

FINANCIAL RESULTS

16 November 2017

ROYAL MAIL PLC RESULTS FOR THE HALF YEAR ENDED 24 SEPTEMBER 2017

Royal Mail plc (RMG.L) today announced its results for the half year ended 24 September 2017.

Moya Greene, Chief Executive Officer, commenting on the results, said:

"We had a good start to the year. Group revenue was up two per cent on an underlying basis. GLS delivered a strong performance with revenue up nine per cent. Outside the EU, GLS is also growing through selective acquisitions to capture higher growth markets.

"UKPIL revenue was broadly unchanged, having declined by two per cent in 2016-17. Our investment in our business is paying off. We have won new parcels business; volumes were up six per cent. There was a resilient letters performance. Our strategic focus on costs drove a one per cent underlying reduction in adjusted UKPIL operating costs (before transformation costs).

"Our performance for the full year, as always, will be dependent on the important Christmas period. We are opening six temporary parcel sort centres and recruiting over 20,000 staff. We are also extending opening hours at many of our Enquiry Offices to help retailers and consumers.

"As previously announced, we are now in external mediation with the CWU. Our priority is to reach agreement with the CWU to help underpin the sustainability of the business."

Group financial summary¹

	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change ²
Reported results (£m)			
Revenue	4,829	4,583	2%
Operating profit before transformation costs	89	206	
Operating profit after transformation costs	26	148	
Profit before tax	77	110	
Profit after tax	168	87	
Basic earnings per share (pence)	17.1p	8.6p	
In-year trading cash flow	125	116	
Net debt	(382)	(452)	
Interim dividend per share	7.7p	7.4p	4%
Adjusted results (£m)			
Revenue	4,829	4,583	2%
Operating profit before transformation costs	323	320	7%
Operating profit after transformation costs	260	262	
<i>Margin</i>	5.4%	5.7%	30bps
Profit before tax	250	252	
Profit after tax	198	193	
Basic earnings per share (pence)	20.1p	19.2p	

Business units

	Revenue			Adjusted operating profit before transformation costs	
(£m)	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016
UKPIL	3,624	3,641	Flat	233	247
GLS	1,205	942	9%	90	73
Group	4,829	4,583	2%	323	320

Group performance^{1,2}

- Revenue was up two per cent on an underlying basis. Strong growth in GLS more than offset broadly unchanged revenue at UKPIL.
- Adjusted operating profit before transformation costs was £323 million, up seven per cent.
- Adjusted operating profit margin after transformation costs increased by 30 basis points on an underlying basis.
- Reported operating profit before transformation costs was £89 million.
- We are targeting net cash investment of around £450 million in 2017-18 compared to £492 million in 2016-17 and £656 million in 2015-16.
- In-year trading cash flow increased to £125 million.
- In line with our stated interim dividend policy³, the Board has declared a dividend of 7.7 pence per ordinary share for the half year ended 24 September 2017, which will be paid on 10 January 2018 to shareholders on the register on 8 December 2017.

Business performance^{1,2}

UKPIL

- UKPIL revenue was flat on an underlying basis, having declined by two per cent in 2016-17.
- Good growth in account parcels, including Amazon, and import parcels contributed to a six per cent increase in overall UKPIL parcel volumes. Parcel revenue was up by five per cent.
- Addressed letter volumes declined by five per cent (excluding political parties' election mailings). A better than expected revenue performance, principally due to election mailings, meant that total letter revenue declined by three per cent.
- Our strategic focus on costs drove a one per cent underlying reduction in adjusted UKPIL operating costs (before transformation costs).

GLS

- GLS performed strongly. Revenue was up nine per cent due to its strategic focus on growth in existing markets, including another strong performance in Italy.
- GLS' three major markets, Germany, Italy and France, accounted for 60 per cent of total GLS revenue, down from 66 per cent in the prior period, reflecting the impact of recent acquisitions.
- Volumes grew by nine per cent, excluding the impact of recent acquisitions. Volume growth is being driven by GLS' comprehensive geographical footprint and a continued focus primarily on B2B and selective B2C growth.

Outlook summary

- We maintain our outlook for addressed letter volume declines of between four to six per cent per annum (excluding political parties' election mailings) over the medium term; we expect to be at the higher end of the range of decline for the full year if the current climate of business uncertainty persists.
- The UK parcels market remains highly competitive and we are performing well.
- Our UKPIL cost avoidance programme is on track to deliver around £190 million costs avoided this year. We face increased cost pressures in the second half, including the potential impact of the industrial relations environment on the pace of change.
- In GLS, we expect to continue to perform strongly, with underlying revenue growth for the full year anticipated to be broadly in line with the first half.
- As in previous years, the outcome for the full year will be dependent on our performance over the important Christmas period.
- In addition, the industrial relations environment could impact our performance in the second half.
- Given our strong cash generation and robust balance sheet, we are committed to our progressive dividend policy.

¹ Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.

² Movements are presented on an underlying basis.

For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the half year ended 24 September 2017, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures'.

³ Our interim dividend is equal to approximately one-third of the prior year's total dividend.

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Results presentation:

A results presentation for analysts and institutional investors will be held in London at 9:30am on 16 November 2017 and a simultaneous webcast will be available at www.royalmailgroup.com/results.

A trading update covering the nine months ending 24 December 2017 is expected to be issued on 18 January 2018.

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Company number 08680755

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CHIEF EXECUTIVE OFFICER'S REVIEW

Our performance¹

We have had a successful first half, despite the headwinds we are facing. We delivered a good performance in the UK. GLS performed strongly.

We continued to invest in growth and innovation and maintained our strategic focus on costs. This helps drive sustainable cash generation and supports our progressive dividend policy.

Group revenue increased by two per cent. Adjusted Group operating profit before transformation costs was £323 million. Adjusted Group operating profit margin after transformation costs increased by 30 basis points to 5.4 per cent. In-year trading cash flow increased to £125 million.

GLS continues to drive growth. GLS' revenue and volumes were each up nine per cent on an underlying basis. Its revenue was up 19 per cent, including the impact of acquisitions, on a constant currency basis in the period.

At the same time, we are the UK's pre-eminent delivery company for letters and parcels, with a strong reputation for high quality customer service. Parcel volumes were up six per cent, with growth in account parcels being a key factor. Addressed letter volumes declined by five per cent (excluding political parties' election mailings). This is within our medium-term forecast of a four to six per cent decline per annum in addressed letter volumes. UKPIL revenue was flat, having declined by two per cent in 2016-17, with parcel revenue up five per cent and letter revenue down three per cent.

The Board has declared an interim dividend of 7.7 pence per ordinary share, which will be paid on 10 January 2018 to shareholders on the register on 8 December 2017. We are proud to have a large and diverse shareholder base. Approximately 20 per cent of our Company is owned by our employees and small retail investors. Employees² that have been with Royal Mail since privatisation have each received dividends – before tax – of £714, including this interim dividend.

Winning in parcels

Competitive marketplaces

The UK parcels market is one of the most developed in Europe and is highly competitive. There is significant spare capacity in the market at non-peak times of the year, putting downward pressure on prices. International markets are also intensely competitive.

Our progress

GLS is a force for growth in the Group; it accounts for around 35 per cent of the Group's adjusted operating profit after transformation costs. It has a replicable and scalable business model. GLS has delivered consistent, strong underlying growth due to its focus on B2B parcels, the premium B2C market and the strength of its network. It delivered another very good performance with revenue up nine per cent. Revenue growth was achieved in almost all markets from a broad customer base. Volumes grew by nine per cent, driven by continued international and domestic growth across the majority of markets, as we won more customers and gained more traffic from existing customers. The recent acquisitions by GLS mean that its three major markets – Germany, France and Italy – now account for 60 per cent of total revenue, compared to 66 per cent in the prior period.

In the UK, we deliver more parcels each year than all of our competitors combined. The service and product improvements we have put in place are delivering real benefits. We have won new contracts and more business from existing customers. We aim to be the strategic partner of choice for the UK's e-retailers. Our international parcels business undertook an initiative to attract cross-border traffic mainly from Asia into Europe, resulting in increased volumes and revenue.

¹ Movements are presented on an underlying basis. For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the half year ended 24 September 2017, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures'.

² Eligible full time employees in the Share Incentive Plans.

UKPIL parcel revenue increased by five per cent. Continued growth in Royal Mail domestic account parcels and international import parcels were amongst the key drivers underpinning this good performance. Royal Mail domestic account parcel volumes, excluding Amazon, were up four per cent. Amazon volumes grew strongly due to more letterbox-sized parcels. Our tracked products continue to grow at an impressive rate. Royal Mail Tracked 24®/48® and Tracked Returns® volume growth is outpacing the market. Volumes grew by 38 per cent in the first half. We won a number of new contracts with large customers such as Abercrombie & Fitch, Inditex and New Look. In addition, since April 2017, we have offered delivery confirmation for the majority of our barcoded parcels. Parcelforce Worldwide volumes were up one per cent, driven by new contract wins, including with Laithwaites and Virgin Wines.

Christmas is our most important time of year. We are opening six temporary parcel sort centres for the festive period. We are also recruiting over 20,000 temporary staff to manage increased traffic in Royal Mail and Parcelforce Worldwide. In addition, we will be extending opening hours at our Enquiry Offices, with many offices being open on Christmas Eve. These initiatives are part of our significant investment in additional resources at Christmas to help ensure we provide the best possible postal service to our customers throughout the UK.

Adding value and expanding our networks

GLS is scaling up its existing presence in its core European markets. It is also growing through selective acquisitions to capture higher growth markets outside the EU as part of its targeted international expansion. In Italy, GLS is expanding its network by acquiring selective franchisees. In Spain, GLS acquired ASM³ in 2016 and it is now the country's second largest domestic parcel network. ASM is performing ahead of expectations. Following its acquisitions of GSO⁴ which was announced in October 2016 and Postal Express in April 2017, GLS provides a parcel service with full US West Coast coverage. This allows GLS to offer shorter delivery times than its competitors within the region. This, in turn, is enabling GLS to win more business from customers and benefit from growth in inter-state deliveries. The area in which GSO operates has a Gross Domestic Product (GDP) roughly equivalent to the UK. The region is experiencing faster GDP growth than the UK and continental Europe.

In Europe, GLS recently expanded its FlexDeliveryService. It is now available in a total of nineteen countries. This service makes it easier for online shoppers to take delivery of goods purchased abroad. Anyone who shops beyond national borders in one of the linked countries can choose from a wide range of delivery options to their home country. GLS also launched a new international returns service. GLS now offers its ShopReturnService across borders in seven European countries. These initiatives are designed to harness the growth opportunities in cross-border e-commerce.

Turning to the UK, in September we announced a new Royal Mail service that enables overseas customers of UK-based retailers to track the progress of their parcels. Initially available to customers who have a business account with Royal Mail, the service informs recipients about the location of their parcel. We have also made it easier for customers to access our international services. With Intersoft, we have developed our export solutions and now have the capability to offer tracked cross-border outbound and returns services to our larger customers. In October, Parcelforce Worldwide launched a range of digital tools including an app designed to give customers more control over their deliveries. Customers can use the app to elect for a parcel to be left either with a particular neighbour in the same postcode, a specified Post Office or a 'safe place' of their choosing.

Defending letters

We seek to maximise the value of letters for our customers and our business. We continue to forecast a medium-term four to six per cent decline per annum in addressed letter volumes (excluding political parties' election mailings). GDP is a material driver for letter volumes. We are closely monitoring the economic environment in the UK, which remains challenging.

We delivered a resilient performance despite the continued business uncertainty in the UK. Addressed letter volume decline was five per cent in the first half (excluding political parties' election mailings). We achieved better than expected letter revenue, principally due to mailings associated with the 2017 General Election. Low Average Unit Revenue (AUR) unaddressed letter volumes were up eight per cent due to a range of initiatives. Total letter revenue (including marketing mail) was down three per cent. Marketing mail⁵ revenue of £534 million was down two per cent. The rate of decline has moderated following last year's sharp slowdown which was driven by business uncertainty.

³ Agencia Servicios Mensajería S.A.U.

⁴ Golden State Overnight Delivery Services Inc.

⁵ Marketing mail includes redirections, Address Management Unit and addressed and unaddressed advertising mail.

In the run up to the introduction of the General Data Protection Regulation (GDPR) next year, there is uncertainty among some of our direct mail marketing customers about the detailed requirements due to come into force in May 2018. The impact of the regulation varies by customer and could impact our revenue from some of them. We are working to mitigate this uncertainty. We are also working with our customers and the postal industry to encourage the authorities to provide as much clarity as possible about the new regulation.

We continue to defend letter volumes. We are working with mailing customers and access operators to incentivise customer mailings. We have also rolled out initiatives to help mitigate the impact of e-substitution and business uncertainty on letter volumes and revenue. Through our MarketReach business, we are demonstrating the positive impact marketing mail can have on campaign results.

Strategic focus on costs and investment

Becoming more efficient has a human face and is a painful process for our people. We work closely with our unions to ensure our people exiting the business do so with dignity and respect. UKPIL operating costs before transformation costs were one per cent lower in the first half. We continue to target annual productivity improvements of two to three per cent per annum.

We are pursuing opportunities across our cost base to deliver efficiency improvements. We continue to extend Collection on Delivery, where colleagues collect mail while they are out on delivery. Over 50,000 postboxes are now covered by the programme. We are also reducing costs in central functions, property and technology.

We have invested £1.5 billion in our UK operation since privatisation. After several years of higher levels of investment to address historical under investment under state ownership, we now expect total Group net cash investment of around £450 million in 2017-18, compared with an average of around £590 million per annum in the past three financial years. Our ongoing investment programme remains one of the largest of its kind in the UK.

Technology and innovation

We are leveraging our technology to meet customer expectations of convenience and quality. We are determined to actively meet the needs of our customers, which are evolving as e-commerce continues to develop. In the UK, we have integrated a number of additional e-commerce platforms and online marketplaces into our Click & Drop service. They include Shopify, Magento and Not On The High Street. Click & Drop integrates data from online platforms to make it quicker and easier to buy postage and print delivery labels. We are also using our PDA technology to pilot giving notifications of the estimated time of delivery.

Over the summer, we ordered nine new electric-powered heavy goods vehicles to transport mail between distribution centres in London and the south east. We are pleased to be the first UK fleet operator to trial these new larger vehicles. We also announced that we have purchased 100 electric vans to be used by postmen and women on their rounds. The vans are planned to be deployed from December 2017, supported by a comprehensive roll-out of charging infrastructure.

We are leveraging our existing assets. We have opened our UK-wide network of vehicle workshops to other companies. This follows a successful pilot in around 20 workshops to refine and develop our capabilities. We have one of the largest independently owned vehicle workshop networks, with around 110 UK locations. The workshops offer servicing, maintenance and repairs across a complete range of vehicle types and plant items. British Gas and RAC are among the companies using the service.

Our workforce

It is a difficult time for Royal Mail and its people. We remain committed to resolving the key issues with the CWU in a way that appropriately balances the interests of all our key stakeholders. As one of the largest employers in the UK, we are proud to provide the best pay and terms and conditions in our sector. We remain committed to that high quality employment in a very competitive industry, where labour standards are often poor. In return, however, we need to make some changes to sustain our business now and in the future, particularly given the decline in letter volumes. This is about maintaining as many high quality jobs as possible.

As previously announced, we are negotiating with the CWU under the auspices of an external mediation process that both parties committed to under our Agenda for Growth (AFG) agreement. We are pleased that the AFG allows us the opportunity to seek to achieve a resolution in this way. The mediation process will need until close to Christmas to be completed, and may be longer. The talks cover pensions, pay and other issues. Our priority is to reach agreement with the CWU to help underpin the sustainability of the business. We are determined to use the mediation process to do just that.

We know how important pension benefits are to colleagues. This is a key issue for Royal Mail and its workforce. Since privatisation, Royal Mail has paid £1.4 billion into employees' pensions. Following Trustee approval, our Defined Benefit scheme – the Royal Mail Pension Plan (RMPP) – in its current form will close to future accrual after 31 March 2018. We have had extensive talks with our unions, the CWU and Unite/CMA, on a sustainable and affordable solution for retirement benefits for RMPP members. We have moved a long way compared to our original Defined Contribution proposal. Our proposal is to replace the RMPP with another type of Defined Benefit scheme, a Defined Benefit cash balance scheme. It would be by far the best pension scheme in the delivery industry. It benchmarks very well compared to other large companies. Existing RMPP members would also have the option of joining a new enhanced Defined Contribution scheme. We expect that the overall cost of the proposal will be around £400 million per annum.

Customer focus

In the first half, our mean business customer satisfaction score was 78⁶, in line with the performance in 2016-17. We continue to improve our Net Promoter Score, which measures the loyalty of our business customers, scoring 39 per cent in the period.

We continued to exceed our Quality of Service regulatory target of 98.5 per cent for Second Class mail. In the first half, 98.8 per cent of Second Class mail was delivered within three working days. We narrowly missed the 93.0 per cent First Class mail target with 92.9 per cent of this mail delivered the next working day. We take our commitment to high-quality service very seriously. We are redoubling our efforts to tackle quality issues where they arise.

We were disappointed that we have seen an overall increase in complaints, driven principally by an increase in 'Denial of receipt' claims. We continue to highlight the importance of correct doorstep scanning and ensuring that if an item is left with a neighbour, the appropriate details are written on the 'Something for you' card.

As the UK's Universal Service Provider, we have a unique place in society. We are proud of the role we play in connecting customers, businesses, organisations and communities, including those in remote and rural areas. We make the fifth biggest contribution to the UK economy of any UK company through our high quality employment, our procurement activities and the taxes that we pay. That is why we are delighted to be named global sustainability leader of the Transportation industry group in the Dow Jones Sustainability Indices, ahead of over 100 companies in ground-based transportation, marine and aviation industries.

Outlook

Overall, we had a good start to the year. GLS performed strongly, driving growth for the Group. In UK parcels, our initiatives to make our offering more flexible and convenient for customers and our focus on quality are paying off. We have won more volumes from existing customers and attracted new ones. There was a resilient letters performance. In particular, the trends in marketing mail have moderated over last year. Given continued business uncertainty in the UK, we are monitoring the letters market closely.

We maintain our outlook for addressed letter volumes declines of between four to six per cent per annum (excluding political parties' election mailings) over the medium term; we would expect to be at the higher end of the range of decline for the full year if the current climate of business uncertainty persists. The UK parcels market remains highly competitive and we are performing well. Our UKPIL cost avoidance programme is on track to deliver around £190 million costs avoided this year. We face increased cost pressures in the second half, including the potential impact of the industrial relations environment on the pace of change. In GLS, we expect to continue to perform strongly, with underlying revenue growth for the full year anticipated to be broadly in line with the first half.

⁶ Royal Mail Business Customer Satisfaction survey, conducted by Ipsos MORI.

As in previous years, the outcome for the full year will be dependent on our performance over the important Christmas period. In addition, the industrial relations environment could impact our performance in the second half. We are currently in a mediation process and our priority remains to reach agreement with the CWU.

Given our strong cash generation and robust balance sheet, we are committed to our progressive dividend policy.

Thank you

Our brand is built on a long history of making a difference. That is down to the hard work and commitment of our people. I know that this has been a very difficult time for our people and I thank them for their continued dedication.

We are committed to reaching agreement with the CWU. We are determined to continue to provide the best pay and terms and conditions in our industry. We believe that good labour standards lead to good service standards for consumers. This is the way we will secure a sustainable future and protect the long-cherished position that our postmen and women hold in society.

Moya Greene
Chief Executive Officer
15 November 2017

PRINCIPAL RISKS

The Board considers that the principal risks faced by the Group for the remaining 26 weeks of the year are substantially unchanged from those described on pages 37–41 of the Royal Mail plc Annual Report and Financial Statements 2016–17.

In summary, our principal risks are:

Risk of industrial action arising from proposed new arrangements

- As Royal Mail Group continues to pursue the necessary efficiency programmes in order to remain competitive in the letters and parcels markets and implements the new pension arrangements, there is a greater risk of industrial action.
- Material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action.
- We may be unable to continue to provide sustainable and affordable pension arrangements acceptable to our people and unions, leading to industrial action.
- We may not achieve the effective control of costs and efficiency benefits required to deliver our strategy.

Changes in market conditions and customer behaviour

- Our product offerings and customer experience may not adequately meet evolving customer expectations.
- Flat or adverse economic conditions, the impact of the outcome of the negotiations of Britain's exit from the EU and customer uncertainty over detailed data regulation requirements (relating to the General Data Protection Regulations) could impact our ability to maintain and grow revenue.
- We may be unable to identify new profitable and sustainable areas of business, implement appropriate investments and have in place suitable structures to support continued transformation of the business.

Regulatory and legislative environment

- The absence of a sustainability framework may impact on Royal Mail's ability to support the USO. The sustainability framework is about a series of proactive actions by the regulator to enable the USO to be funded through the market.
- Depending on the outcome of the Ofcom Competition Act investigation and any appeal, Royal Mail may be fined.
- Changes to laws and regulations relating to employment, or their interpretation, could adversely affect Royal Mail Group's labour costs.

Other

- A major breach of information security (for example as the result of a cyber-attack) or data protection regulation could have a negative financial and reputational impact on the business.
- We may fail to attract and retain senior management and key personnel with appropriate expertise.

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with IFRS. Reported results are set out in the sections entitled 'Presentation of results and Alternative Performance Measures' and 'Condensed consolidated financial statements'.

In addition to reported results, the Group's performance in this Financial Review is also explained through the use of APMs that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are consistent with the way that financial performance is measured by Management and reported to the Board.

The APMs we use are explained in the paragraphs entitled 'Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate. The analysis of underlying movements in adjusted results is set out in the paragraph entitled 'Underlying change.'

UK PARCELS, INTERNATIONAL & LETTERS (UKPIL)

	Adjusted 26 weeks ended 24 September 2017	Adjusted 26 weeks ended 25 September 2016	Underlying change
Summary trading results (£m)			
Letters & other revenue	1,494	1,562	(4%)
Marketing mail	534	547	(2%)
Total letters	2,028	2,109	(3%)
Parcels	1,596	1,532	5%
Revenue ¹	3,624	3,641	Flat
Operating costs before transformation costs	(3,391)	(3,394)	(1%)
Operating profit before transformation costs	233	247	7%
Transformation costs	(63)	(58)	9%
Operating profit after transformation costs	170	189	6%
Margin	4.7%	5.2%	30bps
Volumes (m)			
Letters			
Addressed letters	5,610	5,937	(5%)
Unaddressed letters	1,510	1,404	8%
Parcels			
Core network	516	487	7%
Parcelforce Worldwide	47	46	1%
Total	563	533	6%

Reported results

Revenue decreased to £3,624 million (H1 2016-17: £3,641 million). Operating costs before transformation costs increased to £3,625 million (H1 2016-17: £3,508 million). Operating loss before transformation costs was £1 million (H1 2016-17: £133 million profit). Operating loss after transformation costs was £64 million (H1 2016-17: £75 million profit).

Adjusted results

UKPIL delivered a good performance in the period. Revenue was flat with parcel revenue up five per cent, offsetting total letter revenue, which was down three per cent. Weaker Sterling in the period had a positive impact of £5 million on UKPIL revenue. This has been excluded from underlying movements.

Total parcel volumes increased by six per cent. Growth was largely driven by Royal Mail domestic account parcels where we won new customers and gained more traffic from existing customers. Royal Mail domestic account parcel volumes, excluding Amazon, were up four per cent. Royal Mail Tracked 24[®]/48[®] and Tracked Returns[®] services saw continued strong volume growth of 38 per cent. Amazon parcel traffic grew strongly due to higher volumes of letterbox-sized parcels.

¹ Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate.

Our international parcels business benefited from our new initiative to attract cross-border traffic mainly from Asia into Europe. This accounted for around two percentage points of the parcel volume growth and around one percentage point of the parcel revenue growth in the period. We saw improved import (outside of our cross-border initiative) and contract export volumes compared with the prior period. Parcelforce Worldwide volumes increased by one per cent driven by new contract wins in a highly competitive express parcels market. Total parcel revenue was up five per cent, reflecting the mix in domestic and international traffic channels.

Addressed letter volumes (excluding political parties' election mailings) declined by five per cent. We continue to monitor the impact of overall business uncertainty in the UK on letter volumes. Total letter revenue (including marketing mail) decreased by three per cent, benefiting from higher than expected revenue from mailings associated with the 2017 General Election.

Marketing mail revenue, which includes redirections and our Address Management Unit, decreased by only two per cent as the rate of decline has moderated following last year's sharp slowdown driven by business uncertainty. Low AUR unaddressed letter volumes were up eight per cent.

Operating costs before transformation costs

(£m)	Adjusted 26 weeks ended 24 September 2017	Adjusted 26 weeks ended 25 September 2016	Underlying change
People costs	(2,362)	(2,351)	Flat
Non-people costs	(1,029)	(1,043)	(2%)
Distribution and conveyance costs	(361)	(370)	(4%)
Infrastructure costs	(365)	(360)	1%
Other operating costs	(303)	(313)	(3%)
Total	(3,391)	(3,394)	(1%)

Total adjusted operating costs before transformation costs declined by one per cent. We delivered benefits across a number of cost avoidance initiatives, including improvements in core network productivity, management headcount reduction, supplier contract renegotiation, better vehicle utilisation, transformation of our IT infrastructure and lower property costs. Our cost avoidance programme is on track to deliver around £190 million of avoided operating costs in 2017-18. However due to the timing of projects, the impact will be skewed towards the first half. We face increased cost pressures in the second half, including the potential impact of the industrial relations environment on the pace of change.

People costs were flat, largely driven by improvements in core network productivity. We continue to target annual productivity improvements of two to three per cent per annum. This helps to offset the assumptions we have made in these results in relation to the 2017-18 pay award, which is still under negotiation. These assumptions may be revised once an agreement is finalised. We are unable to disclose further information until the negotiations have been completed. Any difference between our current assumptions and the final pay agreement will be included in the second half.

The impact of the Apprenticeship Levy in the first half was £10 million. We have excluded the first year impact of this levy from underlying movements. As previously disclosed, wage legislation such as the Working Time Directive may impact people costs in the future.

Non-people costs decreased by two per cent. Distribution and conveyance costs decreased by four per cent driven by lower fuel costs and improved vehicle hire controls. Total diesel and jet fuel costs of £67 million were £7 million lower compared with the prior period due to lower pricing and improved fleet management. We expect diesel and fuel costs to be around £140 million in 2017-18. Terminal dues were impacted by a £5 million foreign exchange movement due to weaker Sterling, which has been excluded from underlying movements.

Infrastructure costs were one per cent higher, largely driven by a £20 million increase in depreciation and amortisation. This included a £5 million one-off accelerated depreciation charge following a review of IT and other assets. As a result, the depreciation and amortisation charge is expected to be around £35 million higher in 2017-18. Within infrastructure costs, the cost avoidance programme has delivered benefits in property through the integration of the Romec business, IT transformation and lower discretionary spend across the estate.

Other operating costs decreased by three per cent due to the cost avoidance programme, including savings on certain supplier contracts and lower marketing and discretionary spend.

Transformation costs

	Adjusted 26 weeks ended 24 September 2017	Adjusted 26 weeks ended 25 September 2016
(£m)		
Voluntary redundancy	(31)	(26)
Project costs	(32)	(32)
Total	(63)	(58)

Transformation costs increased by £5 million, reflecting the level of management headcount reductions. There was a net decrease of around 1,100 employees in the first half. There was a reduction of around 1,500 full-time equivalent employees (FTE)² to around 146,700 FTE in the first half. This reflected a change in the mix of full-time and part-time employees and a reduction in variable hours. Project costs of £32 million were flat compared with the prior period and largely comprised initiatives supporting the cost avoidance programme.

We expect transformation costs to be in the range £130 to £150 million per annum going forward.

Operating profit after transformation costs

Adjusted operating profit after transformation costs was £170 million, giving a margin of 4.7 per cent, up 30 basis points on an underlying basis over the prior period.

² Full time equivalent (FTE) numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the standard full-time working hours in the same period.

GENERAL LOGISTICS SYSTEMS (GLS)

Reported results

GLS reported results are presented in Sterling and Euros. Underlying change excludes the impact of acquisitions and foreign exchange movements.

	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change
Summary trading results (£m)			
Revenue	1,205	942	9%
Operating costs	(1,115)	(869)	9%
Operating profit	90	73	8%
Margin	7.5%	7.7%	(10bps)
(€m)			
Revenue	1,371	1,155	
Operating costs	(1,269)	(1,066)	
Operating profit	102	89	
Volumes (m)	276	233	9%

Revenue and volumes

GLS continues to perform strongly. Performance in the period was impacted by the timing of Easter and other public holidays across Europe. Excluding this impact, underlying volumes and revenue movements would have been around three percentage points higher. This is expected to be around two percentage points for the full year.

Volumes were up nine per cent with growth in domestic and international volumes in most markets. Revenue increased in line with volumes by nine per cent. Average pricing remained flat and was impacted by changes in product mix and lower average parcel weights. Revenue in Sterling benefited from a £73 million impact from exchange rate movements, which is excluded from underlying movements. Including the impact of acquisitions, revenue was up 19 per cent on a constant currency basis.

Revenue growth was achieved in almost all markets and from a broad customer base, with the largest customer accounting for around three per cent of total GLS revenue. The three major markets, Germany, Italy and France, accounted for 60 per cent of total GLS revenue, down from 66 per cent in the prior period, reflecting the impact of recent acquisitions.

	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change
Operating costs (£m)			
People costs	(293)	(209)	10%
Non-people costs	(822)	(660)	9%
Distribution and conveyance costs	(725)	(575)	11%
Infrastructure costs	(71)	(57)	6%
Other operating costs	(26)	(28)	(24%)
Total	(1,115)	(869)	9%

Total operating costs were up nine per cent in line with volumes.

People costs increased by 10 per cent as a result of higher semi-variable costs linked to volumes, higher rates of pay due to labour market conditions and high wage inflation, especially across Central and Eastern European markets.

Distribution and conveyance costs were up 11 per cent, driven by higher volumes and increased network costs due to higher sub-contractor costs. This was impacted by the higher minimum wage in Germany, which increased by four per cent from 1 January 2017. This has increased costs in the period by €2.5 million with an estimated full year impact of €5 million.

Infrastructure costs increased by six per cent principally due to the one-off provision release for IT related costs in the prior period. Other operating costs decreased by 24 per cent due to a one-off provision release in the current period and higher acquisition costs in the prior period.

Operating profit

Operating profit was £90 million, giving a reported margin of 7.5 per cent, 10 basis points lower than the prior period largely due to increased people and distribution and conveyance costs. Reported profit in Sterling benefited from a £7 million impact from exchange rate movements, which is excluded from underlying movements.

Germany

Germany remains the largest market for GLS by revenue. Revenue grew by five per cent, driven by international volumes, improved domestic pricing and growth in new customers. Operating margins have slightly reduced due to labour market conditions and the increase in the minimum wage.

Italy

GLS Italy continues to perform strongly. Revenue growth of 18 per cent reflects strong B2C volumes growth driven by Amazon and other customers. Given the strong performance over the last two years, it will be challenging to maintain this rate of growth in the future.

France

GLS France revenue growth slowed to one per cent and operating losses increased by €1 million to €6 million due mainly to the impact of working days, lower export volumes and an increasing proportion of B2C volumes.

France remains a challenging market and while actions are underway which target a break-even result, higher cost of sales, including those associated with a changing mix of parcel size, means that it is unlikely we will achieve this in the short term.

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

Revenue growth was achieved in the majority of other developed European markets. We saw continued strong volume and revenue growth in Denmark due to increased e-commerce and parcel shop activity.

The integration of ASM into GLS Spain is continuing to progress well, with a number of operational activities being streamlined. We currently utilise 25 of our own hubs and depots in Spain, as well as a network of 355 agencies. We are exceeding performance expectations since acquisition due to strong volume growth and higher savings arising from operational synergies.

Other developing/emerging European markets (including Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia)

We saw revenue growth in all developing/emerging European markets, with double-digit growth in Croatia, Czech Republic, Hungary, Poland, Romania and Slovenia. This was largely driven by the growing parcel markets in these countries.

USA

We announced the acquisition of Postal Express, a regional overnight parcel carrier operating in the states of Washington, Oregon and Idaho, on 6 April 2017. Postal Express offers overnight parcel delivery mainly to B2B customers across a number of industries.

We are pleased with the revenue development in GSO, in particular the growth in interstate traffic, although we are currently facing certain local cost pressures. In Postal Express, we are improving the quality of the business through yield management and cost rationalisation.

GSO and Postal Express are being integrated to create an overnight parcel delivery service with full US West Coast coverage. We are continuing to integrate the two businesses to realise operational synergies and commercial benefits.

GROUP RESULTS

Reported results

Group revenue increased to £4,829 million (H1 2016-17: £4,583 million). Operating costs before transformation costs increased to £4,740 million (H1 2016-17: £4,377 million). Group operating profit before transformation costs decreased to £89 million (H1 2016-17: £206 million). Operating profit after transformation costs reduced to £26 million (H1 2016-17: £148 million).

The Group reported an operating loss of £3 million (H1 2016-17: £58 million profit) mainly due to an increase in the ongoing UK defined benefit pension service costs of £114 million. Profit before tax decreased to £77 million (H1 2016-17: £110 million), of which UKPIL accounted for a loss before tax of £4 million (H1 2016-17: profit before tax of £38 million) and GLS accounted for a profit of £81 million (H1 2016-17: £72 million).

Profit after tax increased to £168 million (H1 2016-17: £87 million) due to the tax credit of £91 million (H1 2016-17: £23 million charge) arising from the one-off deferred tax credit related to the decision to close the RMPP to future accrual. As a result, basic earnings per share increased from 8.6 pence to 17.1 pence.

A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results and Alternative Performance Measures'.

Adjusted results

Group revenue

(£m)	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change
UKPIL	3,624	3,641	Flat
GLS	1,205	942	9%
Total	4,829	4,583	2%

Parcel revenue accounted for 58 per cent of Group revenue (H1 2016-17: 54 per cent). The main factors impacting revenue in the period are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change
People costs	(2,655)	(2,560)	1%
Non-people costs	(1,851)	(1,703)	3%
Distribution and conveyance costs	(1,086)	(945)	6%
Infrastructure costs	(436)	(417)	2%
Other operating costs	(329)	(341)	(5%)
Total	(4,506)	(4,263)	2%

Group operating costs increased by two per cent mainly due to increases at GLS. The main factors impacting operating costs in the period are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating profit before transformation costs

(£m)	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change
UKPIL	233	247	7%
GLS	90	73	8%
Total	323	320	7%
<i>Margin</i>	6.7%	7.0%	30bps

Group operating profit after transformation costs

(£m)	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	Underlying change
UKPIL	170	189	6%
GLS	90	73	7%
Total	260	262	7%
<i>Margin</i>	5.4%	5.7%	30bps

Group operating profit margin after transformation costs was 5.4 per cent, up 30 basis points compared with the prior period, driven by the level of profitability in UKPIL.

Specific items and pension charge to cash difference adjustment

(£m)	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016
Pension charge to cash difference adjustment (within People costs)	(234)	(114)
Operating specific items		
Employee Free Shares charge	(18)	(79)
Amortisation of acquired intangible assets	(8)	-
Legacy/other costs	(3)	(11)
Potential industrial diseases claim credit/(costs)	1	(9)
Other	(4)	(2)
Total operating specific items and pensions adjustment	(263)	(204)
Non-operating specific items		
Profit on disposal of property, plant and equipment	44	4
Loss on disposal of business	-	(2)
Net pension interest	46	60
Total non-operating specific items	90	62
Total specific items and pensions adjustment before tax	(173)	(142)
Total tax credit on specific items and pensions adjustment	143	36

The pension charge to cash difference adjustment was £234 million (H1 2016-17: £114 million). The difference between the pension charge and cash cost largely comprises the difference between the relevant International Accounting Standard (IAS 19) income statement pension charge rate of 41.1 per cent (H1 2016-17: 28.8 per cent) and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent of pensionable pay (H1 2016-17: 17.1 per cent). The pension charge to cash difference adjustment is expected to be around £450 million for the full year.

The net pension interest credit of £46 million (H1 2016-17: £60 million) is lower than the prior period due to the decrease in the discount rate for 2017-18 compared with the rate for 2016-17. The pension interest credit for the full year is expected to be £91 million.

Non-operating specific items comprise the profit on disposal of property, plant and equipment of £44 million (H1 2016-17: £4 million). This arose largely from the £24 million overage payment in relation to the sale of Rathbone Place in 2011 and the £22 million from the completion of the sale of the Phoenix Place plot at Mount Pleasant net of smaller losses on disposals of other assets. The loss on disposal of business in the prior period relates to the sale of NDC 2000 Limited (NDC) and reflects the transfer of cash and other assets to the purchasers.

Operating specific items in the period relate mainly to the Employee Free Shares charge of £18 million (H1 2016-17: £79 million). This decreased as a result of the Share Incentive Plan (SIP) 2013 maturing in October 2016, partially offset by a new charge in relation to the Free Shares awarded in October 2016 (SIP 2016). The Employee Free Shares charge is expected to be around £40 million for the full year.

Amortisation of acquired intangible assets of £8 million mainly relates to the ASM and GSO acquisitions in GLS.

Legacy costs in the prior period were driven by the reduction in the discount rate used to calculate the industrial diseases provision. Other specific items relate to the integration of Romec into the Group.

Net finance costs

Reported net finance costs were £10 million (H1 2016-17: £10 million). Interest on the €500 million bond was £6 million (H1 2016-17: £5.5 million).

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	439	439	2024
Loans in GLS (Spain)	2.0%	1	1	2018
Revolving credit facility	LIBOR+0.55%	1,050	-	2020-22
Total		1,490	440	

The blended interest rate on gross debt, including finance leases for 2017-18, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for within equity.

Taxation

(£m)	26 weeks ended 24 September 2017			26 weeks ended 25 September 2016		
	UK	GLS	Group	UK	GLS	Group
Reported						
(Loss)/profit before tax	(4)	81	77	38	72	110
Tax credit/(charge)	113	(22)	91	(2)	(21)	(23)
<i>Effective tax rate</i>	<i>n/a</i>	<i>27%</i>	<i>n/a</i>	<i>5%</i>	<i>29%</i>	<i>21%</i>
Adjusted						
Profit before tax	162	88	250	180	72	252
Tax charge	(28)	(24)	(52)	(38)	(21)	(59)
<i>Effective tax rate</i>	<i>17%</i>	<i>27%</i>	<i>21%</i>	<i>21%</i>	<i>29%</i>	<i>23%</i>

The Group effective tax rate on adjusted profit before tax was 21 per cent.

The UK adjusted effective tax rate of 17 per cent (H1 2016-17: 21 per cent) was lower than the prior period due largely to the availability of tax reliefs and the reduction in the UK statutory rate from 20 per cent to 19 per cent. The effective tax rate is expected to be broadly in line with the UK statutory rate for the full year.

The GLS adjusted effective tax rate of 27 per cent (H1 2016-17: 29 per cent) reduced due to the change in profit mix to lower tax territories together with a reduction in the Italian rate.

The Group reported tax was a credit of £91 million on a reported profit of £77 million. This gives an unusual effective tax rate on reported profits and arises mainly due to the one-off deferred tax credit of £106 million related to the decision to close the RMPP to future accrual after 31 March 2018.

This deferred tax adjustment arises from a change to the previous assumption that the surplus would be recoverable from a reduction in contributions at some point in the future which would have been taxed at the corporate tax rate. It is now assumed that the majority of the surplus will be available through a refund, net of withholding tax. This withholding tax arises from application of the International Financial Reporting Interpretations Committee guidance (IFRIC 14), is a charge on the pension scheme and is recognised in the statement of comprehensive income.

Excluding this one-off deferred tax credit, the total tax in the income statement would change from a credit of £91 million to a charge of £15 million. The Group effective tax rate would then be 19 per cent.

Earnings per share (EPS)

Adjusted basic EPS from continuing operations was 20.1 pence (H1 2016-17: 19.2 pence), reflecting the slightly lower tax charge in the period.

In-year trading cash flow

	Adjusted 26 weeks ended 24 September 2017	Adjusted 26 weeks ended 25 September 2016
(£m)		
Reported EBITDA before transformation costs	255	352
Pension charge to cash difference adjustment	234	114
Adjusted EBITDA before transformation costs	489	466
Trading working capital movements	(130)	(127)
Share-based awards (SAYE, LTIP and DSBP) charge adjustment	1	6
Total investment	(198)	(201)
Income tax paid	(24)	(16)
Net finance costs paid	(13)	(12)
Total	125	116

In-year trading cash flow of £125 million was £9 million higher than the prior period, mainly due to higher adjusted EBITDA before transformation costs. Income tax paid was £24 million, £8 million higher than the prior year due to GLS tax payments.

Trading working capital includes an assumption of the cost of the 2017-18 pay award which, when the pay award has been agreed and associated payments made, will result in a working capital outflow. Trading working capital in the first half also includes a working capital outflow related to the terminal dues associated with the growth in export volumes seen in the second half of 2016-17.

Net cash investment

	Reported 26 weeks ended 24 September 2017	Reported 26 weeks ended 25 September 2016
(£m)		
Growth capital expenditure	(86)	(80)
Replacement capital expenditure	(53)	(61)
Transformation operating expenditure	(59)	(60)
Voluntary redundancy	(27)	(28)
Project costs	(32)	(32)
Total investment	(198)	(201)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	29	7
Net cash investment	(169)	(194)

Total net cash investment decreased by £25 million. Growth capital expenditure increased by £6 million as a result of continued investment in strategic projects in UKPIL and GLS such as operations modernisation, parcel IT systems and parcel innovation projects. Replacement capital expenditure reduced by £8 million driven by completion of the IT transformation programme and lower property spend offset by timing of general replacement capital expenditure and investment in vehicles.

The proceeds from disposal of property (excluding London property portfolio), plant and equipment relate mainly to the £24 million overage payment in respect of Rathbone Place.

We are targeting net cash investment of around £450 million in 2017-18 and less than £500 million per annum going forward.

Net debt

Net debt was £382 million at 24 September 2017, £70 million lower than at 25 September 2016 and £44 million higher than at 26 March 2017.

A reconciliation of net debt is set out below.

	Reported 26 weeks ended 24 September 2017	Reported 26 weeks ended 25 September 2016
(£m)		
Net debt brought forward at 26 March 2017 and 27 March 2016	(338)	(224)
Free cash flow	115	(18)
In-year trading cash flow	125	116
Other working capital movements	(19)	(16)
Cash cost of operating specific items	(8)	(47)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	29	7
Cash impact of disposal of discontinued operations and subsidiary	-	(3)
Acquisition of business interests	(8)	(58)
Cash flows relating to London property portfolio	(4)	(17)
Acquisition of non-controlling interests	-	(13)
Debt transferred on acquisitions	-	(7)
Purchase of own shares	-	(6)
Foreign currency exchange impact	(5)	(27)
Dividends paid to equity holders of the parent Company	(154)	(149)
Dividends paid to non-controlling interests	-	(8)
Net debt carried forward	(382)	(452)

Other working capital movements outflow of £19 million consisted of stamps used but purchased in previous periods, GLS client cash and other deferred revenue.

Cash cost of operating specific items was an outflow of £8 million due to employer National Insurance contributions on the SIP 2013 and 2014 employee share sales, industrial disease settlements and Romec business integration costs. The cash costs of operating specific items in the prior year largely comprised the French Competition Authority fine of €55 million paid in April 2016.

Proceeds from property disposals (excluding London property portfolio) of £29 million is explained in the paragraph entitled 'Net cash investment'.

Acquisition spend in the period largely related to the acquisition of Postal Express by GLS. The acquisition of business interests in the prior year related to the acquisitions of ASM by GLS and eCourier by UKPIL. The acquisition of non-controlling interests is in respect of the Romec business.

Cash outflow relating to the London property portfolio was £4 million. Infrastructure and enabling works costs of £14 million on the Nine Elms and Mount Pleasant sites were offset by the £9.5 million deposit received in relation to the exchange of contracts for the two Mount Pleasant plots.

The impact of foreign currency exchange rate movements has reduced compared with the prior period. The exchange rates against Sterling in the prior period were affected by the reaction to the outcome of the EU referendum and have subsequently remained relatively consistent.

Pensions

Royal Mail Pension Plan (RMPP or the 'Plan')

Following Trustee approval, the Company announced that the Plan, in its current form, will close to future accrual after 31 March 2018. The legal right to benefit from any surplus in the Plan has not changed as a result of this decision. However, after 31 March 2018, any surplus will no longer be assumed to be recoverable as a reduction to future employer contributions and will only be assumed to be available as a refund at some point in the future. At 24 September 2017 therefore, only six months of economic benefit is recoverable as a reduction to future employer contributions, with the remaining surplus assumed to be available as a refund. This has resulted in a change to the tax treatment of the economic benefit of the surplus. As a result of this change, following guidance from IFRIC 14, the accounting surplus has been adjusted downwards by £1,111 million (2016-17: £nil) which represents the taxation that would be withheld on the surplus amount.

At 24 September 2017 the pre IFRIC 14 accounting surplus of the RMPP was £3,398 million, comprising assets of £9,380 million and liabilities of £5,982 million. The reduction in the pre IFRIC 14 accounting surplus of £410 million, compared with the position at 26 March 2017 is mainly the result of the additional benefits accrued over the period being greater than the reduction in liabilities that occurred as a result of the increase in the discount rate. After the IFRIC 14 adjustment, the accounting surplus of the RMPP was £2,287 million at 24 September 2017.

Based on the rolled forward assumptions used for the March 2015 valuation, the RMPP actuarial surplus at 30 September 2017 was estimated to be £770 million (31 March 2017: £1,074 million), comprising assets of £9,303 million and liabilities of £8,533 million. It is on this basis that the Pension Trustee and the Company assess the ongoing funding needs of the scheme. In May 2017 it was agreed between the Company and the Trustee that the Company would continue to contribute 17.1 per cent of pensionable pay until 31 March 2018.

The actuarial funding position at 31 March 2018 will not be known until the actuarial valuation has been completed, with the results being very sensitive to the assumptions adopted at that date. However, based on the rolled forward assumptions used for the March 2015 valuation, the projection is for there to be a small surplus at 31 March 2018. As a result, it has been agreed with the Trustee that the remaining contractual employer contributions payable up to 31 March 2018 will be held in pension escrow investments for the benefit of members.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Based on the rolled forward assumptions used for the March 2015 valuation, the RMSEPP actuarial surplus at 30 September 2017 was estimated to be £28 million, comprising assets of £469 million and liabilities of £441 million.

The RMSEPP closed in December 2012 to future accrual and the Company makes no regular future service contributions.

Dividends

The final dividend of 15.6 pence per share in respect of the 2016-17 financial year was paid on 28 July 2017, following shareholder approval.

As previously stated, given the seasonality of the Group's business, the Board would expect to pay an interim dividend each year equal to approximately one-third of the prior year's total dividend and to set the final dividend for each year in light of the full year performance of the Group.

The Board has declared an interim dividend of 7.7 pence per ordinary share, payable on 10 January 2018 to shareholders on the register at the close of business on 8 December 2017.

Property

Mount Pleasant

Contracts were exchanged on 30 August 2017 for the sale of 6.25 acres of Royal Mail's Mount Pleasant site (comprising the Phoenix Place and Calthorpe Street plots) to Taylor Wimpey UK Ltd (part of the Taylor Wimpey plc group of companies) for a total gross consideration of £193.5 million. The consideration is made up of £190 million in cash and the fair value of parking facilities provided for Royal Mail of £3.5 million. The sale of the Phoenix Place plot to Taylor Wimpey UK Ltd was subsequently completed in the first half.

As previously disclosed, significant further investment by Royal Mail is required for the works to separate the retained operational site from the development plots. These works are expected to cost around £100 million and are planned to be completed by 2021.

A deposit of £9.5 million was paid to Royal Mail following the exchange of contracts. The remaining cash proceeds of £180.5 million will be paid as follows. There are contractually agreed staged payments over the 2017-18 to 2020-21 financial years which, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works over this period. Lump sum payments are then due in 2024 for the balance of the consideration.

A profit on disposal of the Phoenix Place plot of £22 million, based on an apportionment of the total consideration less the book value of the plot (including an apportionment of the total cost of the separation and enabling works), was recognised in the period, following completion of the sale.

Nine Elms

It was announced on 2 June 2017 that Royal Mail had exchanged contracts for the sale of two of the seven plots at its Nine Elms site to Greystar Real Estate Partners, LLC for £101 million. A deposit of £3 million has been paid into escrow following exchange of contracts. The remaining £98 million payable is conditional on Greystar Real Estate Partners, LLC receiving planning consent from the London Borough of Wandsworth Local Authority.

Discussions with the London Borough of Wandsworth Local Authority have progressed well and a detailed planning application is anticipated to be submitted in the second half of the year. Subject to the planning process and timescales, consent is expected to be granted in 2018-19. As a result, the £98 million is not expected to be received in 2017-18. Around £30 million has been committed to be re-invested in the Nine Elms site for infrastructure works.

Rathbone Place

Overage agreements were made with Great Portland Estates plc on the sale of Rathbone Place in 2011. The resulting overage payment received under these agreements was £24 million, which has been recorded as a profit on disposal of property in the period.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES

The Group uses certain Alternative Performance Measures (APMs) in its financial reporting that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information. These APMs are not a substitute, or superior to, any IFRS measures of performance. They are used as Management considers them to be an important means of comparing performance year-on-year and are key measures used within the business for assessing performance.

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

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operations of the Company. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended March 2017 was £2,632 million. Cumulative adjusted profit after tax was £1,820 million. Annual reported profit after tax showed a range of £222 million to £1,280 million. The principal cause of the difference and volatility is due to pension-related accounting.

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

Presentation of results

Consolidated reported and adjusted results

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

(£m)	26 weeks ended 24 September 2017			26 weeks ended 25 September 2016		
	Reported	Specific items and pension adjustment	Adjusted	Reported	Specific items and pension adjustment	Adjusted
Revenue	4,829	-	4,829	4,583	-	4,583
Operating costs	(4,740)	(234)	(4,506)	(4,377)	(114)	(4,263)
People costs	(2,889)	(234)	(2,655)	(2,674)	(114)	(2,560)
Non-people costs	(1,851)	-	(1,851)	(1,703)	-	(1,703)
Distribution and conveyance costs	(1,086)	-	(1,086)	(945)	-	(945)
Infrastructure costs	(436)	-	(436)	(417)	-	(417)
Other operating costs	(329)	-	(329)	(341)	-	(341)
Operating profit before transformation costs	89	(234)	323	206	(114)	320
Transformation costs	(63)	-	(63)	(58)	-	(58)
Operating profit after transformation costs	26	(234)	260	148	(114)	262
Operating specific items:						
Employee Free Shares charge	(18)	(18)	-	(79)	(79)	-
Legacy/other costs	(3)	(3)	-	(11)	(11)	-
Amortisation of intangible assets in acquisitions	(8)	(8)	-	-	-	-
Operating (loss)/profit	(3)	(263)	260	58	(204)	262
Non-operating specific items:						
Profit on disposal of property, plant and equipment	44	44	-	4	4	-
Loss on disposal of business	-	-	-	(2)	(2)	-
Earnings before interest and tax	41	(219)	260	60	(202)	262
Finance costs	(11)	-	(11)	(11)	-	(11)
Finance income	1	-	1	1	-	1
Net pension interest (non-operating specific item)	46	46	-	60	60	-
Profit before tax	77	(173)	250	110	(142)	252
Tax credit/(charge)	91	143	(52)	(23)	36	(59)
Profit for the period	168	(30)	198	87	(106)	193
Profit for the period attributable to:						
Equity holders of the parent Company	169	(30)	199	86	(106)	192
Non-controlling interests	(1)	-	(1)	1	-	1
Earnings per share						
Basic	17.1p	(3.0p)	20.1p	8.6p	(10.6p)	19.2p
Diluted	17.0p	(3.0p)	20.0p	8.6p	(10.5p)	19.1p

Segmental reported results

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

	26 weeks ended 24 September 2017			26 weeks ended 25 September 2016		
	UKPIL (UK operations)	GLS (Non-UK operations)	Group	UKPIL (UK operations)	GLS (Non-UK operations)	Group
(£m)						
Revenue	3,624	1,205	4,829	3,641	942	4,583
People costs	(2,596)	(293)	(2,889)	(2,465)	(209)	(2,674)
Non-people costs	(1,029)	(822)	(1,851)	(1,043)	(660)	(1,703)
Operating (loss)/profit before transformation costs	(1)	90	89	133	73	206
Transformation costs	(63)	-	(63)	(58)	-	(58)
Operating (loss)/profit after transformation costs	(64)	90	26	75	73	148
Operating specific items	(22)	(7)	(29)	(90)	-	(90)
Operating (loss)/profit	(86)	83	(3)	(15)	73	58
Non-operating specific items	44	-	44	2	-	2
Earnings before interest and tax	(42)	83	41	(13)	73	60
Net finance costs	(8)	(2)	(10)	(9)	(1)	(10)
Net pension interest (non-operating specific item)	46	-	46	60	-	60
(Loss)/profit before tax	(4)	81	77	38	72	110
Tax credit/(charge)	113	(22)	91	(2)	(21)	(23)
Profit for the period	109	59	168	36	51	87

Alternative Performance Measures

Reported operating profit before and after transformation costs

These measures are in accordance with IFRS and are a means by which Management can understand the financial performance of the Group, taking into account business as usual (BAU) costs e.g. people, distribution and conveyance, infrastructure and other operating costs. They are presented before and after transformation costs, to provide Management with a view of the ongoing impact of the costs of transforming the business.

Reported operating profit

This measure is in accordance with IFRS. It is a means by which Management can understand the financial performance of the Group, taking into account BAU operating costs e.g. people, distribution and conveyance, infrastructure costs, transformation costs and costs relating to operating specific items.

Adjusted operating profit before and after transformation costs

These measures are based on reported operating profit before and after transformation costs (see above) further adjusted to exclude the volatility of the pension charge to cash difference adjustment, which Management considers to be a key adjustment in understanding the underlying profit of the Group at this level.

Adjusted operating profit

This measure is based on reported operating profit (see above) excluding the pension charge to cash difference adjustment and operating specific items, which Management considers to be key adjustments in understanding the underlying profit of the Group at this level.

These adjusted measures are reconciled to the reported results in the above table. Definitions of operating costs, the pension charge to cash difference adjustment, transformation costs and operating specific items are provided below.

Adjusted operating profit margin after transformation costs

This is a fundamental measure of performance that Management uses to understand the efficiency of the business in generating profit. It calculates 'adjusted operating profit after transformation costs' as a proportion of revenue in percentage terms.

Earnings before interest, tax, depreciation and amortisation (EBITDA) before transformation costs

Reported EBITDA before transformation costs is reported operating profit before transformation costs with depreciation and amortisation and share of associate company profits added back.

Adjusted EBITDA before transformation costs is reported EBITDA before transformation costs with the pension charge to cash difference adjustment added back.

EBITDA is considered to be a useful measure of operating performance because it approximates the underlying operating cash flow by eliminating depreciation, amortisation and the performance of associate companies.

The following table reconciles adjusted EBITDA before transformation costs to reported operating profit before transformation costs.

	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016
(£m)		
Reported operating profit before transformation costs	89	206
Depreciation and amortisation	166	145
Share of post-tax profit from associates	-	1
Reported EBITDA before transformation costs	255	352
Pension charge to cash difference adjustment	234	114
Adjusted EBITDA before transformation costs	489	466

Adjusted earnings per share

Adjusted earnings per share is reported basic earnings per share, excluding operating and non-operating specific items and the pension charge to cash difference adjustment. A reconciliation of this number to reported basic earnings per share is included in the adjusted results table in the section entitled 'Presentation of results'.

People costs

These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs.

Distribution and conveyance costs

These costs relate to non-people costs incurred in transporting and delivering mail by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators and GLS.

Infrastructure costs

These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation and amortisation, IT and property facilities management costs.

Other operating costs

These are any operating costs which do not fall into the categories of people costs, distribution and conveyance costs or infrastructure costs including for example, Post Office Limited agency costs, consumables and training.

Transformation costs

These costs relate to the ongoing transformation of the business, and include voluntary redundancy, project costs and other transformation-related payments.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IFRS income statement pension charge rate of 41.1 per cent and the actual cash payments into the RMPP at 17.1 per cent. Management believes this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that, in Management's opinion, require separate identification. Management does not consider them to be reflective of year-on-year operating performance. These include items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods.

Employee Free Shares charge

These relate to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2013, 2014, 2015 and 2016) with no direct cash impact on the Group.

Amortisation of intangible assets in acquisitions

These notional charges, which arise as a direct consequence of IFRS business combination accounting requirements, are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

Legacy/other costs

These costs relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision) or restructuring costs (Romec integration).

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and in Management's opinion require separate identification.

Profit/loss on disposal of property, plant and equipment (PP&E)

Management separately identifies recurring profit/loss on disposal of PP&E as these disposals are not part of the Group's trading activity and are driven primarily by business strategy.

Profit/loss on disposal of business

These non-recurring events are excluded on the basis that by their nature they are individually unique and therefore distort comparison of year-on-year business performance.

Free cash flow

Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base.

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments. Other working capital movements include movements in GLS client cash held and in deferred revenue from stamps purchased in prior periods. In-year trading cash flow is used primarily by Management to show cash being generated by operations less cash investment.

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

	Reported 26 weeks ended 24 September 2017	Reported 26 weeks ended 25 September 2016
(£m)	2017	2016
Net cash inflow from operating activities	250	206
Adjustment for:		
Other working capital movements	19	16
Cash cost of operating specific items	8	47
Purchase of property, plant and equipment	(69)	(62)
Purchase of intangible assets (software)	(70)	(79)
Net finance costs paid	(13)	(12)
In-year trading cash inflow	125	116

Net cash investment

Net cash investment is a measure of the cash utilised by the Group in the period on investment activities netted off against cash received on the disposal of property, plant and equipment. It is a measure used by Management to monitor investment within the Group. The items making up this balance in the statutory cash flow are indicated in the section 'Condensed consolidated statement of cash flows'.

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets.

Net debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

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

(£m)	At 24 September 2017	At 25 September 2016
Loans/bonds	(440)	(538)
Finance leases	(191)	(182)
Cash and cash equivalents	229	248
Pension escrow (RMSEPP)	20	20
Net debt	(382)	(452)

Net debt excludes £23 million (2016-17: £nil) related to the RMPP pension scheme of the total £43 million (2016-17: £20 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

Adjusted effective tax rate

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

Underlying change

Movements in revenue, costs, profits and margins are shown on an underlying basis. Underlying movements take into account differences in working days in UKPIL (H1 2017-18: 152.0 days; H1 2016-17: 152.8 days) and movements in foreign exchange (H1 2017-18: £/€ 1.14; H1 2016-17: £/€ 1.23). In addition, adjustments are made for non-recurring distorting items, which by their nature may be unpredictable, such as the results of acquisitions and changes in wage legislation such as the Apprenticeship Levy. For volumes, underlying movements are adjusted for working days in UKPIL, acquisitions and exclude political parties' election mailings in letters volumes. For 2017-18, the estimated full year revenue and profit impact of working days in UKPIL is a reduction of around £15 million (2017-18: 305.0 days; 2016-17: 305.6).

(£m)	Adjusted 26 weeks ended 24 September 2017	Adjusted 26 weeks ended 25 September 2016	Working days	Wage legislation	Foreign exchange	Acquisitions	Underlying 26 weeks ended 25 September 2016	Underlying change
Revenue								
UKPIL	3,624	3,641	(19)	-	5	-	3,627	Flat
GLS	1,205	942	-	-	73	89	1,104	9%
Group	4,829	4,583	(19)	-	78	89	4,731	2%
Costs								
UKPIL								
People	(2,362)	(2,351)	-	(10)	-	-	(2,361)	Flat
Non-people costs	(1,029)	(1,043)	-	-	(5)	-	(1,048)	(2%)
Distribution and conveyance costs	(361)	(370)	-	-	(5)	-	(375)	(4%)
Infrastructure costs	(365)	(360)	-	-	-	-	(360)	1%
Other operating costs	(303)	(313)	-	-	-	-	(313)	(3%)
Operating costs before transformation costs	(3,391)	(3,394)	-	(10)	(5)	-	(3,409)	(1%)
GLS								
Operating costs	(1,115)	(869)	-	-	(66)	(86)	(1,021)	9%
Group								
People	(2,655)	(2,560)	-	(10)	(16)	(42)	(2,628)	1%
Non-people costs	(1,851)	(1,703)	-	-	(55)	(44)	(1,802)	3%
Distribution and conveyance costs	(1,086)	(945)	-	-	(49)	(34)	(1,028)	6%
Infrastructure costs	(436)	(417)	-	-	(4)	(6)	(427)	2%
Other operating costs	(329)	(341)	-	-	(2)	(4)	(347)	(5%)
Operating costs before transformation costs	(4,506)	(4,263)	-	(10)	(71)	(86)	(4,430)	2%
Profit, margin and EPS								
UKPIL								
Operating profit before transformation costs	233	247	(19)	(10)	-	-	218	7%
Transformation costs	(63)	(58)	-	-	-	-	(58)	9%
Operating profit after transformation costs	170	189	(19)	(10)	-	-	160	6%
Margin	4.7%	5.2%					4.4%	30bps
GLS								
Operating profit	90	73	-	-	7	3	83	8%
Margin	7.5%	7.7%					7.6%	(10bps)
Group								
Operating profit before transformation costs	323	320	(19)	(10)	7	3	301	7%
Transformation costs	(63)	(58)	-	-	-	-	(58)	9%
Operating profit after transformation costs	260	262	(19)	(10)	7	3	243	7%
Margin	5.4%	5.7%					5.1%	30bps
Profit before tax	250	252	(19)	(10)	7	3	233	7%
Tax	(52)	(59)					(59)	
Profit for the period	198	193					193	
Profit attributable to equity holders of the parent Company	199	192					192	
Basic earnings per share (pence)	20.1p	19.2p					19.2p	

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

		Reported 26 weeks ended 24 September 2017 £m	Reported 26 weeks ended 25 September 2016 £m
	Notes		
Continuing operations			
Revenue	2	4,829	4,583
Operating costs ¹		(4,740)	(4,377)
People costs		(2,889)	(2,674)
Distribution and conveyance costs		(1,086)	(945)
Infrastructure costs		(436)	(417)
Other operating costs		(329)	(341)
Operating profit before transformation costs		89	206
Transformation costs		(63)	(58)
Operating profit after transformation costs		26	148
Operating specific items:			
Employee Free Shares charge		(18)	(79)
Legacy/other costs		(3)	(11)
Amortisation of intangible assets in acquisitions		(8)	-
Operating (loss)/profit		(3)	58
Profit on disposal of property, plant and equipment (non-operating specific item)		44	4
Loss on disposal of business (non-operating specific item)		-	(2)
Earnings before interest and tax		41	60
Finance costs		(11)	(11)
Finance income		1	1
Net pension interest (non-operating specific item)	5	46	60
Profit before tax		77	110
Tax credit/(charge)	3	91	(23)
Profit for the period		168	87
Profit for the period attributable to:			
Equity holders of the parent Company		169	86
Non-controlling interests		(1)	1
Earnings per share	4		
Basic		17.1p	8.6p
Diluted		17.0p	8.6p

¹ Operating costs are stated before transformation costs, Employee Free Shares charge, Legacy/other costs and amortisation of intangible assets in acquisitions.

Condensed consolidated statement of comprehensive income

		Reported 26 weeks ended 24 September 2017 £m	Reported 26 weeks ended 25 September 2016 £m
	Notes		
Profit for the period		168	87
Other comprehensive (expense)/income for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		(822)	727
IFRIC 14 adjustment relating to defined benefit surplus	5	(1,119)	120
Remeasurement (losses)/gains of the defined benefit surplus	5	(178)	787
Deferred tax	3	475	(180)
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		(1)	17
Exchange differences on translation of foreign operations (GLS)		9	58
Net loss on hedge of a net investment (€500 million bond)		(9)	(39)
Net loss on hedge of a net investment (Euro-denominated finance lease payables)		(1)	(3)
Tax on above items		-	1
Designated cash flow hedges		(2)	23
(Losses)/gains on cash flow hedges deferred into equity		(2)	17
Losses on cash flow hedges released from equity to income		-	11
Tax on above items		-	(5)
Total other comprehensive (expense)/income for the period		(825)	767
Total comprehensive (expense)/income for the period		(657)	854
Total comprehensive (expense)/income for the period attributable to:			
Equity holders of the parent Company		(656)	853
Non-controlling interests		(1)	1

Condensed consolidated balance sheet

	Notes	Reported At 24 September 2017 £m	Reported At 26 March 2017 £m
Non-current assets			
Property, plant and equipment		2,006	2,062
Goodwill		321	316
Intangible assets		588	567
Investments in associates and joint venture		7	7
Financial assets			
Pension escrow investments		43	20
Derivatives		2	4
Retirement benefit surplus	5	2,331	3,839
Other receivables		15	13
Deferred tax assets		50	15
		5,363	6,843
Assets held for sale		44	37
Current assets			
Inventories		27	23
Trade and other receivables		1,182	1,117
Income tax receivable		4	7
Financial assets			
Derivatives		9	8
Cash and cash equivalents		229	299
		1,451	1,454
Total assets		6,858	8,334
Current liabilities			
Trade and other payables		(1,726)	(1,810)
Financial liabilities			
Interest-bearing loans and borrowings		-	(33)
Obligations under finance leases		(73)	(64)
Derivatives		(2)	(9)
Income tax payable		(16)	(12)
Provisions		(80)	(88)
		(1,897)	(2,016)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		(440)	(430)
Obligations under finance leases		(118)	(130)
Derivatives		(4)	(2)
Provisions		(107)	(108)
Other payables		(48)	(47)
Deferred tax liabilities	3	(42)	(603)
		(759)	(1,320)
Total liabilities		(2,656)	(3,336)
Net assets		4,202	4,998
Equity			
Share capital		10	10
Retained earnings		4,148	4,940
Other reserves		44	47
Equity attributable to parent Company		4,202	4,997
Non-controlling interests		-	1
Total equity		4,202	4,998

Condensed consolidated statement of changes in equity

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Reported at 27 March 2016	10	4,451	22	(25)	4,458	9	4,467
Profit for the period	-	86	-	-	86	1	87
Other comprehensive income for the period	-	727	17	23	767	-	767
Total comprehensive income for the period	-	813	17	23	853	1	854
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	-	(149)	-	-	(149)	-	(149)
Dividend paid to non-controlling interests	-	-	-	-	-	(8)	(8)
Acquisition of non-controlling interests	-	(13)	-	-	(13)	-	(13)
Recognition of put options for non-controlling interests	-	(14)	-	-	(14)	-	(14)
Disposal of subsidiary	-	-	-	-	-	(1)	(1)
Acquisition of subsidiary	-	-	-	-	-	6	6
Share-based payments							
Employee Free Shares issue ¹	-	76	-	-	76	-	76
Save As You Earn (SAYE) scheme	-	1	-	-	1	-	1
Long Term Incentive Plan (LTIP) ²	-	5	-	-	5	-	5
Purchase of own shares ³	-	(10)	-	-	(10)	-	(10)
Reported at 25 September 2016	10	5,160	39	(2)	5,207	7	5,214
Profit for the period	-	186	-	-	186	-	186
Other comprehensive (expense)/income for the period	-	(322)	1	9	(312)	-	(312)
Total comprehensive (expense)/income for the period	-	(136)	1	9	(126)	-	(126)
Transactions with owners of the Company, recognised directly in equity							
Release of Post Office Limited separation provision	-	1	-	-	1	-	1
Dividend paid to equity holders of the parent Company	-	(73)	-	-	(73)	-	(73)
Acquisition of non-controlling interests	-	(2)	-	-	(2)	(6)	(8)
De-recognition of put options for non-controlling interests	-	8	-	-	8	-	8
Share-based payments							
Employee Free Shares issue ¹	-	24	-	-	24	-	24
Save As You Earn (SAYE) scheme	-	1	-	-	1	-	1
Long Term Incentive Plan (LTIP) ²	-	4	-	-	4	-	4
Purchase of own shares ³	-	(43)	-	-	(43)	-	(43)
Settlement of LTIP 2013	-	(4)	-	-	(4)	-	(4)
Reported at 26 March 2017	10	4,940	40	7	4,997	1	4,998
Profit for the period	-	169	-	-	169	(1)	168
Other comprehensive expense for the period	-	(822)	(1)	(2)	(825)	-	(825)
Total comprehensive expense for the period	-	(653)	(1)	(2)	(656)	(1)	(657)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	-	(154)	-	-	(154)	-	(154)
Share-based payments							
Employee Free Shares issue ¹	-	17	-	-	17	-	17
Save As You Earn (SAYE) scheme	-	1	-	-	1	-	1
Long Term Incentive Plan (LTIP) ²	-	(2)	-	-	(2)	-	(2)
Deferred Share Bonus Plan (DSBP)	-	2	-	-	2	-	2
Settlement of LTIP 2014	-	(3)	-	-	(3)	-	(3)
Reported at 24 September 2017	10	4,148	39	5	4,202	-	4,202

¹ Excludes £1 million (at 25 September 2016: £3 million, at 26 March 2017: £5 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

² Excludes £nil (at 25 September 2016: £1 million, at 26 March 2017: £1 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

³ Purchases in respect of employee share schemes.

Condensed consolidated statement of cash flows

	Reported 26 weeks ended 24 September 2017 £m	Reported 26 weeks ended 25 September 2016 £m
Notes		
Cash flow from operating activities		
Profit before tax	77	110
Adjustment for:		
Net pension interest	(46)	(60)
Net finance costs	10	10
Profit on disposal of property, plant and equipment	(44)	(4)
Loss on disposal of business	-	2
Legacy/other costs	11	11
Employee Free Shares charge	18	79
Transformation costs	63	58
Operating profit before transformation costs	89	206
Adjustment for:		
Depreciation and amortisation	166	145
Share of post-tax loss from associates and joint venture	-	1
EBITDA before transformation costs	255	352
Working capital movements	(149)	(143)
Increase in inventories	(4)	(3)
(Increase)/decrease in receivables ¹	(25)	106
Decrease in payables ¹	(103)	(231)
Net (increase)/decrease in derivative assets	(6)	2
Decrease in provisions (non-specific items)	(11)	(17)
Pension charge to cash difference adjustment	234	114
Share-based awards (SAYE, LTIP and DSBP) charge	1	6
Cash cost of transformation operating expenditure ²	(59)	(60)
Cash cost of operating specific items	(8)	(47)
Cash inflow from operations	274	222
Income tax paid	(27)	(16)
Tax relating to research & development activity	3	-
Net cash inflow from operating activities	250	206
Cash flow from investing activities		
Finance income received	1	2
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)	29	7
London property portfolio net costs (non-operating specific item)	(4)	(17)
Disposal of business (non-operating specific item)	-	(3)
Purchase of property, plant and equipment ²	(69)	(62)
Acquisition of business interests, net of cash acquired	(7)	(55)
Purchase of intangible assets (software) ²	(70)	(79)
Payment of deferred consideration in respect of prior years' acquisitions	(1)	(3)
Net cash outflow from investing activities	(121)	(210)
Net cash inflow/(outflow) before financing activities	129	(4)
Cash flow from financing activities		
Finance costs paid	(14)	(14)
Acquisition of non-controlling interests	-	(13)
Purchase of own shares	-	(6)
Payment of capital element of obligations under finance lease contracts	(21)	(46)
Cash received on sale and leasebacks	17	5
Drawdown of loan facility	-	100
Repayment of loans and borrowings	(31)	-
Dividends paid to equity holders of the parent Company	(154)	(149)
Dividend paid to non-controlling interests	-	(8)
Net cash outflow from financing activities	(203)	(131)
Net decrease in cash and cash equivalents	(74)	(135)
Effect of foreign currency exchange rates on cash and cash equivalents	4	15
Cash and cash equivalents at the beginning of the period	299	368
Cash and cash equivalents at the end of the period	229	248

¹ 2017 amounts include £138 million reclassification between international payables and receivables relating to settlements with overseas postal administrations. The equivalent 2016 amounts were £87 million. This reclassification is expected to reverse in the second half of the year.

² Items comprising total investment within in-year trading cash flow measure (see Financial Review).

Notes to the condensed consolidated financial statements

1. Basis of preparation

The comparative figures for the year ended 26 March 2017 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This condensed set of unaudited financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union (EU).

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, this condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 26 March 2017, except for any changes detailed below.

Presentation of results and accounting policies

The condensed consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (IASB) (i.e. on a 'reported' basis).

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

Accounting standards adopted in 2017-18

IFRS 9 'Financial Instruments' (early adoption)

IAS 7 (Amended) 'Disclosure Initiative'

IAS 12 (Amended) 'Recognition of Deferred Tax Assets for Unrealised Losses'

Annual Improvements 2014-2016

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

The Directors do not expect that the adoption of any other new or amended standards issued during the reporting period that are not yet effective will have a material impact on the financial performance or position of the Group in future periods.

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 are consistent with those applied in the Annual Report and Financial Statements 2016-17, with the exception of an additional judgement in relation to the cash proceeds allocation for the disposal of the Mount Pleasant development plots (see Financial Review). The proceeds have been allocated on a different basis to the schedule of cash receipts agreed with the purchaser, using guidance in IFRIC 15 'Agreements for the Construction of Real Estate' in order to reflect the commercial substance of the transaction.

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the 26 weeks ended 24 September 2017.

2. Segment information

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

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

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Trading between UKPIL and GLS is not material.

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.

26 weeks ended 24 September 2017			Specific items and pension adjustment ¹	Reported
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m	Group £m
Continuing operations				
Revenue	3,624	1,205	4,829	4,829
People costs	(2,362)	(293)	(2,655)	(2,889)
Non-people costs	(1,029)	(822)	(1,851)	(1,851)
Operating profit before transformation costs	233	90	323	89
Transformation costs	(63)	-	(63)	(63)
Operating profit after transformation costs	170	90	260	26
Operating specific items				
Employee Free Shares charge	-	-	-	(18)
Legacy/other costs	-	-	-	(3)
Amortisation of intangible assets in acquisitions	-	-	-	(8)
Operating profit/(loss)	170	90	260	(263)
Non-operating specific items				
Profit on disposal of property, plant and equipment	-	-	-	44
Earnings before interest and tax	170	90	260	(219)
Net finance costs	(8)	(2)	(10)	-
Net pension interest (non-operating specific item)	-	-	-	46
Profit before tax	162	88	250	(173)

¹ A £68 million credit for specific items and a £234 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £7 million charge for specific items relates to GLS.

2. Segment information (continued)

26 weeks ended 25 September 2016	Adjusted		Specific items and pension adjustment ²		Reported
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m	£m	Group £m
Continuing operations					
Revenue	3,641	942	4,583	-	4,583
People costs	(2,351)	(209)	(2,560)	(114)	(2,674)
Non-people costs	(1,043)	(660)	(1,703)	-	(1,703)
Operating profit before transformation costs	247	73	320	(114)	206
Transformation costs	(58)	-	(58)	-	(58)
Operating profit after transformation costs	189	73	262	(114)	148
Operating specific items					
Employee Free Shares charge	-	-	-	(79)	(79)
Legacy/other costs	-	-	-	(11)	(11)
Operating profit	189	73	262	(204)	58
Non-operating specific items					
Profit on disposal of property, plant and equipment	-	-	-	4	4
Loss on disposal of business	-	-	-	(2)	(2)
Earnings before interest and tax	189	73	262	(202)	60
Net finance costs	(9)	(1)	(10)	-	(10)
Net pension interest (non-operating specific item)	-	-	-	60	60
Profit before tax	180	72	252	(142)	110

² All specific items and a £114m charge for the pension charge to cash difference adjustment relate to UKPIL.

3. Taxation

The Group reported tax was a credit of £91 million on a reported profit of £77 million. This gives an unusual effective tax rate on reported profits and arises mainly due to a one-off deferred tax credit of £106 million related to the decision to close the RMPP to future accrual after 31 March 2018. A further deferred tax credit of £475 million was recognised in the statement of comprehensive income in respect of this decision.

These deferred tax adjustments arise from a change to the previous assumption that the RMPP pension surplus would be recoverable as a reduction in contributions at some point in the future which would have been taxed at the corporate tax rate. It is now assumed that the majority of the surplus would be available through a refund, net of withholding tax. This withholding tax arises from application of the International Financial Reporting Interpretations Committee guidance (IFRIC 14), is a charge on the pension scheme and is reported in the statement of comprehensive income (see Note 5).

Excluding the one-off deferred tax credit, the total tax in the income statement would change from a credit of £91 million to a charge of £15 million. The Group effective tax rate, excluding this one-off deferred tax credit, would then be 19 per cent.

4. Earnings per share

	26 weeks ended 24 September 2017			26 weeks ended 25 September 2016		
	Reported	Specific items ¹	Adjusted	Reported	Specific items ¹	Adjusted
Attributable to equity holders of the parent Company						
Profit from continuing operations (£ million)	169	(30)	199	86	(106)	192
Weighted average number of shares issued (million)	991	n/a	991	1,000	n/a	1,000
Basic earnings per share (pence)	17.1	n/a	20.1	8.6	n/a	19.2
Diluted earnings per share (pence)	17.0	n/a	20.0	8.6	n/a	19.1

¹ Further details of the specific items total can be found in the Financial Review.

4. Earnings per share (continued)

The diluted earnings per share for the 26 weeks ended 24 September 2017 is based on a weighted average number of shares of 993,020,938 (H1 2016-17: 1,005,528,552) to take account of the issue of potential ordinary shares resulting from the Long Term Incentive Plan (LTIP) and Deferred Share Bonus Plan (DSBP) for certain senior management and the Save As You Earn (SAYE) scheme.

The 8,580,681 shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

5. Retirement benefit plans

Summary pension information

	26 weeks ended 24 September 2017 £m	26 weeks ended 25 September 2016 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs) ¹	(405)	(291)
UK defined contribution plan	(28)	(24)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions	(77)	(76)
Total UK ongoing pension service costs	(510)	(391)
GLS defined contribution type plan costs	(3)	(3)
Total Group ongoing pension service costs	(513)	(394)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions ²	(164)	(172)
Defined contribution plans' employer contributions	(31)	(27)
UK defined benefit and defined contribution plans' PSE employer contributions	(77)	(76)
Total Group cash flows relating to ongoing pension service costs	(272)	(275)
RMSEPP deficit correction payments	(5)	(5)
Pension related accruals (timing difference)	(2)	-
Pension charge to cash difference adjustment	(234)	(114)

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 41.1 per cent (2016-17: 28.8 per cent)) of the increase in the defined benefit obligation due to members earning one more half year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the Royal Mail Pension Plan (RMPP) of £3 million (H1 2016-17: £3 million) continue to be included within the Group's ongoing UK pension service costs.

² The employer contribution cash flow rate (17.1 per cent in both the current and prior period) forms part of the payroll expense and is paid in respect of the RMPP. This includes payments into pension escrow investments. 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.

2018 Pensions Review

Following the Company's decision to close the RMPP to future accrual after 31 March 2018, discussions are ongoing regarding a replacement scheme.

Accounting and actuarial surplus position (RMPP and RMSEPP)

The combined plans' assets and liabilities are shown below.

	Accounting (IAS 19)		Actuarial/cash funding	
	At 24 September 2017 £m	At 26 March 2017 £m	At 30 September 2017 £m	At 31 March 2017 £m
Fair value of plans' assets ³	9,796	9,847	9,772	10,066
Present value of plans' liabilities	(6,330)	(5,992)	(8,974)	(8,984)
Surplus in plans (pre IFRIC 14 adjustment)	3,466	3,855	798	1,082
IFRIC 14 adjustment	(1,135)	(16)	n/a	n/a
Surplus in plans	2,331	3,839	798	1,082

³ Difference between accounting and actuarial/cash funding asset fair values arises from the different period end dates used for the valuation of the assets under both methods.

5. Retirement benefit plans (continued)

The Directors do not believe that the current excess of plans' assets over the liabilities on an accounting basis will result in an excess of pension assets over liabilities on an actuarial/cash funding basis. However, the Directors are required to account for the plans based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus, under IAS 19 and IFRIC 14 it must recognise the economic benefit assumed to arise from either a reduction to its future contributions or a refund of the surplus.

The legal right to benefit from a surplus has not changed as a result of the Company's decision to close the RMPP to future accrual after 31 March 2018. However, after that date, any surplus will no longer be assumed to be recoverable as a reduction to future employer contributions. Therefore, at 24 September 2017 only six months of economic benefit is recoverable as a reduction to future employer contributions, with the remaining surplus assumed to be available as a refund at some point in the future. This has resulted in an IFRIC 14 adjustment of £1,111 million (2016-17: £nil) which represents taxation that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 24 September 2017 of £68 million (pre IFRIC 14) (2016-17: £47 million surplus).

As RMSEPP is closed to future accrual, the surplus is assumed to be available as a refund under IFRIC 14 and, as such, is shown net of £24 million (2016-17: £16 million) taxation withheld on the surplus amount.

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP and RMSEPP.

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

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

	At 24 September 2017	At 26 March 2017
Retail Price Index (RPI)	3.2%	3.2%
Consumer Price Index (CPI)	2.2%	2.2%
Discount rate		
– nominal	2.6%	2.5%
– real (nominal less RPI) ⁴	(0.6)%	(0.7)%

⁴ The real discount rate used reflects the long average duration of the RMPP of around 30 years.

Sensitivity analysis for RMPP liabilities

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

Key assumption change	Potential increase in liabilities £m
Additional one year of life expectancy	220
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	160
Decrease in discount rate of 0.1% p.a.	160
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	30

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

The average duration of the RMPP obligation is 30 years (2016-17: 30 years).

5. Retirement benefit plans (continued)

Movement in RMPP and RMSEPP assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	At 24 September 2017	At 26 March 2017	At 24 September 2017	At 26 March 2017	At 24 September 2017	At 26 March 2017
	£m	£m	£m	£m	£m	£m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 27 March 2017 and 28 March 2016	9,847	7,374	(5,992)	(3,815)	3,855	3,559
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	(3)	(5)	(462)	(683)	(465)	(688)
Pension interest income/(cost) ⁵	126	265	(80)	(145)	46	120
Total included in profit before tax	123	260	(542)	(828)	(419)	(568)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	-	-	172	(1,711)	172	(1,711)
Demographic assumptions	-	-	-	243	-	243
Experience assumptions	-	-	2	76	2	76
Return on plans' assets (excluding interest income)	(352)	1,791	-	-	(352)	1,791
Total remeasurement gains/(losses) of the defined benefit surplus	(352)	1,791	174	(1,392)	(178)	399
Other						
Employer contributions	208	476	-	-	208	476
Employee contributions	3	6	(3)	(6)	-	-
Benefits paid	(32)	(55)	32	55	-	-
Curtailment costs	-	-	(1)	(5)	(1)	(5)
Movement in pension-related accruals	(1)	(5)	2	(1)	1	(6)
Total other movements	178	422	30	43	208	465
Retirement benefit surplus (pre IFRIC 14 adjustment) at 24 September 2017 and 26 March 2017	9,796	9,847	(6,330)	(5,992)	3,466	3,855
IFRIC 14 adjustment	n/a	n/a	n/a	n/a	(1,135)	(16)
Retirement benefit surplus (net of IFRIC 14 adjustment) at 24 September 2017 and 26 March 2017	n/a	n/a	n/a	n/a	2,331	3,839

⁵ Pension interest income results from applying the plans' discount rate at 26 March 2017 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 26 March 2017 to the plans' liabilities at that date.

6. Dividends

	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016	26 weeks ended 24 September 2017	26 weeks ended 25 September 2016
	Pence per share	Pence per share	£m	£m
Dividends on Ordinary Shares				
Final dividends paid	15.6	15.1	154	149
Total dividends paid	15.6	15.1	154	149

The final dividend of 15.6p per share was paid on 28 July 2017 to shareholders whose names appeared on the register of members on 30 June 2017.

7. Contingent liabilities

On 28 July 2015, the Group received a Statement of Objections setting out Ofcom's provisional, preliminary findings of anti-competitive conduct in relation to certain Contract Change Notices issued by the Group in January 2014. Ofcom's investigation was launched in February 2014 following a complaint brought by TNT Post UK (now Whistl). The Group has robustly defended its conduct in written and oral representations made to Ofcom and will continue to defend itself.

The Group is still not in a position to accurately predict when it will receive Ofcom's final decision. The Group continues to maintain that it has not infringed competition law and its representations to Ofcom have been made on that basis.

8. Events after the reporting period

Interim dividend

The Board has declared an interim dividend of 7.7 pence per ordinary share (H1 2016-17: 7.4 pence per share). The dividend amounts to £77 million (H1 2016-17: £74 million) and will be paid on 10 January 2018 to shareholders on the register at the close of business on 8 December 2017. The ex-dividend date is 7 December 2017.

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

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit or loss of Royal Mail plc as required by DTR 4.2.4R; and
- the interim Financial Report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and
 - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Royal Mail plc are as listed in the Royal Mail plc Annual Report and Financial Statements 2016-17 with the exception of Matthew Lester who resigned from the Board on 20 July 2017 and Stuart Simpson who was appointed to the Board on the same date. In addition, Simon Thompson was appointed to the Board on 1 November 2017. A list of current Directors is maintained on our corporate website www.royalmailgroup.com.

By order of the Board

Moya Greene

Chief Executive Officer
15 November 2017

Stuart Simpson

Chief Finance Officer
15 November 2017

INDEPENDENT REVIEW REPORT TO ROYAL MAIL PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 24 September 2017 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated balance sheet, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 24 September 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

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

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

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Richard Pinckard
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E14 5GL

15 November 2017

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', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal', 'forecasts' or 'estimates' or similar expressions or negatives thereof.

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

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