at the end of the reporting year. Details of shares awarded under the Long Term Incentive Plan (LTIP) are also included.

Employee Free Shares

Ordinary Shares representing 10 per cent of the value of the Company were granted free of charge to eligible employees on 15 October 2013, the date of the Initial Public Offering. These Free Shares are held on behalf of employees in an HM Revenue and Customs (HMRC) - approved SIP administered by Equiniti Share Plan Trustees Limited (Equiniti), and it was expected that each

11. Share-based payment (continued)

Employee Free Shares (continued)

eligible full-time employee would receive a total of 725 Free Shares at the date of the Initial Public Offering. However, under HMRC rules at the time of the flotation, employees can only 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 the Company'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 were awarded to each eligible full-time employee as their 2013 SIP allocation. The Company allocated a further 116 shares (729 in total – see below) to eligible full-time employees on 9 April 2014 as a 2014 SIP allocation, subject to them remaining employees of Royal Mail Group Limited.

The 729 total shares awarded to eligible full-time employees comprises the 725 initial, expected allocation of shares and an additional four shares resulting from the reallocation of shares forfeited by certain employees who left the Group.

Part-time eligible employees have been allocated a pro-rata number of shares.

All allocated shares will be equity-settled.

The fair value of the award of Free Shares is £490 million, which will be charged to the income statement on a straight line basis, adjusted for 'good leavers', over the period of vesting (three years for the 2013 SIP and four years for the 2014 SIP, in each case from the award date). A charge to the Group income statement of £94 million (including £3 million National Insurance) has been made for the year ended 30 March 2014 for both SIP allocations as they were granted as one award.

The Free Shares are held in a Trust funded by Royal Mail and may only be distributed to, or for the benefit of, eligible employees. The Trust is under the control of the Company and is operating for its benefit. At March 2014 the Trust has been included in these consolidated financial statements.

A reconciliation of the Ordinary Shares held in the SIP at 30 March 2014 is shown below.

	Number of shares
Initial shares award on 15 October 2013	84,415,327
Shares transferred out of SIP – 'good leavers'	(809,247)
Remaining shares to be allocated	15,744,673
Total shares remaining in SIP at 30 March 2014	99,350,753

Award of shares under the Long Term Incentive Plan (LTIP)

As a result of the flotation in October 2013, and as permitted under the rules of the LTIP, the award granted to the Executive Directors and Senior Leadership Population in 2013 was converted from a cash award into an award of a total of around 2.2 million shares, based on a volume weighted average price of 529.14 pence. These shares are not part of the SIP explained above and will be acquired separately by the Company from the market. The performance conditions applying to this award will be measured in 2015-16.

The award will be accounted for as cash-settled, in accordance with the requirements of IFRS 2 'Share-based payment'.

Shareholder information

Financial calendar

Interim Management Statement – 22 July 2014

Annual General Meeting – 24 July 2014

Dividend dates

Ex-dividend date – 2 July 2014

Record date – 4 July 2014

Payment date – 31 July 2014

Shareholder information online

The Company's registrars, Equiniti, are able to notify shareholders by email of the availability of an electronic version of shareholder information.

Whenever new shareholder information becomes available, such as The Company's interim and full year results, Equiniti will notify you by email and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk and select 'Shareholder Centre', where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11-character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from 'email' to 'post'. If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

Advisers

Corporate brokers and financial advisers

Barclays Bank plc, 5 The North Colonnade, London, E14 4BB

Independent Auditor

Ernst & Young LLP, 1 More London Place, London SE1 2AF

Registrars

Equiniti Share Plan Trustees Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

www.shareview.co.uk

Tel: 0871 384 2859 (from outside the UK: +44 (0)121 415 7047)

Fax: 0871 384 2100 (from outside the UK: +44 (0)1903 698403)

Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at:

www.royalmailgroup.com/investor-centre

Investor enquiries

Equiniti

Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

www.shareview.co.uk

Tel: 0871 384 2859 (from outside the UK: +44 (0)121 415 7047)

Fax: 0871 384 2100 (from outside the UK: +44 (0)1903 698403)

Registered office

Royal Mail plc

100 Victoria Embankment

London EC4Y 0HQ

Registered in England and Wales

Company number 08680755

Corporate websites

Information made available on the Group's websites does not, and is not intended to, form part of these Preliminary Results.

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This document contains certain forward looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'. Forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward looking statements.

By their nature, forward looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations. All written or verbal forward looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the forward looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.