Royal Mail plc

Financial Report for the half year ended 28 September 2014

ROYAL MAIL PLC
FINANCIAL REPORT FOR THE HALF YEAR ENDED 28 SEPTEMBER 2014

Royal Mail plc (RMG.L) today announced its results for the half year ended 28 September 2014.

Moya Greene, Chief Executive Officer, Royal Mail plc, said:
"I am pleased with our overall performance. We have delivered two per cent revenue growth together with margin expansion, in line with our expectations. Our tight cost control meant that UK costs were flat on an underlying basis and we are expecting a similar performance for the full year. Looking further ahead, we are targeting a flat or better underlying UKPIL cost performance in 2015-16.

"The UK parcels market remains challenging. As the pre-eminent UK parcels delivery company, we are targeting a number of new, growing areas, and delivered two per cent volume growth in a competitive market. We had a better than expected performance in UK letters. GLS, our European parcels business, demonstrated a strong performance with better than expected volumes in domestic and export parcels.

"Our performance remains in line with our expectations for the full year. But, as always, this depends on us delivering another great Christmas, for which we are fully prepared."

Group financial highlights

	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change[1]
Revenue (£m)	4,525	4,520	2%
Operating costs before transformation costs (£m)	(4,246)	(4,167)	1%
People costs (£m)	(2,627)	(2,546)	2%
Non-people costs (£m)	(1,619)	(1,621)	Flat
Operating profit before transformation costs (£m)	279	353	
Operating profit margin before transformation costs (%)			
- Underlying[1]		6.0	20bps
- Reported[2]	6.2	7.8	
Transformation costs (£m)	(47)	(70)	
Operating profit after transformation costs (£m)	232	283	
Operating profit margin after transformation costs (%)			
- Underlying		4.4	70bps
- Reported	5.1	6.3	
Profit before taxation (£m)			
- Excluding specific items	218	233	
- Reported	167	1,580	
Earnings per share (pence)			
- Excluding specific items	16.3	16.8	
- Reported	12.5	122.0	
Free cash flow (£m)	117	183	
Net debt (£m)	570		
Interim dividend per share (pence)	6.7		

Royal Mail plc

Business performance

	Revenue (£m)			Operating profit after transformation costs (£m)		Operating profit margin after transformation costs (%)		
	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change[1]	**Half year ended 28 Sept 2014**	Half year ended 29 Sept 2013	**Reported Half year ended 28 Sept 2014**	Underlying Half year ended 29 Sept 2013	Underlying change[1]
UKPIL	**3,703**	3,711	Flat	**172**	224	4.6	3.8	80bps
GLS	**813**	801	7%	**56**	53	6.9	6.6	30bps
Other	**9**	8	n/m	**4**	6			
	4,525	4,520	2%	**232**	283	5.1	4.4	70bps

Revenue and volume

- We delivered revenue growth of two per cent, in line with our expectations.
- UKPIL revenue was flat at £3,703 million. Letter revenue of £2,242 million was up one per cent, primarily due to election mailings. Addressed letter volumes decreased by three per cent[3]. This was better than our expected range of a 4-6 per cent decline per annum[3], mainly due to the improvement in UK economic conditions.
- At £1,461 million, UKPIL parcel revenue was down one per cent. This was primarily due to the impact of a change in the mix of the parcels we carry and the highly competitive environment in the UK parcels market. We estimate Amazon's own delivery network will reduce the annual rate of growth in the UK addressable market[4] to 1-2 per cent[5] for approximately two years. UKPIL parcel volume grew by two per cent.
- GLS delivered a good performance, ahead of our expectations. Revenue was up seven per cent, in line with volumes.

Profits and margins

- Reported Group operating profit before transformation costs was £279 million (H1 2013-14 £353 million). This represents an increase of £13 million on an underlying basis.
- Tight cost control meant that UKPIL operating costs before transformation costs, which included the pay increase for frontline employees, were flat.
- Group operating profit margin before transformation costs increased by 20 basis points to 6.2 per cent.
- Group operating profit margin after transformation costs increased by 70 basis points to 5.1 per cent.

Cash flow and balance sheet

- In-year trading cash inflow was £69 million (H1 2013-14 £118 million), including the cost of the management reorganisation programme of £39 million.
- In July 2014, we issued a €500 million ten-year Eurobond with a coupon of 2.375%. £350 million of the proceeds were used to pay down short-term debt.
- Net debt increased to £570 million from £555 million at 30 March 2014.
- In October 2014, we announced that contracts have been exchanged for the sale of our former Paddington Mail Centre site for £111 million in cash.

Dividend

- In line with our previously disclosed dividend policy, the Board announces that it has declared and approved an interim dividend of 6.7 pence per share for the half year to 28 September 2014.

Transformation

- The management reorganisation programme is expected to deliver cost savings of around £70 million per annum from 2015-16 – more than originally anticipated – with at least £25 million of cost benefits expected in the second half of this year.
- Productivity improved by 2.1 per cent, within our target range of 2-3 per cent per annum.

Regulation

- In October 2014, we welcomed the High Court's decision that HM Revenue & Customs (HMRC) is right to exempt Royal Mail's mandated access services from VAT. This decision may, however, be subject to a further appeals process.
- In October 2014, Royal Mail announced that it had entered into a settlement agreement with the French competition authority in respect of alleged breaches of antitrust laws by GLS France, during the period before the end of 2010. A provision of £18 million has been made.

Summary outlook for 2014-15

- Our performance remains in line with our expectations for the full year.
- Tight cost control expected to deliver flat underlying costs before transformation costs in UKPIL.
- Full year outcome dependent on our performance over the Christmas period.

NOTES

[1] Movements in revenue, costs and margins are shown on an underlying basis, unless otherwise stated. A more detailed explanation of underlying performance can be found in the paragraph entitled, "Presentation of results" in the section "Group Financial Performance". Movements in revenue and costs and underlying margins are calculated after adjusting for foreign exchange movements in GLS' revenue and costs and working days in UKPIL revenue, as well as any non-recurring or distorting items that have impacted the reporting periods. For comparison purposes all underlying adjustments are made to the prior period.
Non-recurring or distorting items in the first half were:

a) The increase in the non-cash IAS 19 pension service charge in relation to RMPP of £34 million
b) The difference between the VAT credit of £35 million in the first half of 2013-14 and a £5 million credit in the first half of 2014-15.

For volumes, underlying movements are adjusted for working days in UKPIL.

(£m)	**Reported 2013-14**	Working days (UKPIL)	Foreign exchange (GLS)	IAS 19 pension service charge increase (UKPIL)	VAT credit (UKPIL)	**Total underlying adjustments**	**Underlying 2013-14**
Revenue	**4,520**	(20)	(44)	n/a	n/a	**(64)**	**4,456**
Operating costs before transformation costs	**(4,167)**	n/a	41	(34)	(30)	**(23)**	**(4,190)**
Operating profit before transformation costs	**353**	(20)	(3)	(34)	(30)	**(87)**	**266**

The cumulative average translation rate for the half year ended 28 September 2014 was £1 = €1.24 (H1 2013-14 £1 = €1.17).
[2] In accordance with accounting standards (IFRS), including specific items.
[3] Excluding election mailings.
[4] Royal Mail's definition of the addressable market captures that segment of the UK domestic parcels market which we, and other independent parcel delivery companies, can compete for. It includes the vast majority of individually addressed B2B, B2C and C2X parcel traffic weighing up to 30kg delivered by independent parcel carriers. For click and collect, it includes all items that are delivered to post offices or parcel shops or when retailers use parcel carriers to deliver items to their stores. Our definition excludes parcels delivered by retailers' own delivery networks as they carry their own items either to their own stores for click and collect services or customers' homes. Bulky (e.g. over 30kg) or specialist items requiring two-man delivery or specially-equipped vans are also excluded.
[5] Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (July 2014), Verdict UK E-retail survey and RMG market insight. B2C/C2X market growth of circa 4.5-5.5 per cent and B2B market growth broadly tracking GDP. Estimated impact of own-delivery reduces B2C/C2X market volume growth by circa 4-5 per cent.

CHIEF EXECUTIVE OFFICER'S REVIEW

We delivered revenue growth of two per cent, in line with our expectations. Continued tight cost control has helped offset the impact of changes in the UK parcels market. The Group operating profit margin after transformation costs improved by 70 basis points.

Despite a reduction in the rate of growth of the addressable UK parcels market caused by the impact of Amazon's own-delivery network, overall UKPIL revenue was flat. Letters revenue increased by one per cent and the addressed letter volume decline of three per cent[1] was better than our expected range of a 4-6 per cent decline per annum. UKPIL parcel revenue was down one per cent, primarily due to a change in the mix of the parcels we carry and pressure on average unit revenues (AURs) due to the highly competitive environment. Volumes increased by two per cent. GLS performed better than we expected, with revenue and volumes up seven per cent.

Cost management remains a key focus across the Group. Total Group operating costs before transformation costs were up one per cent, below the rate of revenue growth.

Group people costs increased two per cent. We have achieved productivity improvements of 2.1 per cent, within our target range of 2-3 per cent per annum. The management reorganisation programme is on track to deliver cost savings of at least £25 million in the second half of the year, with an annual saving of £70 million per annum thereafter – more than we originally anticipated. Group non-people costs were flat, reflecting tight cost control in UKPIL.

We had anticipated that we would be able to mitigate around 1-2 per cent of RPI inflation on UKPIL costs through productivity improvements and procurement and other cost initiatives. As a result of current and further planned cost actions, we expect to hold underlying costs before transformation costs in UKPIL flat for the current year. Looking further ahead, we are targeting a flat or better underlying UKPIL cost performance in 2015-16.

In line with our previously stated dividend policy, the Board has declared and approved a maiden interim dividend of 6.7 pence per share for the half year to 28 September 2014.

Being a successful parcels business

Royal Mail is the pre-eminent UK parcels delivery company. We are maintaining that position while targeting higher growth areas, including clothing and footwear.

UK parcels market volume growth continues to be driven by e-retailing. We estimate that the total number of parcel deliveries in the UK - across business-to-consumer (B2C), consumer-to-any-recipient (C2X) and business-to-business (B2B) - will increase by approximately four per cent[2] per annum in the medium term. However, we estimate that the impact of Amazon delivering an increasing number of its own parcels using its own delivery network will reduce the annual rate of growth in our addressable market to 1-2 per cent. We expect this dynamic to continue for approximately two years. Additional capacity in the market has contributed to increasing price pressure as other players seek to fill their networks.

Royal Mail plc

Despite exacting trading conditions, we have put in place a number of parcels initiatives to maintain our position as the pre-eminent UK parcels delivery company.

Our parcels strategy is about:

- maintaining our pre-eminent position, while seeking new areas of growth;
- being easier to do business with;
- continually improving our products and services; and
- increasing the scale of our European parcels network.

Maintaining our pre-eminent position, while seeking new areas of growth

The UK has one of the most developed e-retail markets in the world, with around 10 per cent of all retail sales conducted online. This is estimated to rise to 13 per cent by 2017[3]. Online retailers and consumers are increasingly focusing on delivery. They want services that are quick, frequent, reliable and competitively priced. They also want a reliable returns service.

We are targeting higher growth areas, including clothing and footwear. This is helping us to grow business with a number of large retailers and e-retailers. As we seek to increase our share of key growth segments, we are working with e-retailers to be more flexible about the dimensions of parcels, and packaging materials we will accept. Poly-wrapped clothing and footwear, including returns, can be delivered cost-effectively on foot using trolleys.

We are offering more support to eBay sellers – key customers of ours. Royal Mail and Parcelforce Worldwide are one of the few delivery providers for eBay's click and collect service with Argos stores across the UK. We have also strengthened our strategic partnership with eBay by enabling buyers who want to return items to track their parcel through to delivery back to the seller.

Being easier to do business with

In May 2014, we introduced later acceptance times and weekend collections for retailers and e-retailers, allowing them for the first time to fulfil orders made at the weekend for delivery by Royal Mail on Monday. We saw extra volume as a result of this. We have extended access to Local Collect – our click and collect service – to around 20,000 contract SME customers. Their customers will have the option to collect their parcels from a network of around 10,500 Post Offices.

Our retail partner, the Post Office, is undertaking a major modernisation programme, including introducing longer opening hours into thousands of its branches. Over 3,000 Post Office branches have been modernised offering more than 85,000 additional opening hours each week, with branches open from early in the morning and into the evening and around 2,000 open on Sundays.

Our new, simple web-shipping tool allows integration of online traders' eBay accounts for bulk printing of labels and the instant despatch of sold items. We have launched new parcel shipping and tracking IT solutions. New shipping and tracking technology allows large customers to integrate with Royal Mail faster than ever before and small and medium customers can connect using multiple browsers and access a wider range of UK and International services.

Continually improving our products and services

We recently increased the maximum size for our small parcel format, so customers can put more, or bigger, items into each small parcel. Along with a seasonal price promotion, this change will benefit customers sending Christmas presents, marketplace sellers and smaller businesses selling gifts online over the festive period and during the New Year sales.

We are expanding our tracking capability and aim to barcode the majority of the parcels we deliver by Christmas 2015. In October 2014, we confirmed an investment of around £130 million over five years in hand-held technology. The roll-out of approximately 76,000 next generation hand-held scanners is expected to be completed in 2016-17. These new devices will have enhanced functionality, including the capability to provide interactive alerts and image capture. We are continuing to develop our new parcels IT platform, which will enable us to improve customer services. We have issued a tender for parcels automation equipment to help inform our business case.

Increasing the scale of our European parcels network

GLS has delivered a good performance with underlying revenue growth of seven per cent and margin improvement of 30 basis points. Revenue growth was delivered in all of its major countries, including Germany, France and Italy, which make up approximately 70 per cent of its revenue. Volume growth was driven by better than expected volumes in both domestic and export parcels.

In Germany - GLS' largest market – volumes and revenue increased. Sub-contractor costs have stabilised. GLS Germany has rolled out evening and Saturday services in selected cities. Our turnaround plan in France is on track – we are focusing on top line growth and rolling out our FlexDeliveryService. GLS Italy continued to deliver a good performance, partly due to our selective acquisition strategy and the successful integration of new franchisees. The business is aiming to maintain its competitive position by focusing on SMEs and increasing exports.

Managing the decline in letters

The three per cent decline in addressed letter volumes[1] was better than our expected decline of 4-6 per cent per annum[1], due to improvements in UK economic conditions. Letter revenue increased by one per cent to £2,242 million, benefiting from the impact of price increases and the uplift from elections traffic.

Marketing mail revenue, which accounts for around one quarter of letters revenue, grew by five per cent to £571 million. Our national network means we are well-placed to deliver this mail, which provides a vital lifeline to the UK's businesses – particularly SMEs.

We have continued to exceed our Quality of Service regulatory target of 93.0 per cent for First Class mail. 93.3 per cent of First Class mail was delivered on the next working day in the first half. We achieved at least the minimum postcode area standard of 91.5 per cent in 110 of the 118 postcode areas. We have also continued to exceed our Quality of Service regulatory target of 98.5 per cent for Second Class mail. 98.9 per cent of Second Class mail was delivered within three working days.

Our letters strategy aims to:

- secure the future provision of the Universal Service by addressing the combination of the delay in the implementation of proposed changes to access pricing and the impact of the unfettered roll-out of direct delivery competition;
- leverage the benefits of our transformation programme to deliver continued efficiency improvements in the core network; and
- prove and promote the value of letters to businesses and consumers across the UK.

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We are the trusted carrier for election mailings across the UK. In the first half of the year Royal Mail delivered around 200 million candidate mailings, mainly due to European and local government elections in May 2014. For the Scottish Independence Referendum, we delivered over seven million campaign mailings and over five million poll cards. We are proud to be the chosen partner across the UK for such important mailings.

In August 2014, as we seek to underpin the sustainability of the Universal Service and respond to changing customer needs, we confirmed that our postmen and women would collect from 45,000-50,000 low-volume postboxes as part of their delivery round. Declining letter volumes have been reflected in a significant fall in the number of items posted in postboxes, leaving many now not covering their costs. Rather than decommission uneconomic postboxes, we are ensuring their sustainability by improving the efficiency of our collection arrangements. In addition, we are improving public access to postboxes. Over time, we will add up to 2,000 postboxes to around 115,000 we currently have. We are very pleased to have received suggestions of new locations for postboxes from members of the public.

Regulation

We believe the current regulatory framework does not fully address the problem posed by unfettered direct delivery competition. We think there is an urgent need for a new framework that will secure the sustainable provision of the Universal Service for the future.

We made an evidence-based regulatory submission to Ofcom in June 2014, showing the real and growing threat to the Universal Service from direct delivery. The submission asked Ofcom to accelerate its review of direct delivery competition, which is currently planned for late 2015. The submission showed that:

- there is a structural cost advantage for direct delivery entrants;
- the UK has a unique economic geography that enables entrants to the market to cherry-pick the services they offer, putting the Universal Service at risk; and
- the UK's highly developed access market provides a bridgehead for direct delivery entrants to grow market share quickly.

Taken together, this provides an environment that could facilitate rapid growth of direct delivery competition unless the regulator takes action now. We estimate that the impact of Whistl's (formerly TNT Post UK) stated plans for expansion could reduce Royal Mail's revenue by over £200 million in 2017-18[4]. This amounts to a potential material threat to the Universal Service – which is Ofcom's published threshold for advancing its planned review.

Ofcom announced in April 2014 that it would undertake a policy review of the access pricing regime (Access Pricing Policy Review) and we await an announcement of when this will commence. Ofcom continues to investigate, under its Competition Act 1998 powers, a complaint from Whistl into the proposed access changes Royal Mail announced in January 2014. A decision as to whether to proceed is expected in Autumn/Winter 2014. Royal Mail believes its proposals are fair, reasonable and fully within the guidance provided by Ofcom's March 2013 document on end-to-end competition[5].

These issues are all interrelated. Some of our January 2014 price changes remain suspended while Ofcom continues its investigation. We await a response to our regulatory submission of June 2014. We believe these matters need to be resolved quickly in order to create a regulatory environment that supports the sustainability of the Universal Service.

Royal Mail plc

In September 2014, the BIS Select Committee announced it will conduct an inquiry into competition in the UK postal sector and the Universal Service. We will play our full part in this inquiry. In October 2014, after the reporting period, we welcomed the High Court's decision that HMRC is right to exempt Royal Mail's mandated access services from VAT. This decision may, however, be subject to a further appeals process.

Being customer focused

We are one of the UK's most trusted and respected brands. This year, we were ranked in the top 10 most reputable companies in the UK by the Reputation Institute, climbing more than 100 places in four years. In September 2014, the Group was named as global sustainability leader of the Transportation and Transportation Infrastructure Industry in the Dow Jones Sustainability Indices.

We also exceeded our internal target for composite parcels, which measures the overall quality of service performance for the parcel products in our core network. Our performance of 95.4 per cent in the first half demonstrates the benefits of our operational focus on first-time delivery[6], and our modernisation programme to repurpose our network for more efficient and effective parcel delivery. First-time delivery of Tracked 24/48 products is around 90 per cent, up from 87 per cent at the start of the year[7]. Overall, complaints have continued to reduce, with reductions in three of the four main causes.

Upgrades to customer service points at 45 Enquiry Offices are in progress this financial year as part of a programme to help ensure we maintain the highest level of service to our customers. We have now introduced a new IT system in more than 100 Enquiry Offices, which will allow us to identify returned items more quickly. More than 3,000 of our people have undertaken training to ensure we serve our customers more efficiently, and to a higher standard.

Parcelforce Worldwide, our express parcel delivery business, began Sunday deliveries in June 2014. We also began a trial of Sunday deliveries within the M25 for Royal Mail Tracked 24 parcels posted anywhere in the UK on a Saturday. In September 2014, around 100 of our busiest Royal Mail Enquiry Offices opened on Sundays. Sunday is now the third busiest day of the week[8] for collections at Enquiry Offices, with around 12,500 customers visiting open offices.

Christmas is the most important part of our year. We are recruiting around 19,000 temporary staff and opening 10 parcel sort centres to manage increased traffic over this crucial period. We will be extending opening hours in Enquiry Offices for our 1,400 Delivery Offices during the busiest period.

Our people

We are making good progress on the Agenda for Growth, our agreement with the CWU. Our "Together for Growth" training programme aims to provide managers and union representatives with the knowledge and skills they need to manage our transformation more effectively. In line with the agreement, we also ran a joint recruitment programme for 10 mediators across our business. The appointed mediators undertook training and began their new roles in September 2014.

As part of the flotation process, eligible full-time employees received 729 Free Shares (613 Free Shares at flotation and 116 Free Shares on 9 April 2014), which they are required to hold for a minimum of three years. In January 2015, these employees will each receive their maiden interim dividend of over £48, in addition to the final dividend of over £96 they received on 31 July 2014.

We have also launched a Save As You Earn scheme. This three-year scheme allows employees to save for the opportunity to purchase Royal Mail shares at a discounted price in the future. More than 35,000 employees, approximately one quarter of those who were eligible, applied to join the scheme, providing further alignment between the interests of our employees, the Company and its shareholders.

Outlook for 2014-15

Our performance remains in line with our expectations for the full year. We expect tight cost control to deliver flat underlying costs before transformation costs in UKPIL. The full year outcome is dependent on our performance over the Christmas period.

NOTES

[1] Excluding election mailings.

[2] Internal estimate based on historic growth trends (Triangle Management Services/RMG Fulfilment Market Measure, July 2014) and forecast data (Verdict UK E-retail Survey).

[3] Euromonitor Passport Data 2013. Retail values exclude sales tax, current prices.

[4] Based on: Whistl'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 Whistl 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.

[5] 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.

[6] Based on the total number of Tracked 24/48 products.

[7] As at week 26, based on proportion of Tracked 24/48 parcels delivered on expected day.

[8] Based on study in 34 offices regarding footfall analysis identifying numbers of items collected per hour.

NOTE TO THE "CHIEF EXECUTIVE OFFICER'S REVIEW" AND "BUSINESS AND FINANCIAL REVIEW"

Movements in revenue, costs and margins are shown on an underlying basis, unless otherwise stated. A more detailed explanation of underlying performance can be found in the paragraph entitled, "Presentation of results" in the section "Group Financial Performance".
Movements in revenue and costs and underlying margins are calculated after adjusting for foreign exchange movements in GLS' revenue and costs and working days in UKPIL revenue, as well as any non-recurring or distorting items that have impacted the reporting periods. For comparison purposes all underlying adjustments are made to the prior period.

BUSINESS AND FINANCIAL REVIEW

UK Parcels, International & Letters (UKPIL)

Trading results (£m)

	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change
Revenue	3,703	3,711	Flat
Operating costs before transformation costs	(3,484)	(3,417)	Flat
Operating profit before transformation costs	219	294	
Operating profit margin before transformation costs	5.9%	5.7%	20bps
Transformation costs	(47)	(70)	
Operating profit after transformation costs	172	224	
Operating profit margin after transformation costs	4.6%	3.8%	80bps

Revenue (£m)

Letters	1,671	1,685	Flat
Marketing mail	571	545	5%
Total letters	2,242	2,230	1%
Parcels	1,461	1,481	(1%)
Total	3,703	3,711	Flat

Volumes (m)

Letters

Addressed letters	6,466	6,477	(3%)
Unaddressed letters	1,560	1,513	4%

Parcels

Core network	459	454	2%
Parcelforce Worldwide	39	36	9%
Total	498	490	2%

Revenue

UKPIL revenue was flat at £3,703 million, as a one per cent increase in total letter revenue offset a one per cent decline in parcel revenue.

Parcel volumes were up two per cent, with growth in lower AUR import volumes more than offsetting a decline in higher AUR consumer/SME volumes. Parcel revenue declined by one per cent to £1,461 million, largely as a result of this change in mix and pricing pressure due to the highly competitive environment. Export parcel growth was lower than expected due to increasing competition in the export parcel market and the impact of the stronger Pound.

Parcelforce Worldwide has seen good volume growth of nine per cent. However the competitive marketplace has put pressure on pricing such that revenue growth has been impacted.

Addressed letter volumes declined by three per cent (excluding the impact of election mailings). Overall letter revenue (including marketing mail) of £2,242 million increased by one per cent, benefiting from the impact of price increases and the uplift from elections, the impact of which is expected to diminish over the year.

Marketing mail revenue of £571 million increased by five per cent as a result of the improvement in UK economic conditions and the impact of MarketReach, which works with customers to help them improve return on investment from multimedia campaigns.

Operating costs

(£m)	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change
People costs	(2,400)	(2,320)	2%
Distribution & conveyance costs	(367)	(387)	(8%)
Infrastructure costs	(440)	(452)	(5%)
Other operating costs	(277)	(258)	6%
Non-people costs	(1,084)	(1,097)	(4%)
Operating costs before transformation costs	(3,484)	(3,417)	Flat

Total operating costs before transformation costs were flat.

People costs increased by two per cent as a result of increased pay costs, due to the three per cent frontline pay award, the additional cost of delivering election mail and the investments made in headcount expansion in Parcelforce Worldwide and IT. The increase was partially offset by a 2.1 per cent improvement in collections, processing and delivery productivity in the core network, in line with our target of a 2-3 per cent improvement per annum. The second half will benefit from expected savings from the management reorganisation programme of at least £25 million.

Non-people costs declined by four per cent. Distribution and conveyance costs reduced by eight per cent due partly to a reduction in terminal dues as a result of lower export volumes and the geographic mix of export parcels in the period. Savings were also achieved on vehicle and fuel costs through improved fleet management. Infrastructure costs were five per cent lower, mainly due to cost savings on property, with reduced spend in relation to facilities management. Depreciation was up £6 million in the first half of the year. Other operating costs increased by six per cent, partly due to ceased cost recovery from Post Office Limited for certain services following separation.

For the full year, operating costs before transformation costs in UKPIL are expected to be flat.

Transformation costs

Transformation costs of £47 million were £23 million lower than the prior period. This was due to lower project and property costs, partly offset by higher voluntary redundancy costs. We continue to expect ongoing transformation costs of around £120-140 million per annum, however the outcome for 2014-15 will depend on the timing of a number of projects in the second half of the year.

General Logistics Systems (GLS)

Trading results (€m)

	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change
Revenue	1,008	940	7%
Operating costs	(939)	(878)	7%
Operating profit	69	62	
Operating profit margin	6.9%	6.6%	30bps

Trading results (£m)

	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change
Revenue	813	801	
Operating costs	(757)	(748)	
Operating profit	56	53	
Volumes (m)	208	193	7%

Revenue

GLS delivered a good revenue performance with seven per cent growth, which was better than our expectations. This was driven by a seven per cent increase in parcel volumes, with particularly strong growth in Italy. GLS continues to grow revenue in both developed and emerging European markets.

Operating costs

(€m)	Half year ended 28 Sept 2014	Half year ended 29 Sept 2013	Underlying change
People costs	(226)	(209)	8%
Distribution & conveyance costs	(620)	(580)	7%
Infrastructure costs	(65)	(62)	4%
Other operating costs	(28)	(27)	3%
Non-people costs	(713)	(669)	7%
Total operating costs	(939)	(878)	7%

Total operating costs were up seven per cent, in line with volume growth.

People costs increased by eight per cent as a result of increased labour requirements in operations and the impact of acquisitions in Italy. Non-people costs were up seven per cent. Distribution and conveyance costs were up seven per cent, reflecting higher volumes. Although sub-contractor rates in Germany have now stabilised, going forward these are likely to be impacted by the introduction of minimum wage rates in Germany, which take effect from 1 January 2015. Infrastructure costs increased by four per cent due to higher depreciation and amortisation charges. Other operating costs were up three per cent, mainly due to accelerated IT projects.

Operating profit margin increased by 30 basis points to 6.9 per cent, partly due to a reduction in losses in France of €4 million to €9 million.

GROUP FINANCIAL PERFORMANCE

The main drivers of revenue and cost performance have been described in the sections entitled "UKPIL" and "GLS" above.

Operating profit and margins

Operating profit before transformation costs was £279 million (H1 2013-14 £353 million). Operating profit margin before transformation costs increased by 20 basis points to 6.2 per cent.

Operating profit after transformation costs was £232 million (H1 2013-14 £283 million). Operating profit margin after transformation costs increased by 70 basis points to 5.1 per cent.

Operating specific items

Operating specific items in the period relate mainly to the charge associated with the Employee Free Shares Offer of £91 million (including £3 million National Insurance). The total charge for the full year is now expected to be approximately £180 million, due to the accelerated charges for good leavers. Business related costs of £25 million comprised an £18 million provision for GLS France competition authority investigation costs and a £7 million movement in the provision for potential industrial disease claims as a result of a reduction in the discount rate.

Profit on disposal of assets

Profit on disposal of property plant and equipment of £27 million arose mainly from the sale of the Islington Delivery Office and a local depot in Charlton.

Net finance costs

Net finance costs were £14 million compared with £50 million in the prior period. The decrease was largely due to the new loans and borrowings being at lower rates than the previous HM Government facilities.

The interest on the 2.375% €500m Senior Fixed Rate Notes Due July 2024 is €12 million per annum, payable annually in July.

The blended interest rate on gross debt for the second half of the year is expected to be approximately three per cent.

Net pension interest

Net pension interest credit, which is non-cash and treated as a non-operating specific item, was £38 million. The net pension interest credit is calculated using the net pension surplus at the start of the financial year multiplied by the discount rate of the defined benefit schemes. The credit for the full year is expected to be around £75 million.

Taxation

Excluding specific items

The effective tax rate on profits excluding specific items was 25 per cent (H1 2013-14 27 per cent). The rate has reduced broadly in line with the reduction in the UK statutory tax rate.

Reported
The effective tax rate on reported profit before tax was 25 per cent, comprising the current tax charge of £19 million and a deferred tax charge of £23 million.

The UK current tax charge of £1 million represents a tax rate on profit before tax of one per cent (H1 2013-14 one per cent). Taxable profits in the UK are expected to be largely covered by a combination of losses and capital allowance claims as well as the treatment of the HMRC-approved Employee Free Shares Offer.

GLS' effective tax rate on reported profit was 49 per cent, reflecting a range of tax rates across different territories, some of which are higher than in the UK, and losses (primarily in France) for which no deferred tax credit has been recognised. Specific items include a one-off provision for costs, some of which are expected to attract no tax relief.

The deferred tax charge was £23 million (H1 2013-14 £342 million). The deferred tax charge in the prior period was principally due to the effect of capital allowance claims and utilisation of brought forward losses, which are largely offset by pension and other short term timing differences.

Earnings per share (EPS)

EPS excluding specific items was 16.3 pence (Reported 12.5 pence) on a basic and diluted basis.

Dividends

The final dividend of 13.3 pence per share in respect of the 2013-14 financial year was paid on 31 July 2014, following shareholder approval.

The Board announces it has declared and approved an interim dividend of 6.7 pence per share, which will be paid on 14 January 2015 to shareholders on the register at the close of business on 28 November 2014. This represents one third of the notional 2013-14 full year dividend of 20 pence per share.

Cash flow

Free cash flow for the period was an inflow of £117 million (H1 2013-14 £183 million). EBITDA before transformation costs was £416 million (H1 2013-14 £483 million).

Trading working capital movements were in line with normal trends, generating an outflow of £152 million, compared with an outflow of £155 million in the prior period. For the full year, trading working capital movements are expected to be broadly flat.

The pensions cash outflow, including the £5 million deficit payment in respect of RMSEPP, was £69 million lower than the IAS 19 pension charge.

Total investment increased from £212 million to £249 million, including the expenditure relating to the management reorganisation programme of £39 million. The principal investments were in relation to vehicles and IT. Proceeds from the disposal of operating properties were £34 million (H1 2013-14 £28 million, including £3 million from disposal of associate undertaking) giving a net investment of £215 million (H1 2013-14 £184 million). Cumulative cash investment over 2013-14 and 2014-15 is still expected to remain at around £1.2 billion, net of proceeds from operational asset disposals. This includes the remaining expenditure relating to the management reorganisation programme of approximately £60 million. Going forward net cash investment is expected to be in the range of £550-600 million.

In-year trading cash flow was £69 million compared with £118 million in the prior period. Excluding the cost of the management reorganisation programme of £39 million in the first half and the impact of the VAT credits in both periods, in-year trading cash flow increased by £20 million.

Other working capital movements resulted in a £16 million inflow in the first half and a £50 million inflow in the prior period. In both periods there was a negative impact due to stamps being used that were purchased in a previous period, with an impact of £29 million in the first half and £15 million in the prior period. In the first half there was also a benefit of £45 million due to the timing of payroll payments in respect of monthly paid staff. The first half of last year benefitted from the timing of payments in relation to the frontline pay award of £65 million.

In the second half there will also be a benefit of approximately £45 million from the timing of March 2015 payroll payments in respect of monthly paid staff.

Property held for sale
The Group's property portfolio includes three sites in London, which have been identified for potential sale or development.

During the reporting period, the Group's former Paddington Mail Centre site was reclassified from 'property, plant and equipment' category to 'property assets held for sale' on the Group balance sheet.

Net debt
Net debt was £570 million at 28 September 2014, £15 million higher than at 30 March 2014. The movement reflects the free cash inflow in the period less the 2013-14 final dividend paid in July 2014 of £133 million.

In July 2014, Royal Mail issued €500m 2.375% Senior Fixed Rate Notes Due July 2024 with a fixed annual interest coupon of 2.375%. £350 million of existing term loans were repaid from the proceeds of the bond issue.

Pensions
The IAS 19 pension position at 28 September 2014 was a surplus of £2,068 million compared with a surplus of £1,723 million at 30 March 2014. The increase in the surplus was driven largely by the return on assets, in particular due to the increase in the market value of gilts and derivative assets principally held to hedge inflation and interest rate risk. An important part of the Trustee's investment strategy is to reduce the impact of movements in these rates on the fund. To support the Company's commitment that, subject to certain conditions, the Royal Mail Pension Plan (RMPP) will remain open to accrual until at least March 2018, the Trustee has hedged a large proportion of this future interest and inflation exposure. On an actuarial basis the return on assets relating to the liabilities hedged in advance of those accrued as at September 2014 was approximately £250 million, which will unwind over time.

The IAS 19 accounting position and key assumptions for the liability valuation are provided in note 9.

If the market conditions remain unchanged from September 2014, then the estimated pension service rate for 2015-16 would be around 25.5 per cent, equivalent to a further increase in the RMPP IAS 19 non-cash pension service charge of around £40-45 million over the charge for 2014-15. The actual rate for 2015-16 will be determined by the discount rate at the end of March 2015 (based on long term RPI and appropriate AA corporate bond rates at that time).

Post balance sheet event

On 14 October 2014, the Company announced that contracts had been exchanged for the sale of its former Paddington Mail Centre site to Great Western Developments Limited for £111 million in cash.

Presentation of results

The reported profit and loss figures in this financial report are presented in accordance with IFRS, as adopted by the European Union.

The commentary in this financial report, unless otherwise indicated, focuses on the trading results before specific items and on movements in revenue, costs and margins on an underlying basis. This is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. Underlying movements take into account differences in working days in UKPIL and movements in foreign exchange in GLS' revenue and costs. In addition, adjustments are made for non-recurring or distorting items. By their nature, non-recurring or distorting items may be unpredictable, exceptionally large or, in the case of IAS 19 pension accounting, represent a material non-cash movement. The adjustments to revenue, costs, profits and margins for this half year are set out below. For volumes, underlying movements are adjusted for working days in UKPIL. For the full year, we would also expect to make adjustments for the £28 million one-off bonus paid to staff and the £104 million provision in respect of the management reorganisation programme, both recognised in the second half of 2013-14.

We intend to move to a presentation of profit and loss figures on an 'underlying' basis that will exclude both specific items and any relevant underlying adjustments. In addition, we will report underlying operating profit and earnings figures with the IAS 19 non-cash pension charge replaced by the actual cash cost of pensions. We will continue to present reported figures in accordance with IFRS with equal prominence to the underlying figures.

Royal Mail plc

Underlying adjustments to reported 2013-14 figures

(£m)	Reported 2013-14	Working days (UKPIL)	Foreign exchange (GLS)	IAS 19 pension service charge increase (UKPIL)	VAT credit (UKPIL)	Underlying 2013-14	Underlying growth / (decline) 2014-15
Revenue							
Group	4,520	(20)	(44)	-	-	4,456	2%
UKPIL	3,711	(20)	-	-	-	3,691	Flat
Costs							
Group							
People	(2,546)	-	10	(34)	(2)	(2,572)	2%
Distribution and conveyance costs	(880)	-	27	-	(13)	(866)	Flat
Infrastructure costs	(504)	-	3	-	(12)	(513)	(4%)
Other operating costs	(237)	-	1	-	(3)	(239)	9%
Non-people costs	(1,621)	-	31	-	(28)	(1,618)	Flat
Operating costs before transformation costs	(4,167)	-	41	(34)	(30)	(4,190)	1%
UKPIL							
People	(2,320)	-	-	(34)	(2)	(2,356)	2%
Distribution and conveyance costs	(387)	-	-	-	(13)	(400)	(8%)
Infrastructure costs	(452)	-	-	-	(12)	(464)	(5%)
Other operating costs	(258)	-	-	-	(3)	(261)	6%
Non-people costs	(1,097)	-	-	-	(28)	(1,125)	(4%)
Operating costs before transformation costs	(3,417)	-	-	(34)	(30)	(3,481)	Flat
Profit and margins							
Group							
Operating profit before transformation costs	353	(20)	(3)	(34)	(30)	266	
Margin	7.8%					6.0%	20bps
Transformation costs	(70)	-	-	-	-	(70)	
Operating profit after transformation costs	283	(20)	(3)	(34)	(30)	196	
Margin	6.3%					4.4%	70bps
UKPIL							
Operating profit before transformation costs	294	(20)	-	(34)	(30)	210	
Margin	7.9%					5.7%	20bps
Transformation costs	(70)	-	-	-	-	(70)	
Operating profit after transformation costs	224	(20)	-	(34)	(30)	140	
Margin	6.0%					3.8%	80bps

The cumulative average translation rates for the half year ended 28 September 2014 are £1 = €1.24, compared with £1 = €1.17 for the half year ended 29 September 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board considers that the principal risks and uncertainties faced by the Group for the remaining six months of the year are unchanged from those set out in the Annual Report and Financial Statements 2013-14. In summary these are:

Changes in customer preferences

- We might not adequately respond to evolving customer behaviours or market changes;
- Economic conditions in the UK or Europe, where the recovery remains fragile, could adversely impact letter and parcels revenues.

Cost management and business transformation

- We might not deliver efficiency and other benefits enabled by our transformation programme and pay deal with CWU;
- We may fail to retain or attract Directors and highly skilled personnel;
- We might not successfully transform our IT estate.

Regulatory and legislative environment

- The economics of the Universal Service Obligation are put at risk by the unfettered roll-out of direct delivery;
- VAT exemption on access services could be lost;
- Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could, directly or indirectly, increase the Group's labour costs.

  The Board notes that a recent Employment Appeal Tribunal (EAT) decision was made that relates to this risk. There has been a challenge as to the correct calculation of holiday pay under the Working Time Directive and whether non-guaranteed overtime should be included. The EAT decision means that non-guaranteed overtime should be included in the calculation of the first 20 days of holiday pay, per holiday year. The EAT has, however, granted the parties in this case leave to appeal its decision. If the decision is upheld, this could have the effect of increasing costs.

Industrial action

- Material disagreements or disputes could lead to widespread industrial action.

A fuller description of these risks, their potential effect and mitigation is provided at pages 29-31 of the Annual Report and Financial Statements 2013-14.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

	Notes	Half year ended 28 September 2014 Reported[1] £m	Specific items[2] £m	Excluding specific items £m	Half year ended 29 September 2013 Reported[1] £m	Specific items[2] £m	Excluding specific items £m
Revenue		**4,525**	**-**	**4,525**	4,520	-	4,520
Operating costs		**(4,246)**	**-**	**(4,246)**	(4,167)	-	(4,167)
People costs		(2,627)	-	(2,627)	(2,546)	-	(2,546)
Distribution and conveyance operating costs		(867)	-	(867)	(880)	-	(880)
Infrastructure costs		(491)	-	(491)	(504)	-	(504)
Other operating costs		(261)	-	(261)	(237)	-	(237)
Operating profit before transformation costs		**279**	**-**	**279**	353	-	353
Transformation costs	4	**(47)**	**-**	**(47)**	(70)	-	(70)
Operating profit after transformation costs		**232**	**-**	**232**	283	-	283
Operating specific items:							
Royal Mail Pension Plan amendment	5	**-**	**-**	**-**	1,350	1,350	-
Transaction-related costs	5	**-**	**-**	**-**	(26)	(26)	-
Employee Free Shares costs	5	**(91)**	**(91)**	**-**	(6)	(6)	-
Business-related costs	5	**(25)**	**(25)**	**-**	(9)	(9)	-
Operating profit/(loss)		**116**	**(116)**	**232**	1,592	1,309	283
Non-operating specific items:							
Profit on disposal of property, plant and equipment	5	**27**	**27**	**-**	17	17	-
Profit on disposal of associate undertaking	5	**-**	**-**	**-**	2	2	-
Earnings before interest and tax		**143**	**(89)**	**232**	1,611	1,328	283
Finance costs	6	**(16)**	**-**	**(16)**	(52)	-	(52)
Finance income	6	**2**	**-**	**2**	2	-	2
Net pension interest (non-operating specific item)	9b	**38**	**38**	**-**	19	19	-
Profit/(loss) before tax		**167**	**(51)**	**218**	1,580	1,347	233
Tax (charge)/credit	7	**(42)**	**13**	**(55)**	(359)	(295)	(64)
Profit/(loss) for the period		**125**	**(38)**	**163**	1,221	1,052	169
Profit for the period attributable to:							
Equity holder of the parent Company		**125**	**(38)**	**163**	1,220	1,052	168
Non-controlling interests		**-**	**-**	**-**	1	-	1
Earnings per share:							
Basic	10	**12.5p**	**(3.8)p**	**16.3p**	122.0p	105.2p	16.8p
Diluted	10	**12.5p**	**(3.8)p**	**16.3p**	122.0p	105.2p	16.8p

[1] Reported - prepared in accordance with International Financial Reporting Standards (IFRS).

[2] Specific items - see note 5 to the condensed consolidated financial statements.

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Condensed consolidated statement of comprehensive income

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Profit for the period	**125**	1,221
Other comprehensive income/(expense) for the period:		
Items that will not be subsequently reclassified to profit or loss:		
Amounts relating to pensions accounting	**299**	(219)
IFRIC 14 adjustment relating to pension surplus	(2)	(24)
Actuarial gains/(losses) on defined benefit schemes	376	(277)
Tax on above items	(75)	82
Items that may be subsequently reclassified to profit or loss:		
Foreign exchange translation differences	**(38)**	(4)
Exchange differences on translation of foreign operations (GLS)	(42)	(4)
Net gain on hedge of a net investment (€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024)	4	-
Designated cash flow hedges	**(2)**	(15)
Losses on cash flow hedges deferred into equity	(8)	(15)
Losses on cash flow hedges released from equity to income	6	-
Total comprehensive income for the period	**384**	983
Total comprehensive income for the period attributable to:		
Equity holders of the parent company	**384**	982
Non-controlling interests	**-**	1

Royal Mail plc

Condensed consolidated statement of cash flows

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Cash flow from operating activities		
Operating profit before transformation costs	**279**	353
Adjustment for:		
Depreciation and amortisation	**138**	132
Share of post-tax profit from associates	**(1)**	(2)
EBITDA before transformation costs	**416**	483
Working capital movements	**(136)**	(105)
(Increase)/decrease in inventories	(1)	1
Decrease in receivables	40	39
Decrease in payables	(164)	(148)
Net (increase)/decrease in derivative assets	(9)	3
Decrease in provisions (non-specific items)	(2)	-
Difference between pension costs charged in operating profit and pension cash flows	**69**	36
Cash cost of transformation operating expenditure[1]	**(99)**	(96)
Cash cost of operating specific items	**(2)**	(13)
Cash inflow from operations	**248**	305
Income tax paid	**(6)**	(13)
Net cash inflow from operating activities	**242**	292
Cash flows from investing activities		
Dividends received from associate undertaking	**-**	2
Finance income received	**2**	2
Proceeds from sale of property, plant and equipment (non-operating specific item)	**34**	25
Proceeds from disposal of associate undertaking (non-operating specific item)	**-**	3
Purchase of property plant and equipment[1]	**(100)**	(91)
Transformation investment – capital expenditure	(22)	(21)
Non-transformation investment – capital expenditure	(78)	(70)
Acquisition of business (in GLS)[1]	**(3)**	(1)
Purchase of intangible assets (software)[1]	**(46)**	(23)
Transformation investment – capital expenditure	(3)	-
Non-transformation investment – capital expenditure	(43)	(23)
Payment of deferred consideration in respect of prior years' acquisitions[1]	**(1)**	(1)
Net cash outflow from investing activities	**(114)**	(84)
Net cash inflow before financing activities	**128**	208
Cash flows from financing activities		
Finance costs paid	**(11)**	(25)
Payment of capital element of obligations under finance lease contracts	**(38)**	(36)
Cash received on sale and leasebacks	**-**	56
New loans	**393**	-
Repayment of loans and borrowings	**(350)**	-
Dividend paid to equity holders	**(133)**	-
Net cash outflow from financing activities	**(139)**	(5)
Net (decrease)/increase in cash and cash equivalents	**(11)**	203
Effect of foreign currency exchange rates on cash and cash equivalents	**(3)**	-
Cash and cash equivalents at the beginning of the period	**366**	351
Cash and cash equivalents at the end of the period	**352**	554

[1] Items included in total investment in note 8.

Royal Mail plc

Condensed consolidated balance sheet

	Notes	At 28 September 2014 £m	At 30 March 2014 £m
Non-current assets			
Property, plant and equipment		**1,941**	1,989
Leasehold land payment		**3**	3
Goodwill (mainly investment in GLS)		**190**	197
Intangible assets (mainly software)		**221**	195
Investments in associates		**5**	4
Financial assets – pension escrow investment		**20**	20
– derivatives		**2**	3
Retirement benefit asset – net of IFRIC 14 adjustment	9b	**2,068**	1,723
Other receivables		**10**	13
Deferred tax assets		**8**	9
		4,468	4,156
Property assets held for sale	12	**5**	3
Current assets			
Inventories		**23**	22
Trade and other receivables		**864**	926
Financial assets – derivatives		**-**	2
– short-term deposits		**1**	1
Cash and cash equivalents		**352**	366
		1,240	1,317
Total assets		**5,713**	5,476
Current liabilities			
Trade and other payables		**(1,486)**	(1,652)
Financial liabilities – obligations under finance leases		**(95)**	(87)
– derivatives		**(14)**	(12)
Income tax payable		**(22)**	(14)
Provisions		**(98)**	(173)
		(1,715)	(1,938)
Non-current liabilities			
Financial liabilities – interest-bearing loans and borrowings		**(639)**	(600)
– obligations under finance leases		**(209)**	(255)
– derivatives		**(4)**	(5)
Provisions		**(122)**	(95)
Other payables		**(36)**	(31)
Deferred tax liabilities		**(246)**	(151)
		(1,256)	(1,137)
Total liabilities		**(2,971)**	(3,075)
Net assets		**2,742**	2,401
Equity			
Share capital		**10**	10
Retained earnings		**2,713**	2,332
Other reserves		**12**	52
Equity attributable to parent Company		**2,735**	2,394
Non-controlling interests		**7**	7
Total equity		**2,742**	2,401

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Condensed consolidated statement of changes in equity

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Equity holder of the parent £m	Non-controlling interests £m	Total equity £m
At 31 March 2013	-	1,318	73	10	1,401	4	1,405
Profit for the period	-	1,220	-	-	1,220	1	1,221
Other comprehensive expense for the period	-	(219)	(4)	(15)	(238)	-	(238)
Share capital issue	10	(10)	-	-	-	-	-
Employee Free Shares issue[1] (share-based payment)	-	6	-	-	6	-	6
At 29 September 2013	10	2,315	69	(5)	2,389	5	2,394
Profit for the period	-	57	-	-	57	2	59
Other comprehensive expense for the period	-	(125)	(8)	(4)	(137)	-	(137)
Employee Free Shares issue[1] (share-based payment)	-	85	-	-	85	-	85
At 30 March 2014	10	2,332	61	(9)	2,394	7	2,401
Profit for the period	**-**	**125**	**-**	**-**	**125**	**-**	**125**
Other comprehensive income/(expense) for the period	**-**	**299**	**(38)**	**(2)**	**259**	**-**	**259**
Dividend paid to equity holders of the parent	**-**	**(133)**	**-**	**-**	**(133)**	**-**	**(133)**
Share-based payments:							
- Employee Free Shares issue[1]	**-**	**88**	**-**	**-**	**88**	**-**	**88**
- Long-Term Incentive Plan (LTIP)	**-**	**2**	**-**	**-**	**2**	**-**	**2**
At 28 September 2014	**10**	**2,713**	**23**	**(11)**	**2,735**	**7**	**2,742**

[1] Employee Free Shares costs exclude £3 million (29 September 2013 £nil, 30 March 2014 £3 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

Notes to the condensed consolidated financial statements

1. Reporting entity

Royal Mail plc (the 'Company') is a company domiciled in the United Kingdom and its ordinary shares are traded on the London Stock Exchange. The condensed consolidated financial statements of the Company for the half year ended 28 September 2014 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in its associate undertaking.

2. Basis of preparation

Statement of compliance

The comparative financial information for the half year ended 29 September 2013 and the year ended 30 March 2014 have been reported on by the Group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified and did not contain the statements under section 498(2) or (3) of the Companies Act 2006. The condensed consolidated financial statements for the half year ended 28 September 2014 (half year ended 29 September 2013) do not constitute statutory financial information as defined in section 434 of the Companies Act 2006. The condensed consolidated financial statements are unaudited but have been reviewed by the auditor, Ernst & Young LLP, and their report is shown at the end of this document.

The condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the European Union (EU). The condensed consolidated financial statements should be read in conjunction with the Annual Report and Financial Statements 2013-14 ('2013-14 Annual Report') for the year ended 30 March 2014 which was prepared in accordance with IFRS as adopted by the EU.

The condensed consolidated financial statements provide an update on the latest complete set of annual financial statements for the year ended 30 March 2014. Accordingly, they focus on key areas of the business which were covered by the relevant 'core' notes in the 2013-14 Annual Report, and any other new activities, events and circumstances impacting the Group.

Significant accounting policies

The accounting policies applied in the preparation of the condensed consolidated financial statements are consistent with those in the 2013-14 Annual Report, except for the adoption of relevant, revised accounting standards with effect from 31 March 2014, detailed below:

Accounting standards adopted in 2014-15

Amendments to IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interests in Other Entities; IAS 27 (Amended) Separate Financial Statements; IAS 28 (Amended) Investments in Associates and Joint Ventures; and IAS 36 (Amended) Impairment of Assets.

The adoption of these standards will not have a material impact on the financial performance or position of the Group.

Significant accounting judgements, estimates and assumptions

The preparation of the condensed consolidated financial statements requires management to make various judgements, estimates and assumptions when determining the carrying value of certain assets and liabilities. The significant judgements and estimates applied by the Group in these condensed consolidated financial statements have been applied on a consistent basis with the 2013-14 Annual Report.

Going concern

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

Accounting standards issued but not yet applied

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

IFRS 7 (Amended) Financial Instruments: Disclosures

IFRS 9 (Amended) Financial Instruments

IFRS 15 Revenue from Contracts with Customers

IAS 16 (Amended) Property, Plant and Equipment

IAS 39 (Amended) Financial Instruments: Recognition and Measurement

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

Notes to the condensed consolidated financial statements (continued)

3. Segment information

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

The Group is structured on a geographic business unit basis and these business units report into the Chief Executive's Committee and the Royal Mail plc Board. Each of these units has discrete revenue, costs, profit, cash flows, assets and people. 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.

The key measures of segment performance are operating profit before transformation costs (used internally for the corporate balanced scorecard) and operating profit after transformation costs (the external measure of trading performance). These are therefore the measures of profit or loss for each segment. A reconciliation of the Group's Earnings Before Interest and Tax (EBIT) by segment is also disclosed.

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

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

Seasonality

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

Notes to the condensed consolidated financial statements (continued)

3. Segment information (continued)

Half year ended 28 September 2014	UK operations			Other European operations	
	UKPIL £m	Other £m	Total £m	GLS £m	Total £m
External revenue	3,703	9	3,712	813	4,525
Inter-segment revenue	–	82	82	–[1]	82
Total segment revenue	3,703	91	3,794	813	4,607
Operating profit before transformation costs	219	4	223	56	279
Transformation costs	(47)	–	(47)	–	(47)
Operating profit after transformation costs	172	4	176	56	232
Operating specific items:					
Employee Free Shares costs	(91)	–	(91)	–	(91)
Business-related costs	(7)	–	(7)	(18)	(25)
Operating profit	74	4	78	38	116
Non-operating specific items:					
Profit on disposal of property, plant and equipment	27	–	27	–	27
Earnings before interest and tax	101	4	105	38	143
Net finance costs	not reported at this level		(15)	1	(14)
Net pension interest (non-operating specific item)			38	–	38
Profit from continuing operations before tax			128	39	167
Tax – specific items			13	–	13
– other			(36)	(19)	(55)
Profit for the period			105	20	125

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

Notes to the condensed consolidated financial statements (continued)

3. Segment information (continued)

Half year ended 29 September 2013	UK operations			Other European operations	
	UKPIL £m	Other £m	Total £m	GLS £m	Total £m
External revenue	3,711	8	3,719	801	4,520
Inter-segment revenue	-	88	88	-[1]	88
Total segment revenue	3,711	96	3,807	801	4,608
Operating profit before transformation costs	294	6	300	53	353
Transformation costs	(70)	-	(70)	-	(70)
Operating profit after transformation costs	224	6	230	53	283
Operating specific items:					
Royal Mail Pension Plan amendment	1,350	-	1,350	-	1,350
Transaction-related costs	(22)	-	(22)	(4)	(26)
Employee Free Shares costs	(6)	-	(6)	-	(6)
Business-related costs	(9)	-	(9)	-	(9)
Operating profit	1,537	6	1,543	49	1,592
Non-operating specific items:					
Profit on disposal of property, plant and equipment	17	-	17	-	17
Profit on disposal of associate undertaking	2	-	2	-	2
Earnings before interest and tax	1,556	6	1,562	49	1,611
Net finance costs			(51)	1	(50)
Net pension interest (non-operating specific item)	not reported		19	-	19
Profit before tax	at this level		1,530	50	1,580
Tax – specific items			(44)	(20)	(64)
– other			(295)	-	(295)
Profit for the period			1,191	30	1,221

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

Royal Mail plc

Notes to the condensed consolidated financial statements (continued)

4. Transformation costs

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Voluntary redundancy (including pension top-up amounts)	**(19)**	(7)
Project and property costs	**(21)**	(54)
Business transformation payments	**(7)**	(9)
Total transformation costs	**(47)**	(70)

Business transformation payments represent payments linked to the achievement of key modernisation milestones in transforming the network, as part of the Business Transformation Agreement 2010.

5. Specific items

Operating specific items include recurring and non-recurring items that relate to the operations of the business but not to the trading results on which performance is measured (operating profit before and after transformation costs).

Non-operating specific items fall outside of the Group's definition of operating profit and may be recurring in nature.

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Operating specific items:		
Royal Mail Pension Plan amendment (see note 9)	**-**	1,350
Transaction-related costs	**-**	(26)
Employee Free Shares costs	**(91)**	(6)
Business-related costs	**(25)**	(9)
Potential industrial diseases claims	(7)	6
Historical employment costs	-	(15)
French competition authority investigation costs	(18)	-
Total operating specific items	**(116)**	1,309
Non-operating specific items:		
Profit on disposal of property	**27**	17
Profit on disposal of associate undertaking	**-**	2
Net pension interest	**38**	19
Total non-operating specific items	**65**	38
Total specific items before tax	**(51)**	1,347

On 9 October 2014, the Group announced that it had entered into a settlement agreement with the French competition authority (*Autorité de la Concurrence*) in respect of the alleged breaches of antitrust laws by one of its subsidiaries, GLS France, during the period before the end of 2010. The £18 million provision comprises £12 million in respect of the current estimate of any fine and £6 million in respect of the estimated associated costs. Whilst a settlement has been agreed in principle, the French competition authority is continuing its investigation and the amount of any fine will not be known until the second half of 2015-16.

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Total tax effect of specific items	**13**	(295)

Notes to the condensed consolidated financial statements (continued)

6. Net finance costs and net debt

The table below provides details of interest payable on loans and finance lease obligations and interest received from investments. 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.

Net finance costs	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Unwinding of discount relating to industrial diseases provision	(1)	(1)
Interest payable on financial liabilities	(15)	(51)
HM Government loan facilities:		
Loans and borrowings	-	(43)
Unused facility fees	-	(2)
Other facility fees	-	(1)
Syndicated bank loan facility:		
Loans and borrowings	(4)	-
Unused facility fees	(1)	-
Other facility fees[1]	(3)	-
€500 million bond - 2.375% Senior Fixed Rate Notes due July 2024	(2)	-
Finance leases	(5)	(5)
Finance costs	**(16)**	(52)
Interest receivable on other financial assets	2	2
Finance income	**2**	2
Total net finance costs (excluding net pension interest)	**(14)**	(50)

[1] Other facility fees include £2 million arrangement fees written-off upon repayment of £350 million of the term loans, following the bond issue.

Net debt	Balance sheet category	At 28 September 2014 £m	At 30 March 2014 £m
Interest-bearing loans and borrowings	Non-current liabilities	(639)	(600)
Obligations under finance leases	Non-current liabilities	(209)	(255)
Obligations under finance leases	Current liabilities	(95)	(87)
		(943)	(942)
Cash and cash equivalents and other financial assets:			
Cash at bank and in hand	Current assets	122	37
Client cash[2]	Current assets	15	14
Cash equivalent investments[3]	Current assets	216	316
Pension escrow investments (RMSEPP)	Non-current assets	20	20
Total net debt		**(570)**	(555)

[2] Client cash is cash collected from consignees by GLS on behalf of its posting customers.

[3] Cash equivalent investments include short-term bank and local authority deposits, money market fund investments and other financial assets.

Notes to the condensed consolidated financial statements (continued)

6. Net finance costs and net debt (continued)

Net debt increased by £15 million at the half year ended 28 September 2014 and decreased by £351 million at the full year ended 30 March 2014 as follows:

	At 28 September 2014 £m	At 30 March 2014 £m
Net debt brought forward	(555)	(906)
Free cash flow	117	398
Dividends paid	(133)	-
Finance costs paid on refinancing of loan facilities	-	(45)
Increase in new finance lease obligations (non-cash)	-	(1)
Foreign currency exchange impact on cash and cash equivalents	(3)	(1)
Foreign currency exchange impact on €500 million bond- 2.375% Senior Fixed Rate Notes due July 2024 (non-cash)	4	-
Net debt carried forward	(570)	(555)

Below is a summary of loans and borrowings as at 28 September 2014, the respective average interest rates and facilities available.

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate at 28 September 2014 – LIBOR plus %	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities							
Term Loan A	250	-	250	1.4	0.90	2018	2018
Revolving loan facilities	-	800	800	-	0.75	-	2018
Bond issue							
€500 million 2.375% Senior Fixed Rate Notes due July 2024	389	-	389	2.5	n/a	2024	2024
Total	639	800	1,439	2.0		2022	2020

The bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £0.78/€. The £300 million Term Loan B and £50 million of Term Loan A were repaid on 15 August 2014 through proceeds raised from the bond issue. The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the six-month period ended 28 September 2014, a gain of £4 million on the retranslation of this borrowing was transferred to other comprehensive income to offset the losses on translation of the net investment in GLS. There is no hedge ineffectiveness in the period ended 28 September 2014.

The blended interest rate on gross debt for the second half of the year is forecast to be approximately three per cent.

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.

Under the previous HM Government facilities, the equivalent blended interest rate was 8.8 per cent.

Notes to the condensed consolidated financial statements (continued)

7. Taxation

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Current income tax		
Current UK income tax charge	**(1)**	-
Foreign tax charge	**(19)**	(16)
Current income tax charge	**(20)**	(16)
Amounts under provided in earlier years	**1**	(1)
Total current income tax	**(19)**	(17)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(23)**	(342)
Current income tax charge reported in the consolidated income statement	**(42)**	(359)

The tax charge in the income statement is calculated by applying the forecast effective tax rates for the year to the reported half year profit, specific items and profit after tax from associates.

Effective tax rate
The effective tax rate for the half year ended 28 September 2014 was 25 per cent, comprising an effective rate on profit excluding specific items of 25 per cent and an effective rate on specific items of 25 per cent. The effective tax rate on profit excluding specific items exceeds the UK statutory rate of 21 per cent due to:

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

The lower effective tax rate of 25 per cent on profit excluding specific items in the half year ended 28 September 2014, compared with the half year ended 29 September 2013 of 27 per cent, reflects the reduction in the statutory rate of corporation tax from 23 per cent to 21 per cent.

Current tax
GLS pays tax in a number of territories, with the majority of profits in the half year ended 28 September 2014 earned in territories where the tax rate is above the UK statutory tax rate. A further significant factor is that certain subsidiaries, notably GLS France, are not at this stage able to recognise tax credits on losses made during this period. These contribute to GLS having a higher effective tax rate for the period than the UK business.

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

In the current period, taxable profits in the UK are expected to be largely covered by a combination of losses and capital allowance claims and a statutory deduction in respect of shares allocated under the Employee Free Shares scheme.

Deferred tax
At 28 September 2014, deferred tax assets are recognised, to the extent that they remain in existence at the balance sheet date, in accordance with when they are expected to reverse. The increase in the pension surplus due to actuarial factors gives rise to a deferred tax charge of £75 million in equity.

In July 2013, UK statutory tax rates of 21 per cent for 2014-15 and 20 per cent for subsequent years were enacted. These condensed consolidated financial statements therefore recognise a net UK deferred tax liability at the future rate of 20 per cent.

Royal Mail plc

Notes to the condensed consolidated financial statements (continued)

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

The Group uses the following analysis of free cash flow (a non-IFRS measure) to monitor its cash performance. This measure eliminates inflows/(outflows) between net debt items (see note 6) and includes finance cash costs paid.

A reconciliation of 'net cash inflow before financing activities' in the consolidated statement of cash flows to 'free cash inflow' below, is included within this note.

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
EBITDA before transformation costs	**416**	483
Trading working capital movements	**(152)**	(155)
Difference between pension costs charged in operating profit and pension cash flows	**69**	36
Total Group ongoing pension costs in the income statement	285	245
Total Group cash flows relating to ongoing pension costs:		
- RMPP defined benefit scheme employer contributions (see note 9d)	(192)	(190)
- Defined contribution scheme employer contributions	(19)	(14)
RMSEPP deficit correction payments (see note 9d)	(5)	(5)
Total investment[1]	**(249)**	(212)
Voluntary redundancy[2]	(68)	(30)
Business transformation payments	(7)	(11)
One-off project and property costs	(24)	(55)
Total transformation investment – operating expenditure	(99)	(96)
Total transformation investment - capital expenditure	(25)	(21)
Total transformation investment	(124)	(117)
Total non-transformation investment – capital expenditure	(125)	(95)
Tax paid	**(6)**	(13)
Net finance costs paid	**(9)**	(23)
Dividend received from associate undertaking	**-**	2
In-year trading cash inflow	**69**	118
Other working capital movements	**16**	50
Cash cost of operating specific items	**(2)**	(13)
Proceeds from disposal of property and associate undertaking (non-operating specific items)	**34**	28
Free cash inflow	**117**	183

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

[2] Voluntary redundancy payments comprise £39 million (H1 2013-14 £nil) in respect of the management reorganisation programme, and £29 million (H1 2013-14 £30 million) in respect of other voluntary redundancy payments. Within these amounts £11 million (H1 2013-14 £8 million) is in respect of the Royal Mail Pension Plan (RMPP) defined benefit pension scheme top-up amounts (see note 9d). This £11 million comprises £1 million (H1 2013-14 £nil) for the management reorganisation programme and £10 million (H1 2013-14 £8 million) for other voluntary redundancy.

Notes to the condensed consolidated financial statements (continued)

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

Working capital movements

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Other working capital movements:		
Pay deal accrual for 2013-14	**-**	65
September 2014 payroll paid after 28 September 2014	**45**	-
Stamps used but purchased in previous periods	**(29)**	(15)
Total other working capital movements	**16**	50
Trading working capital movements	**(152)**	(155)
Total working capital movements	**(136)**	(105)

Free cash flow reconciliation

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

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Net cash inflow before financing activities	**128**	208
Finance costs paid	**(11)**	(25)
Free cash inflow	**117**	183

9. Employee benefits – pensions under IAS 19

Summary pension information

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Pension costs:		
Ongoing:		
UK defined benefit scheme (income statement rates[1] 23.6%, 20.3%)	**(265)**	(231)
UK defined contribution scheme	**(17)**	(11)
Total UK ongoing pension costs	**(282)**	(242)
Total GLS defined contribution type scheme costs	**(3)**	(3)
Total Group ongoing pension costs	**(285)**	(245)
Difference between ongoing income statement charge and cash flows (cash flow rates 17.1% for both years)[2]	**74**	41
Total Group pension cash flows relating to ongoing pension costs	**(211)**	(204)

[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 difference excludes the Royal Mail Senior Executives Pension Plan (RMSEPP) deficit correction payments of £5 million (H1 2013-14 £5 million). The employer contribution cash flow rate 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.

Royal Mail plc

Notes to the condensed consolidated financial statements (continued)

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

Pensions Reform

In June 2013, the Company began a consultation with the Royal Mail Pension Plan (RMPP), Royal Mail section (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 (RM section) Trustee to implement a Pensions Reform with effect from 1 April 2014.

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 was recognised in the income statement of the Group for the comparative half year ended 29 September 2013.

The following disclosures relate to the major assumptions, sensitivities, surplus and gains/losses recognised in the schemes for the RMPP (RM section) and Royal Mail Senior Executives Pension Plan (RMSEPP) defined benefit schemes, in the financial statements of the Group:

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

	At 28 September 2014	At 30 March 2014
Retail Price Index (RPI)	**3.3%**	3.4%
Consumer Price Index (CPI)	**2.3%**	2.4%
Discount rate		
– nominal	**4.2%**	4.5%
– real (nominal less RPI)[3]	**0.9%**	1.1%
Rate of increase in pensionable salaries[4]	**RPI-0.1%**	RPI-0.1%
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
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	**CPI**	CPI
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**	29/27 years
Life expectancy from age 60 - for a current 40/60 year old female RMPP (RM section) member	**32/30 years**	32/30 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.

The real discount rate has decreased to 0.9 per cent from 1.1 per cent at March 2014.

Demographic assumptions, for example mortality, remain unchanged from those at March 2014.

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

Key assumption change	**Potential increase in liabilities £m**
Additional one year of life expectancy	**65**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	**65**
Decrease in discount rate of 0.1% p.a.	**65**
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	**20**

Changes opposite to those in the above table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

Royal Mail plc

Notes to the condensed consolidated financial statements (continued)

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

b) Schemes' assets and liabilities

The combined schemes' assets and liabilities were as follows:

	At 28 September 2014 £m	At 30 March 2014 £m
Fair value of schemes' assets	**4,688**	3,833
Present value of schemes' liabilities	**(2,605)**	(2,097)
Surplus in schemes (pre IFRIC 14 adjustment)	**2,083**	1,736
IFRIC 14 adjustment	**(15)**	(13)
Surplus in schemes	**2,068**	1,723

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

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 IFRS.

Notes to the condensed consolidated financial statements (continued)

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

b) Schemes' assets and liabilities (continued)

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

	Defined benefit asset		Defined benefit liability		Net defined benefit asset/(liability)	
	At 28 September 2014 £m	At 30 March 2014 £m	**At 28 September 2014 £m**	At 30 March 2014 £m	**At 28 September 2014 £m**	At 30 March 2014 £m
Opening net retirement benefit surplus/(deficit) – pre IFRIC 14 adjustment	**3,833**	3,343	**(2,097)**	(2,513)	**1,736**	830
Amounts included in the income statement:						
Ongoing UK defined benefit pension scheme costs (included in people costs)	**-**	-	**(265)**	(448)	**(265)**	(448)
Royal Mail Pension Plan amendment	**-**	-	**-**	1,350	**-**	1,350
Pension interest income/(cost)[5]	**92**	172	**(54)**	(103)	**38**	69
Total included in profit before tax	**92**	172	**(319)**	799	**(227)**	971
Amounts included in other comprehensive income – remeasurement gains/(losses):						
Actuarial gain/(loss) arising from:						
Demographic assumptions	**-**	-	**-**	4	**-**	4
Financial assumptions	**-**	-	**(131)**	(256)	**(131)**	(256)
Experience adjustment	**-**	-	**6**	2	**6**	2
Return on schemes' assets (excluding interest income)	**501**	(203)	**-**	-	**501**	(203)
Total actuarial gains/(losses) on defined benefit schemes	**501**	(203)	**(125)**	(250)	**376**	(453)
Other:						
Employer contributions	**208**	407	**-**	-	**208**	407
Employee contributions	**68**	136	**(68)**	(136)	**-**	-
Benefits paid	**(16)**	(25)	**16**	25	**-**	-
Curtailment costs	**-**	-	**(13)**	(20)	**(13)**	(20)
Movement in pension-related accruals	**2**	3	**1**	(2)	**3**	1
Total other movements	**262**	521	**(64)**	(133)	**198**	388
Closing net retirement benefit surplus/(deficit) – pre IFRIC 14 adjustment	**4,688**	3,833	**(2,605)**	(2,097)	**2,083**	1,736

[5] Pension interest income results from applying the schemes' discount rate as at 30 March 2014 to the schemes' assets at that date. Similarly, the pension interest cost results from applying the schemes' discount rate as at 30 March 2014 to the schemes' liabilities at that date.

The return on assets has been driven by the increase in market value of gilts, which the RMPP (RM section) (the Plan) Trustee holds as part of its liability hedging strategy. This strategy has been agreed with the Company to support the commitment Royal Mail has made to its employees, which is that, subject to certain conditions, RMPP will remain open until at least March 2018.

The largest risks faced by the Plan are movements in interest rates and inflation rates. To reduce the risk of movements in these rates putting the Plan into a funding deficit, and the Company not being able to maintain its March 2018 commitment, the Trustee aims to hedge in advance the funding liabilities which will build up by March 2018. The liabilities projected to accrue to March 2017 have already been hedged – predominantly through investment in gilts and derivatives (interest rate and inflation rate swaps) providing exposure to gilts. The impact of the Plan's advance hedging of projected funding liabilities is to increase volatility in the pension surplus due to the return on the liability hedging assets not being matched by an increase in the accrued liabilities. As the accrued liabilities get closer to the projected liabilities that have been hedged, this volatility will reduce.

The economic exposure of these interest rate and inflation rate swaps held in a specific managed portfolio for this purpose at 28 September 2014 is £4.0 billion (30 March 2014 £3.8 billion). There were no open equity derivatives within this portfolio at 28 September 2014.

Details of the investment strategy of the Trustee are described on page 91 of the 2013-14 Annual Report.

Notes to the condensed consolidated financial statements (continued)

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

c) Actuarial and accounting surplus (RMPP (RM section) and RMSEPP)

The actuarial/cash funding surplus of £1,585 million at 30 September 2014 (31 March 2014 £1,422 million) allows the Company to maintain its contributions at 17.1 per cent of pensionable pay. As part of the Pensions Reform agreement the Company committed to keep, subject to certain conditions, the RMPP (RM section) open to future accrual at least until March 2018.

The funding liabilities have increased more than the accounting liabilities since they are calculated by reference to gilt yields which have fallen to a greater extent than corporate bond yields on which the accounting liabilities are calculated. As a result, the funding surplus has increased less than the accounting surplus.

d) Pension cash flows

The analysis below shows how the defined benefit scheme employer contributions in note 9b reconcile with the defined benefit scheme pension cash flows in note 8. Comparative figures are shown for 29 September 2013 and 30 March 2014 consistent with those shown in notes 8 and 9b respectively.

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m	Year ended 30 March 2014 £m
Ongoing defined benefit (RMPP (RM section)) scheme employer contributions	**192**	190	380
Deficit correction payments (RMSEPP)	**5**	5	10
Pension top-up payments relating to voluntary redundancy (RMPP (RM section)) – within transformation opex	**11**	8	17
Movement in Company contributions accrued (RMPP (RM section))	**-**	1	-
Employer defined benefit scheme contributions (note 9b)	**208**	204	407

10. Earnings per share (including non-GAAP information on specific items)

	Half year ended 28 September 2014		Half year ended 29 September 2013	
	Reported	**Excluding specific items**	Reported	Excluding Specific items
Profit from continuing operations attributable to equity holders of the parent (£m)	**125**	**163**	1,220	168
Weighted average number of shares issued (million)	**1,000**	**1,000**	1,000	1,000
Basic earnings per share (pence)	**12.5**	**16.3**	122.0	16.8
Diluted earnings per share (pence)	**12.5**	**16.3**	122.0	16.8

The diluted earnings per share for the half year ended 28 September 2014 is based on a weighted average number of shares of 1,000,986,276 to take account of the issue of potential ordinary shares resulting from the Long Term Incentive Plan (LTIP) for certain senior management.

The basic and diluted earnings per share for the comparative half year ended 29 September 2013 assumed that one billion shares in issue at the date of the Company's listing on the London Stock Exchange (15 October 2013) existed for the whole of that reporting period.

Notes to the condensed consolidated financial statements (continued)

11. Related party transactions

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

	Half year ended 28 September 2014 £m	Half year ended 29 September 2013 £m
Sales/recharges to:		
- RMPP (RM section)	**3**	2
Purchases/recharges from:		
- Associate undertaking (Quadrant Catering Limited)	**9**	12
Amounts owed to:		
- Associate undertaking (Quadrant Catering Limited)	**2**	3

In view of HM Government's retained stake in Royal Mail plc, the Group has taken advantage of the exemption conferred by *IAS 24 Related Party Disclosures,* not to disclose transactions between the Group and HM Government-related entities, including Post Office Limited, and with HM Government itself.

UKPIL provides collection and delivery services to a significant number of HM Government-related entities. An arrangement is also in place whereby Post Office Limited charges the Group for the sale of Royal Mail products e.g. stamps and philatelic items, through its network of Post Office branches.

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

Key management compensation
The basis of remuneration of key management personnel currently remains consistent with that disclosed in the 2013-14 Annual Report.

12. Events after the reporting period

Shared-based payment
On 1 October 2014 Save As You Earn (SAYE) share options were granted to employees who had applied for the awards under the rules of the scheme. The fair value of the awards has been calculated on the date of grant using the Black-Scholes option pricing model. Awards will vest at the end of the three-year scheme, which will be accounted for as an equity-settled scheme. An IFRS 2 charge will be recognised in the second half year, based on the number of people in the scheme, their average overall investment and other relevant assumptions required by the Black-Scholes model.

Property disposals

Disposal of Paddington site
During the reporting period, the Group's former Paddington Mail Centre site was reclassified from 'property, plant and equipment' to 'property assets held for sale' on the Group balance sheet. On 14 October 2014, the Company announced that contracts had been exchanged for the sale of this site to Great Western Developments Limited for £111 million in cash. This property is part of Royal Mail's 'London Development Portfolio', which comprises sites Royal Mail has identified for potential sale or development in London.

The purchaser intends to seek further planning permission which, if granted, will require the purchaser to pay a further £20 million to Royal Mail Group Limited. In addition, if the purchaser sells the site within two years of completion, it has agreed to pay 50 per cent of any net sale proceeds above the £111 million purchase price if sold within the first year and 25 per cent if sold within the second year.

A 10 per cent non-refundable deposit of £11.1 million was paid upon exchange of contracts. The remaining proceeds will be payable upon completion, which is expected to take place on 8 December 2014. Net cash proceeds of the sale of around £108 million will be used for general corporate purposes. The site had a carrying value as at 28 September 2014 of £1.6 million.

Disposal of Nine Elms site
On 11 November 2014, Royal Mail initiated a process to evaluate the options for its former South London Mail Centre site in Nine Elms, Vauxhall. A decision on how the Company will proceed will be made following a comprehensive review of all the options and the submissions received from interested parties. Royal Mail will seek to optimise value from the site and will consider all options to achieve this including a sale of the site or developing it in conjunction with a partner.

The site currently houses a Delivery Office which is planned to move to a new site in 2017, with arrangements put in place for Royal Mail to have continued use of the existing facility in the interim.

Notes to the condensed consolidated financial statements (continued)

12. Events after the reporting period (continued)

Interim dividend

The Board has declared and approved an interim dividend of 6.7 pence per share (H1 2013-14 not applicable). The dividend amounts to £67 million (H1 2013-14 not applicable) and will be paid on 14 January 2015 to shareholders on the register on 28 November 2014. The ex-dividend date is 27 November 2014.

Royal Mail plc

Statement of Directors' responsibilities in relation to the Financial Report for the half year ended 28 September 2014

The Directors confirm that to the best of their knowledge:

- the condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union;
- the Financial Report for the half year ended 28 September 2014 includes a fair review of:
  - the important events during the first six months of the financial year, and their impact on the condensed set of financial statements as required by DTR 4.2.7R(1);
  - the principal risks and uncertainties for the remaining six months of the financial year, as required by DTR 4.2.7R(2); and
  - the related party transactions that have taken place in the first six months of the financial year and any changes therein, as required by DTR 4.2.8R.

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

By Order of the Board

Moya Greene

Chief Executive Officer

Matthew Lester

Chief Finance Officer

19 November 2014

Independent review report to Royal Mail plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half Year Financial Report for the half year ended 28 September 2014 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, statement of consolidated cash flows and the related notes 1 to 12. We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this Half Year Financial Report has been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half Year Financial Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Year Financial Report for the half year ended 28 September 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London

19 November 2014

Shareholder information

Registered Office
Royal Mail plc
100 Victoria Embankment
London EC4Y 0HQ
Registered in England and Wales
Company number 08680755

Registrars
Equiniti
Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
www.shareview.co.uk
Tel: 0871 384 2656 (from outside the UK: +44 (0)121 415 7086)

Calls are charged by the service provider at 8 pence per minute plus network extras. Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

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, 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 Services', where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11-digit shareholder reference number to hand.

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'.

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

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

Financial Calendar

2014

27 November	Interim dividend: ex-dividend date
28 November	Interim dividend: record date

2015

14 January	Interim dividend: payment date
22 January	Trading Update
28 March	Financial year end
May	Full Year Results
May/June	Annual Report and Financial Statements 2014-15
July	Annual General Meeting

Shareholder information (continued)

Dividend Re-Investment Plan
The Royal Mail Dividend Re-Investment Plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to participate in the DRIP the last date for receipt of applications is 12 December 2014. Further information is available on the Company's website:
http://www.royalmailgroup.com/investors/shareholder-communications/dividend-re-investment-plan

Results presentation
A results presentation for analysts and institutional investors will be held in London at 9.30am on 19 November 2014 and a simultaneous webcast will be available at www.royalmailgroup.com/results

Contact information

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Royal Mail press office out of hours: 020 3338 1007

Forward looking statements

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 its 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.