FINANCIAL RESULTS

Thursday 17 May 2018

ROYAL MAIL PLC

FINANCIAL REPORT FOR THE FULL YEAR ENDED 25 MARCH 2018

Royal Mail plc (RMG.L) today announced its results for the full year ended 25 March 2018.

Moya Greene, Chief Executive Officer, said:

"It has been another successful year, despite the challenging environment. Group revenue is now over £10 billion, a significant milestone, thanks to our geographical diversification and focus on growth.

GLS had another strong year. Its revenue grew organically and through targeted acquisitions in higher growth markets. Parcel volume growth in UKPIL was our best for four years. We delivered a resilient letters performance.

We continue to focus on cost avoidance and parcel revenue growth in the UK and through GLS. The good cash generation characteristics of our business will support our progressive dividend policy."

FINANCIAL AND OPERATING PERFORMANCE SUMMARY

Group financial summary[1]

Reported results (£m)	**52 weeks ended 25 March 2018**	**52 weeks ended 26 March 2017**	**Underlying change[2]**
Revenue	**10,172**	9,776	2%
Operating profit before transformation costs	**236**	490	
Operating profit after transformation costs	**123**	353	
Profit before tax	**212**	335	
Basic earnings per share – continuing operations (pence)	**25.9p**	27.5p	
Proposed full year dividend per share (pence)	**24.0p**	23.0p	4%
Adjusted results (£m)			
Revenue	**10,172**	9,776	2%
Operating profit before transformation costs	**694**	712	1%
Operating profit after transformation costs	**581**	575	6%
Margin	**5.7%**	5.9%	20bps
Profit before tax	**565**	559	
Basic earnings per share (pence)	**45.5p**	44.1p	
In-year trading cash flow	**545**	420	
Net cash/(debt)	**14**	(338)	

Business units

	Revenue			**Adjusted operating profit before transformation costs**	
(£m)	**52 weeks ended 25 March 2018**	52 weeks ended 26 March 2017	Underlying change[2]	**52 weeks ended 25 March 2018**	52 weeks ended 26 March 2017
UKPIL	**7,615**	7,658	flat	**503**	548
GLS	**2,557**	2,118	10%	**191**	164
Group	**10,172**	9,776	2%	**694**	712

[1] Reported results are prepared in accordance with International Financing Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference and specific items, consistent with the way that 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 reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of Results and Alternative Performance Measures (APMs)'.

Group performance[1,2]

- Revenue up two per cent on an underlying basis, to £10.2 billion, driven by UKPIL and GLS parcels growth.
- On a reported basis, operating profit before transformation costs was £236 million.
- Adjusted operating profit before transformation costs was £694 million, up one per cent on an underlying basis.
- Adjusted operating profit margin after transformation costs of 5.7 per cent increased by 20 basis points on an underlying basis.
- Total net cash investment was £445 million, down from £492 million in 2016-17. In-year trading cash flow increased to £545 million.
- The Group had a net cash position of £14 million at 25 March 2018. This benefitted by around £100 million from the timing of the 2017-18 frontline pay award.
- The Royal Mail Pension Plan closed to future accrual in its Defined Benefit form on 31 March 2018. A new Defined Benefit Cash Balance Scheme was put in place from 1 April 2018. The overall ongoing annual cash cost of pensions will continue to be around £400 million.
- The Board is recommending a final dividend of 16.3 pence per ordinary share, giving a total dividend of 24.0 pence per share for 2017-18, up four per cent.

Business performance[1,2]

- UKPIL revenue was unchanged. Parcel revenue grew four per cent. Total letter revenue declined by four per cent.
- UKPIL parcel volumes up five per cent. Addressed letter volumes declined by five per cent, in line with expectations.
- Underlying UKPIL operating costs before transformation costs unchanged. Exceeded our cost avoidance target, avoiding £642 million over the last three financial years. Transformation costs were £113 million.
- UKPIL collections, processing and delivery productivity improved by one per cent, outside our target range (two to three per cent).
- Our regulatory First Class Quality of Service performance was 91.6 per cent (target: 93 per cent). Second Class performance was within the target range when allowing for sampling margin of error. We are talking to Ofcom about exceptional events[3]. If taken into account, we estimate we would have achieved our First Class target and exceeded the Second Class one.
- GLS performed strongly. Revenue was up 15 per cent, including the impact of acquisitions on a constant currency basis.
- On an underlying basis, GLS revenue grew 10 per cent. Volumes were up nine per cent.

2018-19 outlook

- UKPIL parcel volume and revenue growth rates anticipated to be at least the same as 2017-18.
- Maintain outlook for addressed letter volume declines of four to six per cent per annum (excluding election mailings) over medium-term. Expect decline to be at higher end of range for 2018-19 due to GDPR and, or, if business uncertainty persists; may fall outside range in a period.
- Targeting to avoid around £230 million of UKPIL costs. Productivity improvements expected to be towards the upper end of targeted two to three per cent range. Transformation costs expected to be at upper end of forecast £130-150 million range.
- Expect continued good performance in GLS. Margins may be impacted by continuing labour market pressures.
- Total net cash investment expected to be around £500 million.
- Remain committed to progressive dividend policy going forwards.

[3] These factors included a challenging industrial relations environment, some very severe weather, Cyber Week and Australian flu. It will be for Ofcom to decide.

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Results presentation:
A results presentation for analysts and institutional investors will be held in London at 9:30am on 17 May 2018 and a simultaneous webcast will be available at www.royalmailgroup.com/results.

A trading update covering the three months ending 24 June 2018 is expected to be issued on 17 July 2018.

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CHIEF EXECUTIVE OFFICER'S REVIEW

Our performance

We are the UK's number one delivery company for letters and parcels. UKPIL revenue was flat. This was due to a good performance in UKPIL parcels, where revenue was up four per cent; letter revenue declined by four per cent. Parcels growth was primarily driven by Royal Mail domestic account parcel volumes (excluding Amazon, they were up four per cent) and international import parcel volumes. Addressed letter volumes (excluding political parties' election mailings) declined by five per cent, in line with our forecast range.

GLS revenue increased by 15 per cent, including the impact of acquisitions, on a constant currency basis in the year. It rose by 10 per cent on an underlying basis. Volumes were up nine per cent. GLS now accounts for 33 per cent of the Group's adjusted operating profit after transformation costs, up from 29 per cent in 2016-17.

Winning in parcels

Competitive landscape

The UK is Europe's most competitive parcels market, with 15 key competitors. Consumers are spending more online per head than in any other major market, including the US and China[1]. Pure play e-retailers (those that trade online only) are now the leading drivers of market growth. They overtook online retailers with a store presence for the first time in 2016[2].

As the Universal Service Provider, we provide the delivery backbone for e-commerce in the UK. We have 53 per cent of total market share by volume, in an addressable market growing at around three per cent per annum[3]. Our strategy of targeting

faster growing sectors – like clothing and footwear – and winning and retaining volumes is paying off. This year, we delivered our biggest parcel volume growth since privatisation. Royal Mail Tracked 24®/48® and Tracked Returns® growth is ahead of the market by some distance.

E-commerce is also fuelling international growth. The largest European B2C parcels markets outside the UK are Germany, Italy and France – GLS' largest markets. Having recently expanded its international FlexDeliveryService across 20 European countries, GLS is well placed to capitalise on opportunities for growth, particularly in cross-border parcels.

Our progress

Winning business with UK's leading e-retailers

More barcoding and delivery confirmation on UK parcels

Expanding our parcels automation programme

Strong performance from GLS

Our service and product developments are designed to meet customer demand for faster delivery and more tracking information. We won a number of new contracts with large customers in our target sectors of clothing and footwear. They include New Look and Inditex. We also secured more business from existing customers. This includes growing the share of revenue generated by our largest account customers. Parcelforce Worldwide volumes were up two per cent, driven by new contract wins and existing customer relationships.

Over 70 per cent of Royal Mail parcels now carry a barcode. In April 2017, we began offering delivery confirmation for the majority of those barcoded parcels. We introduced new automated parcel sorting machines at our Chelmsford, Home Counties North, Greenford and Warrington Mail Centres, following the successful installation of a parcel sorting machine at our Swindon Mail Centre in the prior year. They enable quicker and more accurate scanning and sortation. Preparations are underway for our sixth machine in the South Midlands Mail Centre. Automation serves to complement and enhance; it does not replace our existing parcel sortation processes.

Our International business performed well. This was driven by growth in cross-border parcels, mainly from Asia into Europe. It accounts for 20 per cent of UKPIL parcel volumes and 18 per cent of revenue. In exports, we are focusing on major e-commerce retailers. We are also upgrading our processing automation at our Heathrow hub. It is helping to improve quality of service and reduce cost.

While negotiations are ongoing and the future UK-EU relationship remains unclear, it is not possible to predict with any degree of accuracy what impact Brexit could have on Royal Mail Group. The main issues for us relate to any potential economic downturn, and changes associated with customs and VAT processing. We are working closely with Government on alternative models for customs and tax collection after the UK leaves the EU. We were pleased that the UK Government explicitly referenced Royal Mail's role in its recent Customs Bill White Paper.

GLS revenue growth was achieved in almost all its markets. Volume growth was driven by both international and domestic parcels. We won more new business and new traffic from existing customers.

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[1] Ofcom International Communications Market report, December 2017.

[2] Mintel online retailing report, July 2017.

[3] Excludes Amazon Logistics and other retailers' own delivery networks.

GLS is a growth engine for the Group. It has delivered consistent, strong underlying growth. This is driven by its focus on B2B parcels and the premium B2C market. Its recent acquisitions in the western US and Spain have helped further establish GLS as a major player in and outside Europe. It now operates in 41 European countries and seven US states. Its largest markets – Germany, Italy and France – account for 60 per cent of GLS revenue. In Italy, GLS is now within the top three players in the market. In Germany and France, it is in the top five.

Defending letters

Resilient performance in UK letters

Maximising the value of letters including the rollout of Mailmark®

Coordinating with the industry and our customers in the lead up to the introduction of GDPR

Leading industry response to stop scam mail

Letters performed as expected. Addressed letter volumes (excluding the impact of political parties' election mailings) were down five per cent. Total letter revenue benefited from 2017 General Election mailings and declined by four per cent. Unaddressed

letter volumes (which typically have low average unit revenue), were up six per cent. Our performance in marketing mail was resilient. Revenue was up one per cent.

The UK continues to have a relatively high number of letters per capita compared to other major countries. Therefore, we continue to forecast a medium-term four to six per cent annual decline in UK addressed letter volumes (excluding political parties' election mailings). The decline is broadly driven by e-substitution. But, GDP is also a material driver. We are closely monitoring the economic environment in the UK.

We introduced a number of strategic initiatives to demonstrate the value of letters. Our Scheme for Growth incentivises companies to grow their direct mail. It does so by giving them discounts on incremental volumes. We launched a Joint Industry Committee to make the case for advertising mail. Our Keep Me Posted and MAILMEN campaigns are gaining traction. We also commenced the rollout of Mailmark® to unsorted mail. This offers customers more detail on the progress of their mailing, and online, customised reporting. It also ensures that we bill accurately and are fairly paid for the work we have done. Around 90 per cent of in scope mail now has a Mailmark®.

Protecting customer data and treating it with respect is a key priority for us. We have been working closely with our customers and industry stakeholders in the lead up to the introduction of General Data Protection Regulation (GDPR) in May 2018. We have also outlined how mail can help our customers thrive in a GDPR world.

Scam mail is a scourge. We launched a new initiative impounding scam mail at distribution centres before it reaches the customer's letterbox. This is part of our rolling programme of moves to stop postal scammers. We have stopped three million items of scam mail since stepping up our drive against fraudsters in November 2016.

Adding value and expanding our networks

GLS' 'scale up and grow' strategy progressing well

Expansion in Spain following targeted and focused acquisitions

Introduction of International Tracked email notifications service

GLS occupies a leading position in all its major markets. Its 'scale up and grow' strategy to strengthen its position in its core markets and grow in higher growth areas is progressing well. It has delivered strong volume growth in key markets and targeted acquisitions in Spain and the western US.

In February 2018, GLS acquired Spanish express parcels delivery company Redyser Transporte. Redyser will further strengthen GLS' position as Spain's second biggest national express parcels network following the acquisition of ASM Transporte Urgente in 2016. Since acquiring Redyser, the focus has been on integration. This is going well. The business is performing in line with expectations.

Following its acquisitions of GSO (2016) and Postal Express (April 2017), GLS now provides a parcel service with full US west coast coverage. GLS' coverage in this area enables it to offer shorter delivery times than its competitors. This, in turn, is helping it to win more business and benefit from growth in interstate deliveries. We are integrating Postal Express into GSO, with the first GLS branded vans being deployed in the region shortly. Integration costs and inflationary pressure have negatively impacted our operational costs and profitability in the region in the period.

GLS is making the most of the opportunities to harness growth in cross-border e-commerce. Its FlexDeliveryService is a great example of this strategy in action. FlexDeliveryService makes it easier for online shoppers to take delivery of goods purchased abroad. GLS also now offers its international returns service, ShopReturnService, across seven European countries.

In September 2017, we announced our International Tracked email notifications service. This enables overseas customers of UK-based retailers to track the progress of their parcels. The service, initially available to customers who have a business account with Royal Mail, has received positive initial feedback. We also now have the capability to offer tracked cross-border outbound and returns services to our larger customers.

Strategic focus on costs and investment

Exceeded our three year £600 million cost avoidance target

Extended our Collection on Delivery programme

Ongoing investment programme

Underlying UKPIL operating costs before transformation costs were flat. We have exceeded our three year cost avoidance target. We avoided around £640 million of costs, while simultaneously delivering service and product improvements. We are disappointed to have missed our productivity target of a two to three per cent improvement per annum. This was driven by the challenging industrial relations environment for much of the year, high levels of sickness-related absence and adverse weather conditions in the last month of the year. We continue to focus on controlling costs and making investments in technology to drive productivity.

We are constantly looking at ways to deliver efficiency improvements across our cost base. For example, we are extending our Collection on Delivery programme. This is where colleagues collect mail while they are out on delivery. Over 50,000 post boxes are now covered by this programme. We are also reducing costs in central functions, marketing, property and technology.

Since privatisation in 2013, we have invested over £1.8 billion in our UK operations. This year, we made a net cash investment of around £445 million. Our ongoing investment programme is one of the largest of its kind in the UK.

Becoming more digitally-enabled

PDA rollout complete

Parcelforce Worldwide one-hour delivery timeslot notification and My Parcel Live

GLS app and private customer portals in Europe

Investing in technology and innovation is a core part of our growth strategy. We completed the rollout of our Postal Digital Assistant (PDA) technology. This technology has been used in the rollout of estimated delivery windows for customers using our Tracked 24®/48® service. As part of our negotiations with the CWU during the year, we reached an agreement on the use of 'PDA outdoor actuals'. This enables us to gain a better understanding of our outdoor delivery and collection activities. This will help us meet the increasing demand for new and improved services. It will also ensure that workload is fair and balanced for our postmen and women. We are carrying out further trials before national rollout.

Parcelforce Worldwide is expanding its range of digital tools to enable customers to send parcels more quickly and easily. It launched its own app to give customers more control over their deliveries. We also launched the Parcelforce one-hour delivery timeslot notification and 'My Parcel Live'. A new online tool also helps marketplace sellers' customers to link their eBay and Amazon accounts to their Parcelforce Worldwide account. This makes it easier and quicker to send several different parcels at once.

At GLS, comprehensive technology solutions – scanning devices and customer tracking systems – have been employed at every stage of the parcel process. They help customers track their parcel's delivery status for both national and cross-border shipments. We also launched GLS-ONE for customers in Belgium and Luxembourg. There are plans to expand this next year. GLS-ONE offers maximum flexibility as customers can now send a parcel using the online portal, GLS app or one of 5,500 ParcelShops. They can either order a pickup service from their home or workplace or receive and send goods easily and securely using a parcel box. We also upgraded the GLS app this year. Recipients can track the current position of a delivery vehicle and the expected delivery window of their parcel. GLS also carried out a Europe-wide upgrade of the scanning terminals for incoming shipments at its depots and hubs.

Our workforce

Agreement with the Communication Workers Union

Employee engagement in line with large company average

Gender pay report shows men and women are paid broadly the same

In February 2018, we announced our agreement in principle with the Communication Workers Union (CWU) on pensions, pay, a shorter working week, culture and operational changes. CWU members overwhelmingly voted in favour of the agreement in March 2018. This is an affordable and sustainable agreement; it enables us to continue to innovate and grow. It puts us in a better position to serve our customers' evolving needs. The agreement contains commitments to work together to extend last letter delivery times and later Latest Acceptance Times (LATs). These changes are fundamental to our objective to be the chosen delivery partner of e-retailers. A joint review will help us to design a more efficient and responsive pipeline. This should enable more flexibility in our working practices, new delivery methods that benefit the single operational pipeline and add more value to our service for our customers. The phased introduction of a shorter working week is dependent on the completion of trials and the successful implementation of a range of initiatives.

Just after the reporting period, we were also pleased to announce that, following extended discussions and difficult negotiations, we have reached agreement with Unite on pay, pensions and working arrangements for junior and middle managers in Royal Mail. Unite will ballot its members on the agreement with a recommendation that they accept. This is a positive position to reach and much of the agreement commits both parties to ongoing discussion to make Royal Mail the success we all want it to continue to be.

As previously announced, the Royal Mail Pension Plan closed to future accrual in its previous Defined Benefit form on 31 March 2018. This step was necessary to avoid an expected increase in cash contributions to around £1.2 billion per annum – an unaffordable amount. I know how important pension benefits are to our colleagues; I have heard from and spoken to many of them on this subject. The pension arrangements we have put in place are a good and fair outcome. They compare favourably with the retirement benefits offered in our industry and by other large UK employers. Working together with the CWU, we are lobbying Government to make the necessary legislative and regulatory changes to enable the introduction of a Collective Defined Contribution pension scheme. In the meantime, from 1 April 2018, the Company has put in place transitional

arrangements. For Royal Mail Pension Plan members, we implemented a Defined Benefit Cash Balance Scheme. Members of our Defined Contribution Plan have also benefitted from an increased contribution from the Company.

We saw an increase in our employee engagement score, up from 57 points to 59, which is in line with the Ipsos MORI norm for large organisations. Engagement levels also play a part in employee turnover. This influences training and recruitment costs. Our employee turnover rate remained low at 7.2 per cent. This compares well with the average UK turnover rate of 23 per cent[4].

We were pleased – but not complacent as there is more to do – with the results of our annual pay review. The average salaries for male and female Royal Mail employees are broadly the same. On a mean basis, women are paid 2.1 per cent more than men. This is because we have a greater proportion of women in senior positions. On a median basis, men are paid 1.5 per cent more than women. This compares to an average UK pay gap, according to the Government, of 9.7 per cent[5]. Our difference in median pay rates is due to males being more likely to select work that qualifies for allowances, such as shift work during the evening or at night.

Customer focus

Mean business customer satisfaction score of 78; in line with last year

Named global sustainability leader of the Transportation industry group in the Dow Jones Sustainability Indices

For 2017-18, our mean business customer satisfaction score was 78, in line with our performance in 2016-17. In a recent survey conducted by Ipsos MORI, 81 per cent of customers said they were favourable towards Royal Mail in 2017; 88 per cent said they were satisfied with our services. This was well above the average for all the brands in the survey. The majority of our customers rated us as delivering extremely or very good value for money[6].

We were disappointed that our full year regulatory First Class Quality of Service performance was 91.6 per cent, below our target of delivering 93 per cent of First Class mail the next working day. For Second Class mail delivered within three working days, our performance of 98.4 per cent was within the 98.5 per cent annual regulatory target range when allowing for the margin of error in sampling.

We are talking to Ofcom about a number of exceptional events during the year. They impacted our Quality of Service performance. These factors included a very challenging industrial relations environment, some very severe weather, Cyber Week falling outside the exemption period and significantly reduced staffing levels caused by the Australian flu outbreak. We believe that, if the 2017-18 performance was adjusted for these factors, we would have achieved our First Class Target. We are asking Ofcom to take these issues into consideration. It will be for Ofcom to decide.

We were disappointed that we have seen an overall increase in complaints. This was 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.

We make the seventh 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.

Current trading and outlook

Trading in the first few weeks of 2018-19 has been in line with our expectations.

The UK parcels market remains highly competitive. We anticipate that UKPIL parcel volume and revenue growth rates in 2018-19 will be at least the same as in 2017-18 due to the expected growth in our tracked and international products, as well as additional initiatives.

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. However, due to the potential impact of GDPR and, or, if business uncertainty persists, we expect to be at the higher end of the range of decline for 2018-19 and may fall outside the range in a period. In addition, we are not expecting any benefit from political parties' election mailings in 2018-19.

The new Pensions, Pay and Pipeline agreement provides a framework for the next phase of transformation of our UK business into a truly customer-focused organisation. In this first year of the agreement we will be working with our unions and people to implement operational changes to help retain and grow parcel volumes and to lay the foundations for future growth and productivity opportunities through operational trials.

Our cost avoidance programme in UKPIL is targeting to deliver around £230 million costs avoided this year. This encompasses productivity improvements towards the upper end of our targeted two to three per cent range. Higher variable costs associated with increasing volumes of tracked and international products are expected to create some incremental cost pressures. Transformation costs for the year are expected to be at the upper end of our forecast £130-150 million range due to the expected productivity improvements.

GLS has performed consistently strongly over the past few years and we expect continued good performance in 2018-19 although margins may be impacted by continuing labour market pressures in many of its markets.

Total net cash investment is expected to be around £500 million in 2018-19, within which transformation operating expenditure will reflect the expected productivity improvements.

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[4] Total UK turnover rate taken from www.xperthr.co.uk/survey-analysis/labour-turnover-rates-2017/162496/

[5] Data reported by over 10,000 companies with more than 250 employees to the Government Equalities Office.

[6] Ipsos MORI Corporate Image Survey Winter 2017.

In-year trading cash flow in 2018-19 will reflect the payment of the 2017-18 frontline pay award in the first quarter of 2018-19. Given the good cash generation characteristics of the business we remain committed to our progressive dividend policy going forwards.

As in previous years, the outcome for the full year will be dependent on our performance over the important Christmas period.

Thank you

As you may know, we announced that the Board and I agreed that I will retire in September 2018, and step down as CEO on 1 June 2018. It has been my pleasure and a great privilege to serve as CEO of this cherished UK institution. I am proud of what we have achieved over the last eight years.

I would like to warmly congratulate Rico Back and Sue Whalley on their new roles, as our Group CEO and CEO of Post and Parcels, Royal Mail UK. I have had the privilege of working closely with Rico and Sue for many years. They are the best possible team to continue to transform our business. I am delighted that they have both been promoted to the Board and into expanded roles.

We are pleased to have come to an agreement with the CWU during the year. We are determined to continue to provide the best pay and terms and conditions in our industry by some distance. Good labour standards lead to better service standards for customers. Our commitment to serving our customers throughout this period has enabled our good trading performance to continue and helps to secure a sustainable future for our people and our business.

I am honoured to have worked alongside Royal Mail's people and the union leadership. It is their hard work and dedication that connects households, communities and companies across the UK every day.

Moya Greene

Chief Executive Officer

16 May 2018

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Reported results are set out in the section entitled 'Presentation of results and Alternative Performance Measures' and the audited 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 considers 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 used 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 adjustments'. Commentary is provided on both reported and adjusted results.

UK PARCELS, INTERNATIONAL & LETTERS (UKPIL)

Reported results

Summary results (£m)	Reported 52 weeks	Reported

	ended 25 March 2018	52 weeks ended 26 March 2017
Revenue	**7,615**	7,658
Operating costs	**(7,570)**	(7,332)
Operating profit before transformation costs	**45**	326
Transformation costs	**(113)**	(137)
Operating (loss)/profit after transformation costs	**(68)**	189
Operating (loss)/profit margin after transformation costs	***(0.9%)***	*2.5%*

UKPIL reported revenue declined by £43 million compared with 2016-17. Operating profit before transformation costs declined to £45 million, mainly due to the International Accounting Standards (IAS) 19 pension charge. After lower transformation costs of £113 million, there was an operating loss after transformation costs of £68 million.

Adjusted results

The adjustments made to reported results are set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'. The full UKPIL reported results are set out in the paragraph entitled 'Segmental reported results'.

Summary results (£m)	**Adjusted 52 weeks ended 25 March 2018**	Adjusted 52 weeks ended 26 March 2017	Underlying change[1]
Letters and other revenue	**3,051**	3,234	(6%)
Marketing mail revenue	**1,101**	1,087	1%
Total letters revenue	**4,152**	4,321	(4%)
Parcels revenue	**3,463**	3,337	4%
Total revenue[2]	**7,615**	7,658	Flat
Operating costs before transformation costs	**(7,112)**	(7,110)	Flat
Operating profit before transformation costs	**503**	548	(2%)
Transformation costs	**(113)**	(137)	(17%)
Operating profit after transformation costs	**390**	411	4%
Operating profit margin after transformation costs	***5.1%***	*5.4%*	*20bps*

[1] Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days and the first year costs of the Apprenticeship Levy in UKPIL. More details are available in the paragraph entitled 'Underlying change adjustments'.

[2] 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.

Volumes (m)	**Adjusted 52 weeks ended 25 March 2018**	Adjusted 52 weeks ended 26 March 2017	Underlying change[1]
Letters			
Addressed letters	**11,269**	11,922	(5%)
Unaddressed letters	**3,109**	2,934	6%
Parcels			
Core network	**1,132**	1,073	6%
Parcelforce Worldwide	**98**	96	2%
Total	**1,230**	1,169	5%

UKPIL delivered a resilient performance. Revenue was flat on an underlying basis. Total parcel revenue was up four per cent, offsetting total letter revenue which was down four per cent.

Total parcel volumes increased by five per cent on an underlying basis. Performance in the last month of the year was impacted by adverse weather conditions in the UK. Total parcel revenue growth of four per cent reflects the mix in domestic and international traffic channels.

Royal Mail domestic account parcels saw good growth. We won new customers and gained more traffic from existing customers. Royal Mail domestic account parcel volumes, excluding Amazon, were up four per cent on an underlying basis. Royal Mail Tracked 24®/48® and Tracked Returns®, our key e-commerce products, grew by 28 per cent. We expect growth from these products to moderate in 2018-19 due to the strong historic performance. Amazon parcel traffic grew strongly due to higher volumes of letterbox-sized parcels. We continue to launch new initiatives to win more volumes. They include providing later LATs for next day delivery.

Our international parcels business benefitted from our new initiative to attract cross-border traffic mainly from Asia into Europe. This accounted for around two percentage points of the underlying parcel volume growth and around one percentage point of the parcel revenue growth in the year, contributing £48 million of revenue. We are targeting continued growth in this product as we plan to expand the service to the US in 2018-19. We saw improved import volumes outside our cross-border initiative, however contract export volumes were flat due to the competitive market. Parcelforce Worldwide volumes increased by two per cent. This was driven by new contract wins and growth in existing customers in a highly competitive express parcels market.

Addressed letter volumes (excluding political parties' election mailings) declined by five per cent on an underlying basis, in line with our expectations. Low average unit revenue (AUR) unaddressed letter volumes were up six per cent reflecting recent initiatives to encourage incremental volumes. Total letter revenue (including marketing mail) decreased by four per cent, benefiting from revenue from mailings associated with the 2017 General Election. Marketing mail revenue, which includes redirections and our Address Management Unit, increased by one per cent following last year's sharp slowdown due to business uncertainty.

We are monitoring the impact of continuing business uncertainty in the UK on letter volumes. We are also monitoring the potential impact of the General Data Protection Regulation (GDPR), which takes effect from 25 May 2018. This may lead to a decline in marketing mail volumes. We maintain our medium-term outlook for an annual decline of four to six per cent in addressed letter volumes (excluding political parties' election mailings). However, due to the potential impact of GDPR and, or, if business uncertainty persists, we expect that addressed letter volume decline will be at the higher end of the four to six per cent range in 2018-19 and may fall outside the range in a period.

Operating costs before transformation costs

(£m)	**Adjusted 52 weeks ended 25 March 2018**	Adjusted 52 weeks ended 26 March 2017	Underlying change[1]
People costs	**(4,908)**	(4,865)	Flat
Non-people costs	**(2,204)**	(2,245)	(2%)
Distribution and conveyance costs	**(798)**	(828)	(4%)
Infrastructure costs	**(751)**	(740)	1%
Other operating costs	**(655)**	(677)	(3%)
Total	**(7,112)**	(7,110)	Flat

Total adjusted operating costs before transformation costs were flat on an underlying basis. Whilst we have seen an increase in semi-variable costs associated with the growth in tracked and international parcel volumes, this was largely offset by our cost avoidance programme.

The cost avoidance programme in UKPIL was ahead of our expectations. It delivered £235 million of costs avoided in the year, comprising people costs of £90 million and non-people costs of £145 million. We delivered benefits across a number of initiatives during the year. They included distribution optimisation, transformation of our IT infrastructure, management headcount reduction, improvements in network productivity, terminal dues revenue protection activities, lower property costs and supplier contract renegotiations. We avoided annualised operating costs of £642 million over the past three financial years, ahead of our £600 million target. We are planning to avoid a further £230 million of costs in 2018-19, including absorption of the shorter working week for full-time employees covered in the new Pensions, Pay and Pipeline agreement.

Adjusted people costs were flat on an underlying basis. The five per cent frontline pay award effective from October 2017 was partially offset by our cost avoidance programme activities, largely management headcount reduction and network productivity. The frontline pay award of £101 million has been accrued this year and was paid in the first quarter of 2018-19. Bonus costs were £15 million lower as we missed our annual bonus targets on productivity, complaints and Quality of Service. Taking into account factors including a challenging industrial relations environment, severe weather, Cyber Week and Australian flu, we

estimate we would have achieved our First Class target and exceeded the Second Class one. Higher volumes in Parcelforce Worldwide led to incremental people costs.

We saw a one per cent improvement in core network productivity. This was achieved through a 0.9 per cent reduction in core network hours, with workload 0.1 per cent higher as the increase in parcel volumes was partially offset by declining letter volumes. Productivity was lower than our annual improvement target of two to three per cent due to the industrial relations environment, high levels of sickness-related absence and adverse weather conditions in the second half, which drove an increase in variable hours. We are targeting productivity improvement towards the upper end of our two to three per cent target range in 2018-19.

The first year impact of the Apprenticeship Levy was £20 million, which we have excluded from underlying movements. As previously disclosed, further changes in wage legislation such as the Working Time Directive may also impact people costs in the future.

Non-people costs decreased by two per cent on an underlying basis. Distribution and conveyance costs decreased by four per cent. This was mainly due to terminal dues £14 million lower as increases of £6 million driven largely by volume were more than offset by savings from revenue protection activities. Total diesel and jet fuel costs of £147 million were £12 million lower than the prior year due to lower pricing and improved fleet management. We expect diesel and jet fuel costs to be broadly flat in 2018-19.

Infrastructure costs were one per cent higher on an underlying basis. This was largely driven by a £36 million increase in depreciation and amortisation from investment in IT, new vehicles and other assets. We expect depreciation costs to increase by around £10 million in 2018-19. Increased utilisation of technology to support growth in tracked parcels led to an increase in infrastructure costs in the year. We expect growth in tracked parcel volumes to continue in 2018-19, driving a further increase in IT costs of around £15 million. Within infrastructure costs, the cost avoidance programme delivered benefits in property through the integration of the Romec business, supplier contract renegotiations and lower discretionary spend across the estate.

Other operating costs decreased by three per cent on an underlying basis due to cost avoidance activities, including savings on other supplier contract renegotiations and lower marketing and discretionary spend. This more than offset an increase in customer service costs driven by higher tracked parcel volumes.

Transformation costs

(£m)	**Adjusted 52 weeks ended 25 March 2018**	Adjusted 52 weeks ended 26 March 2017
Voluntary redundancy	**(44)**	(62)
Project costs	**(69)**	(75)
Total	**(113)**	(137)

Transformation costs of £113 million were below our expectation of around £130 million. This was due to the industrial relations environment, which affected the pace of change and therefore voluntary redundancies in the year. There was a net decrease of around 660 employees in the year largely reflecting management headcount reductions. At the year end, full time equivalent employees (FTEs)[3] reduced by 185 to 147,985 FTEs reflecting the higher level of variable hours in the network to recover from the impact of adverse weather and sickness-related absences. Project costs largely comprised initiatives supporting the cost avoidance programme. We continue to forecast transformation costs of between £130-150 million per annum. However, we expect transformation costs to be at the higher end of the range in 2018-19 as we continue to drive network productivity improvements.

Operating profit after transformation costs

Adjusted operating profit after transformation costs of £390 million was up four per cent on an underlying basis due to lower transformation costs. Operating profit margin after transformation costs was 5.1 per cent. It is up 20 basis points compared with the prior year.

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[3] 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

The table below sets out a summary of the reported GLS Sterling and Euro results. GLS results are not subject to adjustment.

Summary results (£m)	**Reported Year ended March 2018**	Reported Year ended March 2017	Underlying change[1]
Revenue	**2,557**	2,118	10%
Operating costs	**(2,366)**	(1,954)	10%
Operating profit	**191**	164	10%
Margin	***7.5%***	*7.7%*	*10bps*
(€m)			
Revenue	**2,899**	2,521	10%
Operating costs	**(2,682)**	(2,325)	10%
Operating profit	**217**	196	10%
Volumes (m)	**584**	508	9%

GLS continued to perform strongly. Performance in the year was impacted by the timing of Easter and other public holidays across Europe. Excluding this impact, underlying revenue and volume movements would each have been two percentage points higher.

Volumes were up nine per cent on an underlying basis, with growth in both domestic and international volumes in most markets. Revenue increased by 10 per cent, slightly better than volume growth due to price and product mix improvements in several markets. Revenue in Sterling terms benefited from a £106 million impact from exchange rate movements and a £105 million impact from acquisitions. These have been excluded from underlying movements. Including the impact of acquisitions, revenue was up 15 per cent on a constant currency basis.

Revenue growth was achieved in almost all markets and from a broad customer base. The largest customer accounted 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. This is down from 63 per cent in 2016-17, reflecting the impact of recent acquisitions and growth in other GLS markets.

Operating costs (£m)	**Reported Year ended March 2018**	Reported Year ended March 2017	Underlying change[1]
People costs	**(608)**	(489)	8%
Non-people costs	**(1,758)**	(1,465)	10%
Distribution and conveyance costs	**(1,558)**	(1,278)	12%
Infrastructure costs	**(148)**	(128)	5%
Other operating costs	**(52)**	(59)	(21%)
Total	**(2,366)**	(1,954)	10%

Total operating costs were up 10 per cent on an underlying basis. They were broadly in line with volumes. People costs increased by eight per cent as a result of higher semi-variable costs linked to volumes and higher rates of pay due to wage inflation. This was especially the case across Central and Eastern European markets.

Distribution and conveyance costs were up 12 per cent. This was driven by higher volumes and sub-contractor costs due to labour market conditions in many of GLS' European markets and the US. This included around €5 million due to the four per cent minimum wage increase in Germany from 1 January 2017. We expect these trends to persist in 2018-19, which may place pressure on operating margins.

Infrastructure costs increased by five per cent, principally due to the one-off provision release for IT related costs which benefited the prior year. Other operating costs decreased by 21 per cent, due to a one-off provision release in the year and higher acquisition costs in the prior year.

[1] Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days and the first year costs of the Apprenticeship Levy in UKPIL. More details are available in the paragraph entitled 'Underlying change adjustments'.

Operating profit

Operating profit was £191 million with a margin of 7.5 per cent, 10 basis points higher compared with 2016-17 on an underlying basis. This was slightly better than our expectations due to a stronger revenue performance. Operating profit in Sterling benefited from a £9 million impact from exchange rate movements, which is excluded from underlying movements.

Germany

Germany remains the largest GLS market by revenue. Revenue grew by six per cent, driven by international volume, improved domestic pricing, winning new customers and growing premium B2C volumes.

Italy

GLS Italy continued to perform strongly. Revenue growth of 19 per cent reflected strong B2C volume growth driven by Amazon and other customers. Given the strong performance over the last three years and the evolving competitive environment, it will be challenging to maintain this rate of growth in the future.

France

In GLS France, revenue growth slowed to one per cent (2016-17: eight per cent). It was impacted by customer losses, lower new customer acquisitions and fewer working days. Operating losses increased by €4 million to €12 million.

France remains a challenging market. While actions are underway which target a break even result, higher costs 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. Despite the challenges in the domestic market, GLS France continues to be integral to the GLS network by supporting exports from other markets into France, allowing GLS to provide a comprehensive service across Europe.

Spain

Spain is now the fifth largest market for GLS in terms of revenue. Revenue grew by 13 per cent on an underlying basis, benefitting from nine months' incremental contribution from ASM. The integration of ASM into GLS Spain is progressing well and a number of operational activities are being streamlined. ASM has exceeded performance expectations since acquisition due largely to strong volume growth and higher network rationalisation opportunities.

We announced the acquisition of Redyser Transporte in February 2018. Redyser strengthens GLS' position as Spain's second largest national express parcels network. It predominantly serves the express B2C parcels segment and delivers around 14 million parcels annually. It operates through a network of over 200 agencies and franchisees and 12 own operated sites in Spain's main cities. Redyser generated revenue of approximately €45 million in the year ended 31 December 2017 and will be consolidated within our existing Spanish operations.

USA

We are pleased with the revenue development in Golden State Overnight (GSO), in particular, the growth in interstate traffic. However, profitability was impacted by local cost pressures.

On 6 April 2017, we announced the acquisition of Postal Express, a regional overnight parcel carrier operating in the states of Washington, Oregon and Idaho. Postal Express offers overnight parcel delivery mainly to B2B customers across a number of industries. GSO and Postal Express are being integrated to create an interstate overnight parcel delivery service with full US west coast coverage and to realise operational synergies and commercial benefits.

Postal Express' profitability during the period was impacted by its integration with GSO and yield management activities. These initiatives are expected to result in improved financial performance going forward.

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

Revenue growth was achieved in the majority of the other developed European markets. There was continued strong volume and revenue growth in Denmark due to changing dynamics in the market, driving higher B2C volumes. We are planning to increase the number of ParcelShops to support our growth in this market.

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. There was strong double digit growth in Croatia, Czech Republic, Hungary, Poland, Romania and Slovenia. We will continue to invest in our network in these countries to take advantage of their growing parcel markets.

GROUP RESULTS

Reported results

Summary Results

(£m)	**Reported 52 weeks ended 25 March 2018**	Reported 52 weeks ended 26 March 2017
Revenue	**10,172**	9,776
Operating costs	**(9,936)**	(9,286)
Operating profit before transformation costs	**236**	490
Transformation costs	**(113)**	(137)
Operating profit after transformation costs	**123**	353
Operating specific items	**(57)**	(134)
Operating profit	**66**	219
Non-operating specific items	**71**	12
Net finance costs	**(16)**	(16)
Net pension interest (non-operating specific item)	**91**	120
Profit before tax	**212**	335
Earnings per share (basic)	**25.9p**	27.5p

We achieved a milestone in 2017-18, delivering over £10 billion of Group revenue at £10,172 million. Group operating costs before transformation costs increased by £650 million. This was due mainly to the IAS 19 pension charge in UKPIL and volume-related increases in GLS semi-variable costs. Operating specific items decreased by £77 million (see paragraph entitled 'Specific items and pension charge to cash difference adjustment'). Group operating profit decreased by £153 million to £66 million largely as a result of the increase to the IAS 19 pension charge. Profit before tax decreased to £212 million. Of the profit, UKPIL accounted for £39 million (2016-17: £183 million) while GLS contributed £173 million (2016-17: £152 million). Basic earnings per share decreased from 27.5 pence to 25.9 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)	**Adjusted 52 weeks ended 25 March 2018**	Adjusted 52 weeks ended 26 March 2017	Underlying change[1]
UKPIL	**7,615**	7,658	Flat
GLS	**2,557**	2,118	10%
Total	**10,172**	9,776	2%

Group revenue was up two per cent. This was driven by parcels growth in both UKPIL and GLS. Parcel revenue continued to grow as a percentage of Group revenue and accounted for 59 per cent of Group revenue (2016-17: 56 per cent). The main factors impacting revenue in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	**Adjusted 52 weeks ended 25 March 2018**	Adjusted 52 weeks ended 26 March 2017	Underlying change[1]
People costs	**(5,516)**	(5,354)	1%
Non-people costs	**(3,962)**	(3,710)	3%
Distribution and conveyance costs	**(2,356)**	(2,106)	6%
Infrastructure costs	**(899)**	(868)	2%
Other operating costs	**(707)**	(736)	(5%)
Total	**(9,478)**	(9,064)	2%

[1] Movements in revenue, costs, profits and margins are shown on an underlying basis. They take into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days and the first year costs of the Apprenticeship Levy in UKPIL. More details are available in the paragraph entitled 'Underlying change adjustments'.

Group operating costs increased by two per cent on an underlying basis. This was mainly as a result of higher GLS semi-variable costs linked to volumes. The main factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating profit before transformation costs

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017
UKPIL	**503**	548
GLS	**191**	164
Total	**694**	712
Margin	***6.8%***	*7.3%*

Group operating profit after transformation costs

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017
UKPIL	**390**	411
GLS	**191**	164
Total	**581**	575
Margin	***5.7%***	*5.9%*

Group operating profit margin after transformation costs was up 20 basis points on an underlying basis. This was driven by lower transformation costs in UKPIL.

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
Pension charge to cash difference adjustment (within people costs)	**(458)**	(222)
Operating specific items		
Employee Free Shares charge	**(33)**	(105)
Amortisation of acquired intangible assets	**(16)**	(11)
Legacy/other credits/(costs)	**(8)**	(18)
Potential industrial diseases claims	**2**	(6)
Personal injury provision discount rate decrease	**-**	(4)
Other	**(10)**	(8)
Total operating specific items and pensions adjustment	**(515)**	(356)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**71**	14
Loss on disposal of business	**-**	(2)
Net pension interest	**91**	120
Total non-operating specific items	**162**	132
Total specific items and pensions adjustment before tax	**(353)**	(224)
Total tax credit on specific items and pensions adjustment	**157**	59

The IAS 19 pension charge to cash difference adjustment was £458 million (2016-17: £222 million). The difference between the pension charge and cash cost largely comprises the difference between the relevant IAS 19 income statement pension charge rate of 41.1 per cent (2016-17: 28.8 per cent) and the actual cash payment agreed with the Royal Mail Pension Plan (RMPP) Trustee of 17.1 per cent of pensionable pay (2016-17: 17.1 per cent). As a result of the introduction of the Defined Benefit Cash Balance Scheme (DBCBS) from 1 April 2018, the IAS 19 pension service charge rate for 2018-19 is projected to decrease to 18.9 per cent and the cash contribution rate will decrease to 15.6 per cent. As a result, the pension charge to cash difference adjustment for 2018-19 is expected to reduce significantly to around £90 million.

Operating specific items in the year related mainly to the Employee Free Shares charge of £33 million (2016-17: £105 million). This decreased as a result of the Share Incentive Plan (SIP) 2013 maturing in October 2016, partially offset by the charge in relation to the Free Shares awarded in October 2016 (SIP 2016). The Employee Free Shares charge is expected to be around £26 million for 2018-19. This reflects the phasing of the charge over the vesting period.

Amortisation of acquired intangible assets of £16 million (2016-17: £11 million) related mainly to the acquisitions by GLS.

Legacy costs in the prior year were driven by a reduction in the discount rate used to calculate the industrial diseases provision and the legislative decrease in the discount rate used to determine personal injury claims announced in February 2017. Other specific items mainly related to the integration of Romec into the Group.

Non-operating specific items included a profit on disposal of property, plant and equipment of £71 million (2016-17: £14 million). This arose due largely to the £24 million overage payment in respect of the sale of Rathbone Place in 2011, £22 million from the completion of the sale of the Phoenix Place plot at Mount Pleasant and the £20 million overage payment in respect of the sale of the Paddington Mail Centre in 2014. The profit on disposal of property, plant and equipment in the prior year related mainly to the sale of a GLS property in Munich and the Maidstone Delivery Office. The loss on disposal of business in the prior year related to the sale of NDC 2000 Limited (NDC) and reflected the transfer of cash and other assets to the purchasers.

The net pension interest credit of £91 million (2016-17: £120 million) was lower than the prior year. This was due to the lower discount rate and lower surplus for 2017-18 compared with 2016-17. The net pension interest for 2018-19 in relation to RMPP and RMSEPP is expected to be around £80 million due to the lower pension surplus position at 25 March 2018 compared to 26 March 2017.

Net finance costs

Reported net finance costs were £16 million (2016-17: £16 million) comprising largely interest on the €500 million bond of £11 million (2016-17: £11 million).

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	435	435	2024
Loans in overseas subsidiaries	1.4%	2	2	2018-23
Syndicated loan facilities	LIBOR+0.55%	1,050	-	2020-22
Total		**1,487**	**437**	

The blended interest rate on gross debt, including finance leases for 2018-19, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for within equity.

Taxation

	52 weeks ended 25 March 2018			52 weeks ended 26 March 2017		
(£m)	**UK**	**GLS**	**Group**	UK	GLS	Group
Reported						
Profit before tax	**39**	**173**	**212**	183	152	335
Tax credit/(charge)	**93**	**(47)**	**46**	(20)	(42)	(62)
Effective tax rate	***n/a***	***27%***	***n/a***	*11%*	*28%*	*19%*
Adjusted						
Profit before tax	**378**	**187**	**565**	398	161	559
Tax charge	**(59)**	**(52)**	**(111)**	(76)	(45)	(121)
Effective tax rate	***16%***	***28%***	***20%***	*19%*	*28%*	*22%*

The Group adjusted effective tax rate was 20 per cent (2016-17: 22 per cent).

The UK adjusted effective tax rate of 16 per cent (2016-17: 19 per cent) was lower than the prior year due to catch ups on patent box claims and the reduction in the UK statutory rate from 20 per cent to 19 per cent in 2017-18.

The GLS adjusted effective tax rate of 28 per cent (2016-17: 28 per cent) was consistent with the prior year.

The Group reported tax was a credit of £46 million on a reported profit before tax of £212 million. This was due mainly to the one-off deferred tax credit of £78 million which is a result of the closure of the RMPP to future accrual after 31 March 2018 and profits made on the disposal of properties which, for tax purposes, are offset by reinvestment relief.

The one-off deferred tax credit was due to the 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 is a charge on the pension scheme and recognised in the statement of comprehensive income by application of the International Financial Reporting Interpretation Committee (IFRIC) 14 guidance. This one-off tax credit is an accounting adjustment with no cash benefit to the Company.

Excluding this one-off deferred tax credit, the total Group reported tax in the income statement would change from a credit of £46 million to a charge of £32 million.

Earnings per share (EPS)

Adjusted basic EPS for continuing operations was 45.5 pence compared with 44.1 pence in the prior year. This largely reflected the decrease in transformation costs.

In-year trading cash flow

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
EBITDA before transformation costs	**577**	793
Pension charge to cash difference adjustment	**458**	222
Adjusted EBITDA before transformation costs	**1,035**	1,015
Trading working capital movements	**74**	(3)
Share-based awards (SAYE, LTIP and DSBP) charge	**6**	11
Total investment	**(485)**	(529)
Income tax paid	**(75)**	(60)
Research and Development expenditure credit	**5**	-
Net finance costs paid	**(15)**	(14)
Total	**545**	420

In-year trading cash flow of £545 million was £125 million higher than the prior year. This was mainly due to the growth in adjusted EBITDA before transformation costs, positive movements in trading working capital and a decrease in total investment.

Trading working capital inflow of £74 million was £77 million higher than the prior year. It benefited from the timing of the settlement of the 2017-18 frontline pay award of £101 million, which was paid in the first quarter of 2018-19. This was partially offset by £15 million higher bonus payments relating to 2016-17 and higher terminal dues payments in the first half associated with the growth in export volumes seen in the second half of 2016-17.

Income tax paid was £15 million higher than the prior year due to GLS tax payments.

Net cash Investment

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017[2]
Growth capital expenditure	(224)	(190)
Replacement capital expenditure	(136)	(197)
Transformation operating expenditure	(125)	(142)
Voluntary redundancy	(56)	(67)
Project costs	(69)	(75)
Total gross investment	(485)	(529)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	40	37
Total net investment	(445)	(492)

Total gross cash investment decreased by £44 million. Growth capital expenditure increased by £34 million as a result of continued investment in strategic projects in UKPIL and GLS. They included operations modernisation, parcel IT systems and parcel innovation projects. Replacement capital expenditure reduced by £61 million. This was driven by the completion of the IT transformation programme and lower property refurbishments. Transformation operating expenditure was £17 million lower, due to the industrial relations environment affecting the pace of change and voluntary redundancies in the year.

The proceeds from disposals of property (excluding London Development Portfolio), plant and equipment related to the £24 million overage for Rathbone Place, £14 million from the sale of various smaller Mail Centres and Delivery Offices and £2 million from the sale of vehicles. The cash payment from the £20 million overage due on the sale of the Paddington Mail Centre was received in April 2018.

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[2] We have reclassified £18 million of growth capital expenditure in the prior year as replacement capital expenditure and £1 million of project costs as voluntary redundancy cash payments to more accurately reflect the nature of these cash investments.

Net cash/(debt)

The Group had a net cash position of £14 million at 25 March 2018. This compares with a net debt position of £338 million at 26 March 2017. The net cash position benefitted by £101 million from the timing of the settlement of the 2017-18 frontline pay award. This was paid in the first quarter of 2018-19.

A reconciliation of net cash/(debt) is set out in the following table.

(£m)	**52 weeks ended 25 March 2018**	52 weeks ended 26 March 2017
Net debt brought forward at 26 March 2017 and 27 March 2016	**(338)**	(224)
Free cash flow	**562**	209
In-year trading cash inflow	**545**	420
Other working capital movements	**(3)**	(6)
Cash cost of operating specific items	**(12)**	(61)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**40**	37
Cash impact of disposal of discontinued operations and subsidiary	**-**	(3)
Acquisition of business interests	**(18)**	(126)
Cash flows relating to London Development Portfolio	**10**	(34)
Acquisition of non-controlling interests	**-**	(18)
Debt transferred on acquisitions	**(3)**	(10)
Purchase of own shares	**-**	(53)
Employee exercise of SAYE options	**28**	-
Foreign currency exchange impact	**(2)**	(30)
Increase in finance lease obligations (non-cash)	**(2)**	-
Dividends paid to equity holders of the parent Company	**(231)**	(222)
Dividends paid to non-controlling interests	**-**	(8)
Net cash/(debt) carried forward	**14**	(338)

Movements in GLS client cash are included within other working capital movements. The amount held at 25 March 2018 was £24 million (26 March 2017: £22 million).

The cash cost of operating specific items was an outflow of £12 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, as disclosed in 2015-16. Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment of £40 million is explained in the paragraph entitled 'Net cash investment'.

Cash inflow relating to the London Development Portfolio was £10 million. Infrastructure and enabling works costs of £33 million on the Nine Elms and Mount Pleasant sites were offset by £43 million of receipts in relation to the two Mount Pleasant

plots. Debt transferred on acquisitions relates to £3 million of interest bearing loans and borrowings on GLS acquisitions.

The impact of foreign currency exchange rate movements reduced compared with the prior year. The exchange rate against Sterling in the prior year was affected by the reaction to the outcome of the EU referendum. It has subsequently remained relatively consistent.

The £53 million cash outflow in the prior year was in relation to the Company purchasing its own shares in advance of the Save As You Earn (SAYE) options exercised this year. Cash payments of £28 million were received from employees exercising their SAYE options to purchase company shares this year.

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

A reconciliation of cash flows relating to acquisitions is shown in the following table.

(£m)	**52 weeks ended 25 March 2018**
Postal Express	**(8)**
Redyser	**(8)**
Acquisition of business interests, net of cash acquired (see statutory cash flow statement)	**(16)**
Deferred consideration paid in respect of prior years' acquisitions	**(2)**
Acquisition of business interests	**(18)**

Approach to capital management

The Group has established four key objectives for capital management. Management proposes actions which reflect the Group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate. The Board keeps this policy under constant review to ensure that capital is allocated to achieve our stated objective of delivering sustainable shareholder value.

Objectives	**Enablers**	**2017-18 Update**
Meet the Group's obligations as they fall due	Maintaining sufficient cash reserves and committed facilities to – • meet all obligations, including pensions; and • manage future risks, including those set out in the Principle Risks section	At 25 March 2018, the Group had available resources of £1,650 million (2016-17: £1,317 million); made up of cash and cash equivalents of £600 million (2016-17: £299 million) and undrawn committed revolving credit facilities of £1,050 million (2016-17: £1,018 million). The Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond. As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.
Support a progressive dividend policy	Generate sufficient in-year trading cash flow to cover the ordinary dividend. Maintain sufficient distributable reserves to sustain the Group's dividend policy	Generated £545 million of in-year trading cash flow (2016-17: £420 million) to cover the full year dividend of 24.0 pence per share (2016-17: 23.0 pence per share) equivalent to £240 million. In-year trading cash flow benefitted by £101 million due to the timing of the cash payment of the 2017-18 frontline pay award. Capital managed by the Group, excluding the net assets of the pension scheme, is £2,274 million (2016-17: £1,806 million). The Group had retained earnings of

Objectives	Enablers	2017-18 Update
		£4,381 million at 25 March 2018 (2016-17: £4,940 million). The Group considers it has a maximum level of distributable reserves of around £2 billion which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend.
Reduce the cost of capital for the Group	Target investment grade standard credit metrics i.e. no lower than BBB- under Standard & Poor's rating methodology	During the year, the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's.
Retain sufficient flexibility to invest in the future of the business	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating	During the year, the Group made total gross investments of £485 million (2016-17: £529 million) and acquisition of business interests and non-controlling interests of £18 million (2016-17: £144 million) while retaining sufficient capital headroom.

Pensions

Royal Mail Pension Plan (RMPP)

As previously announced, the RMPP in its previous Defined Benefit pension form, closed 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. Therefore, only one week of economic benefit is recoverable as a reduction to future employer contributions at 25 March 2018, 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. Following guidance from IFRIC 14, the accounting surplus has been adjusted downwards by £1,134 million (2016-17: £nil million) as a result of this change. This represents the taxation that would be withheld on the surplus amount.

The pre IFRIC 14 accounting surplus of the RMPP at 25 March 2018 was £3,250 million, comprising assets of £9,939 million and liabilities of £6,689 million. The reduction in the pre IFRIC 14 accounting surplus of £558 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 contributions paid during the period. After the IFRIC 14 adjustment, the accounting surplus of the RMPP was £2,116 million at 25 March 2018. This is an accounting adjustment with no cash benefit to the company.

It was agreed between the Company and the Trustee in May 2017 that the Company would continue to contribute 17.1 per cent of pensionable pay until 31 March 2018. It was subsequently agreed with the Trustee that the employer contributions payable in respect of the period 1 September 2017 to 31 March 2018 would be held in pension escrow investments for the benefit of members.

In 2018-19, the IAS 19 pension service cost rate in respect of members' service up to 31 March 2018 (i.e. for one week) will be charged to the income statement at 41.0 per cent after which there will be no further IAS 19 pension service costs or regular cash contributions in respect of the RMPP. There will still be a pension interest income/cost in respect of RMPP and the assets and liabilities will still be shown on the balance sheet. The RMPP will still be subject to triennial actuarial valuations.

The actuarial funding position at 31 March 2018 will not be known until the actuarial valuation has been agreed between the Trustee and the Company, 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 RMPP actuarial surplus at 31 March 2018 was estimated to be £100 million (31 March 2017: £1,074 million). There is no cash benefit to the Company from this current actuarial surplus. Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Based on the rolled forward assumptions used for the March 2015 valuation, the RMSEPP actuarial surplus at 31 March 2018 was estimated to be £36 million (31 March 2017: £8 million), comprising assets of £479 million and liabilities of £443 million. The RMSEPP closed in December 2012 to future accrual and the Company makes no regular future service contributions.

In accordance with the new Schedule of Contributions agreed for the period 29 March 2018 to 31 March 2025, deficit payments of £10 million per annum are due to be paid for the period up to 31 March 2018 resulting in a final amount of £1 million being paid in 2018-19, together with £1 million per annum for the period 1 April 2018 to 31 March 2025 in respect of

the death-in-service lump sum benefits and administration expenses.

Transitional arrangements

Royal Mail and the CWU have agreed to work together to introduce a Collective Defined Contribution (CDC) scheme with a Defined Benefit Lump Sum Scheme (DBLSS) sitting alongside it, subject to the necessary legislative and regulatory changes. This would provide one scheme for all Royal Mail employees and would be the first of its type in the UK. The Company has put in place transitional arrangements from 1 April 2018 while it lobbies Government to make the necessary legislative and regulatory changes to enable a CDC scheme. As part of these transitional changes, the Company has implemented a new Defined Benefit Cash Balance Scheme (DBCBS) within the RMPP, and an improved Royal Mail Defined Contribution Plan (RMDCP).

Defined Benefit Cash Balance Scheme (DBCBS)

RMPP members have automatically started building up DBCBS benefits from 1 April 2018. If preferred, RMPP members can opt to join the improved RMDCP instead of the DBCBS. Under the DBCBS, the Company guarantees a minimum lump sum at age 65, based on Company and member contributions. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance.

The DBCBS will be accounted for as a defined benefit scheme and in a similar way to the RMPP. Specifically, the assets and liabilities that will build up from the start of the scheme will be shown on the balance sheet. IAS 19 pension service charge rates based on market yields of high quality corporate bonds and inflation at the start of the year will be charged to the income statement. Pension interest will be calculated on the assets and liabilities at the end of 2018-19 for inclusion in the income statement from 2019-20 onwards. The scheme will be subject to triennial valuations.

Under the DBCBS, the Company will contribute 15.6 per cent of DBCBS pensionable pay to the scheme. Of this, 13.6 per cent will go to the member's guaranteed lump sum. The remaining two per cent of the Company's contribution will go to the cost of other member benefits, including death in service and ill-health benefits. Members will contribute six per cent (including Pension Salary Exchange contributions where the Group makes additional employee pension contributions in return for a reduction in basic pay). The IAS 19 pension service cost rate is 18.9 per cent for 2018-19. The pension charge is greater than the cash contribution rate as there is an assumed constructive obligation for annual pension benefit increases of CPI plus two per cent. This means that the pension charge to cash difference adjustment for 2018-19 is expected to reduce significantly to around £90 million.

Improved Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, Company contributions have increased by one percentage point in each tier, up to a maximum of ten per cent. Current and future RMDCP members in the standard section will contribute at the highest contribution tier unless they opt to contribute at a lower level.

RMDCP members with a minimum of five years' service, including four years' continuous service at the standard level of contribution, can instead choose to join the DBCBS.

Assuming that all RMPP and eligible RMDCP members join the DBCBS, the Company expects to contribute around £350 million in the 2018-19 financial year in respect of RMPP, RMSEPP and DBCBS with employees expected to contribute around £135 million. The Company expects to contribute around £50 million to the RMDCP. Total employer contributions in respect of all pension schemes would therefore be around £400 million.

Collective Defined Contribution (CDC) scheme and Defined Benefit Lump Sum Scheme (DBLSS)

Based on current intentions and legislation, the CDC will be accounted for as a defined contribution scheme with the Group's contributions being charged to operating profit in the year to which the contributions relate. The CDC scheme will have fixed employer contributions of 13.6 per cent and employee contributions of six per cent. Investment and longevity risk will be pooled between members and will target but not guarantee the benefit the employee will receive in retirement. No benefit guarantees are underwritten by the employer. The DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS.

Dividends

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

The interim dividend of 7.7 pence per ordinary share in respect of the 2017-18 financial year was paid on 10 January 2018 to shareholders on the register at the close of business on 8 December 2017.

The Board is recommending a final dividend of 16.3 pence per ordinary share, payable on 31 August 2018 to shareholders on the register at the close of business on 27 July 2018, subject to shareholder approval at the AGM on 19 July 2018. This gives a total dividend for the year of 24.0 pence.

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 in line with the progressive dividend policy.

Financial risks and related hedging

The Group is exposed to commodity price and currency risk. The Group operates hedging policies which are stated in the Notes to the Annual Report and Financial Statements 2017-18. The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2018-19 operating profit to changes in commodity prices and fuel duty.

2018–19 Exposure	Forecast total cost £m	Fuel duty/other costs (incl irrecoverable VAT) – not hedged 2018-19 £m	Underlying commodity exposure (incl irrecoverable VAT) 2018-19 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2018-19 operating profit of a further 10% increase in commodity price £m	Impact on 2018-19 operating profit of a further 10% increase in fuel duty/other cost £m
Diesel	136	90	46	91	5	-	9
Jet fuel	8	2	6	90	1	-	-
Total	**144**	**92**	**52**	**91**	**6**	**-**	**9**

As a result of hedging, it is anticipated that the diesel and jet fuel commodity cost for 2018-19 will be £3 million lower. Without hedging, the associated cost would be £9 million higher (based upon closing fuel prices at 25 March 2018).

The Group is exposed to foreign currency risk due to interest payments on the €500 million bond, certain obligations under Euro denominated finance leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro which results in translational exposure to revenue, costs and operating profit.

The average exchange rate between Sterling and the Euro was £1:€1.13, representing a five per cent weakening in Sterling compared with £1:€1.19 in 2016-17. This resulted in a £9 million increase in GLS' reported operating profit before tax in 2017-18. The impact of foreign exchange transactions in the UK was not material in 2017-18. The net impact on Group operating profit before tax was £8 million.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 25 March 2018, all of the gross debt of £606 million was at fixed rates to maturity.

Counterparty risk is managed by limiting aggregate exposure to any individual counterparty based on their financial strength.

Property

Mount Pleasant

It was announced on 30 August 2017 that contracts had been exchanged 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 to be provided for Royal Mail of £3.5 million. The sale of the Phoenix Place plot to Taylor Wimpey UK Ltd completed in the first half of 2017-18.

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. They are planned to be completed by 2021.

A deposit of £9.5 million was paid to Royal Mail following the exchange of contracts. We have received a further £33.3 million payment in 2017-18. Cash proceeds of £72.2 million are to be paid in contractually agreed staged payments over the 2018-19 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. Further proceeds of £75.1 million are then due in 2024 for the balance of the consideration. We are contractually guaranteed to receive a payment of £20.8 million in 2018-19.

Completion on the Calthorpe Street plot is subject to completion of the separation and enabling works expected in 2021. Completion on the Phoenix Place plot was unconditional. A profit on disposal 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 was 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.

A detailed planning application has been submitted by Greystar. Subject to the planning process and timescales, consent is expected to be granted in 2018-19. Around £30 million has been committed to be re-invested in the Nine Elms site for infrastructure works associated with these plots. The remaining plots continue to be marketed for sale.

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. This was recorded as a profit on disposal of property in the year.

Paddington Mail Centre

Overage agreements were made with Great Western Developments Limited on the sale of the Paddington Mail Centre in 2014. The resulting overage payment received under these agreements was £20 million. This has been recorded as a profit on disposal of property in the period, while the cash payment was received in April 2018.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMs)

The Group uses certain Alternative Performance Measures (APMs) in its financial reporting that are not defined under International Financial Reporting Standards (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.

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.

Reported to Adjusted results

The Group makes adjustments to results reported under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment (see definitions in the paragraph entitled 'Alternative performance measures'). 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 operational performance of the Company. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the six years ended 25 March 2018 was £2,890 million compared with cumulative adjusted profit after tax of £2,269 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.

Further details on specific items excluded are included in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'. A reconciliation showing the adjustments made between reported and adjusted group results can be found in the paragraph entitled 'Consolidated reported and adjusted results reconciliation'.

Underlying change

Movements compared with prior year in volumes, revenue, costs, profits and margins are shown on an underlying basis. Underlying movements improve comparability between periods by making adjustments to the prior year to take into account differences in working days in UKPIL and movements in foreign exchange in GLS. We only adjust for items with an impact greater than £10 million. We have not adjusted for transactional foreign exchange movements in UKPIL this year as the impact of £1 million was below the threshold.

In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable, such as the first year impact of acquisitions and changes in legislation such as the Apprenticeship Levy. For volumes, underlying movements are adjusted for working days in UKPIL and the first year impact of acquisitions. It also excludes political parties' election mailings in addressed letter volume movements.

The paragraph entitled 'Underlying change adjustments' provides further details on the adjustments we have made to the prior

year to calculate the underlying change.

Presentation of results

Consolidated reported and adjusted results reconciliation

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

	52 weeks ended 25 March 2018			52 weeks ended 26 March 2017		
(£m)	**Reported**	**Specific items and pension adjustment**	**Adjusted**	Reported	Specific items and pension adjustment	Adjusted
Revenue	**10,172**	**–**	**10,172**	9,776	–	9,776
Operating costs	**(9,936)**	**(458)**	**(9,478)**	(9,286)	(222)	(9,064)
People costs	**(5,974)**	**(458)**	**(5,516)**	(5,576)	(222)	(5,354)
Non-people costs	**(3,962)**	**–**	**(3,962)**	(3,710)	–	(3,710)
Distribution and conveyance costs	**(2,356)**	**–**	**(2,356)**	(2,106)	–	(2,106)
Infrastructure costs	**(899)**	**–**	**(899)**	(868)	–	(868)
Other operating costs	**(707)**	**–**	**(707)**	(736)	–	(736)
Operating profit before transformation costs	**236**	**(458)**	**694**	490	(222)	712
Transformation costs	**(113)**	**–**	**(113)**	(137)	–	(137)
Operating profit after transformation costs	**123**	**(458)**	**581**	353	(222)	575
Operating specific items:						
Employee Free Shares charge	**(33)**	**(33)**	**–**	(105)	(105)	–
Legacy/other costs	**(8)**	**(8)**	**–**	(18)	(18)	–
Amortisation of intangible assets in acquisitions	**(16)**	**(16)**	**–**	(11)	(11)	–
Operating profit	**66**	**(515)**	**581**	219	(356)	575
Non-operating specific items:						
Profit on disposal of property, plant and equipment	**71**	**71**	**–**	14	14	–
Loss on disposal of business	**–**	**–**	**–**	(2)	(2)	–
Earnings before interest and tax	**137**	**(444)**	**581**	231	(344)	575
Finance costs	**(19)**	**–**	**(19)**	(18)	–	(18)
Finance income	**3**	**–**	**3**	2	–	2
Net pension interest (non-operating specific item)	**91**	**91**	**–**	120	120	–
Profit before tax	**212**	**(353)**	**565**	335	(224)	559
Tax charge	**46**	**157**	**(111)**	(62)	(59)	(121)
Profit for the period	**258**	**(196)**	**454**	273	(165)	438
Profit for the period attributable to:						
Equity holders of the parent Company	**259**	**(196)**	**455**	272	(165)	437
Non-controlling interests	**(1)**	**–**	**(1)**	1	–	1
Earnings per share						
Basic	**25.9p**	**(19.6p)**	**45.5p**	27.5p	(16.6p)	44.1p
Diluted	**25.7p**	**(19.5p)**	**45.2p**	27.3p	(16.5p)	43.8p

Segmental reported results

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

	52 weeks ended 25 March 2018			52 weeks ended 26 March 2017		
(£m)	**UKPIL (UK operations)**	**GLS (Non-UK operations)**	**Group**	UKPIL (UK operations)	GLS (Non-UK operations)	Group
Revenue	**7,615**	**2,557**	**10,172**	7,658	2,118	9,776
People costs	**(5,366)**	**(608)**	**(5,974)**	(5,087)	(489)	(5,576)

Non-people costs	**(2,204)**	**(1,758)**	**(3,962)**	(2,245)	(1,465)	(3,710)
Operating profit before transformation costs	**45**	**191**	**236**	326	164	490
Transformation costs	**(113)**	**-**	**(113)**	(137)	-	(137)
Operating profit after transformation costs	**(68)**	**191**	**123**	189	164	353
Operating specific items:	**(43)**	**(14)**	**(57)**	(124)	(10)	(134)
Operating profit	**(111)**	**177**	**66**	65	154	219
Non-operating specific items:	**71**	**-**	**71**	11	1	12
Earnings before interest and tax	**(40)**	**177**	**137**	76	155	231
Net finance costs	**(12)**	**(4)**	**(16)**	(13)	(3)	(16)
Net pension interest (non-operating specific item)	**91**	**-**	**91**	120	-	120
Profit before tax	**39**	**173**	**212**	183	152	335
Tax charge	**93**	**(47)**	**46**	(20)	(42)	(62)
Profit for the period	**132**	**126**	**258**	163	110	273

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 excluding operating specific items. 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 and is a means by which Management can understand the financial performance of the Group. It is based on reported profit after transformation costs (see above) including 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 table in the paragraph entitled 'Consolidated reported and adjusted results reconciliation'. 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, 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.

(£m)	**52 weeks ended**	52 weeks ended

	25 March 2018	26 March 2017
Reported operating profit before transformation costs	**236**	490
Depreciation and amortisation	**341**	301
Share of post-tax profit from associates	**-**	2
Reported EBITDA before transformation costs	**577**	793
Pension charge to cash difference adjustment	**458**	222
Adjusted EBITDA before transformation costs	**1,035**	1,015

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 including terminal dues and driver sub-contractor costs.

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, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs.

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. It is 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'.

(£m)	**Reported 52 weeks ended 25 March 2018**	Reported 52 weeks ended 26 March 2017
Net cash inflow from operating activities	**905**	754
Adjustment for:		
Other working capital movements	**3**	6
Cash cost of operating specific items	**12**	61
Purchase of property, plant and equipment	**(219)**	(230)
Purchase of intangible assets (software)	**(141)**	(157)
Net finance costs paid	**(15)**	(14)
In-year trading cash inflow	**545**	420

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 cash/(debt)

Net cash/(debt) is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. It is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net cash/(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 cash/(debt) to reported balance sheet line items is shown below.

(£m)	**At 25 March 2018**	At 26 March 2017
Loans/bonds	**(437)**	(463)
Finance leases	**(169)**	(194)
Cash and cash equivalents	**600**	299
Pension escrow (RMSEPP)	**20**	20
Net cash/(debt)	**14**	(338)

Net cash/(debt) excludes £178 million (2016-17: £nil) related to the RMPP pension scheme of the total £198 million (2016-17: £20 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net cash/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 adjustments

Movements in volumes, revenue, costs, profits and margins are shown on an underlying basis. We have made adjustments for working days in UKPIL (2017-18: 305.0; 2016-17: 305.6) and movements in foreign exchange in GLS (2017-18: £1:€1.13; 2016-17: £1:€1.19). We have also made adjustments for the first year impact of acquisitions and changes in legislation such as the Apprenticeship Levy.

UKPIL will report a 53-week period (310.0 working days) in 2018-19. We will present adjusted results and underlying movements on a 52-week basis. Our working week consists of 5.5 days. Therefore, the adjusted UKPIL working days for 2018-19 will be 304.5 days with an estimated revenue and profit decrease of around £15 million.

(£m)	**Adjusted 52 weeks ended 25 March 18**	Adjusted 52 weeks ended 26 March 17	Working days	Wage legislation	Foreign exchange	Acquisitions	Underlying 52 weeks ended 26 March 17	Underlying change
Revenue								
UKPIL	**7,615**	7,658	(15)	-	-	-	7,643	Flat
GLS	**2,557**	2,118	-	-	106	105	2,329	10%
Group	**10,172**	9,776	(15)	-	106	105	9,972	2%
Costs								
UKPIL								
People	**(4,908)**	(4,865)	-	(20)	-	-	(4,885)	Flat
Non-people costs	**(2,204)**	(2,245)	-	-	-	-	(2,245)	(2%)
Distribution and conveyance costs	**(798)**	(828)	-	-	-	-	(828)	(4%)
Infrastructure costs	**(751)**	(740)	-	-	-	-	(740)	1%
Other operating costs	**(655)**	(677)	-	-	-	-	(677)	(3%)
Operating costs before transformation costs	**(7,112)**	(7,110)	-	(20)	-	-	(7,130)	Flat
GLS								
Operating costs	**(2,366)**	(1,954)	-	-	(97)	(105)	(2,156)	10%
Group								
People	**(5,516)**	(5,354)	-	(20)	(24)	(49)	(5,447)	1%
Non-people costs	**(3,962)**	(3,710)	-	-	(73)	(56)	(3,839)	3%
Distribution and conveyance costs	**(2,356)**	(2,106)	-	-	(64)	(44)	(2,214)	6%
Infrastructure costs	**(899)**	(868)	-	-	(6)	(7)	(881)	2%
Other operating costs	**(707)**	(736)	-	-	(3)	(5)	(744)	(5%)
Operating costs before transformation costs	**(9,478)**	(9,064)	-	(20)	(97)	(105)	(9,286)	2%
Profit, margins and EPS								
UKPIL								
Operating profit before transformation costs	**503**	548	(15)	(20)	-	-	513	(2%)
Transformation costs	**(113)**	(137)	-	-	-	-	(137)	(17%)
Operating profit after transformation costs	**390**	411	(15)	(20)	-	-	376	4%
Margin	***5.1%***	*5.4%*					*4.9%*	*20bps*
GLS								
Operating profit	**191**	164	-	-	9	-	173	10%
Margin	***7.5%***	*7.7%*					*7.4%*	*10bps*

Group								
Operating profit before transformation costs	**694**	712	(15)	(20)	9	-	686	1%
Transformation costs	**(113)**	(137)	-	-	-	-	(137)	(17%)
Operating profit after transformation costs	**581**	575	(15)	(20)	9	-	549	6%
Margin	***5.7%***	*5.9%*					*5.5%*	*20bps*
Profit before tax	**565**	559	(15)	(20)	9	-	533	6%
Tax	**(111)**	(121)						
Profit for the period	**454**	438						
Profit attributable to equity holders of the parent Company	**455**	437						
Basic earnings per share (pence)	**45.5**	44.1						

PRINCIPAL RISKS

Statement of Principal Risks

We have reviewed our risk profile as set out in the 2018 Annual Report and considered the risks facing the Group in the coming year. The key risks are currently identified as:

- New arrangements and the risk of industrial action
- Pension arrangements
- Efficiency
- Changes in market conditions and customer behaviour
- Economic and political environment
- Growing in new areas
- Regulatory and legislative environment
- Competition Act investigation
- Employment legislation and regulation
- Health, safety and wellbeing
- Major breach of information security (as the result of a cyber-attack) or data protection regulation
- Attracting and retaining senior management

Further information is available on pages 40 to 45 of the 2018 Annual Report which will be available on our website at www.royalmailgroup.com

Viability Statement

The Directors have assessed the viability of the Group as part of their ongoing risk management and monitoring processes. The Directors have considered their stewardship responsibilities, previous viability statements, the nature of the business and its investment and planning periods when making this assessment.

The key factors affecting the Group's prospects are:

- Strategic focus on costs
- Technology and innovation
- An engaged and motivated workforce

While the Directors have no reason to believe that the Group will not be viable over the longer term, they consider the three financial years to March 2021 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our principal risks. This is the same time frame as our existing medium term planning cycle and therefore a period over which planning assumptions and the impact of strategic initiatives are scrutinised. This period also aligns with the performance criteria in our long term incentive plans (LTIP).

Business divisions prepare detailed annual forecasts for a 12 month period and project performance over three years with

reference to economic assumptions and strategic initiatives.

The key assumptions within the Group's financial forecasts include:

- Parcels revenue continues to grow in line with the addressable UK parcels market.
- Addressed letter volumes continue to decline by between four and six per cent per annum.
- No change in stated dividend policy.
- No change in capital structure given the Group has a €500 million bond which expires in 2024 and a revolving credit facility, the majority of which expires in 2022.

Assessment of viability

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section on page 31 but focused on those that could have a plausible and severe financial impact over the plan horizon.

This year, the Directors considered:

(i) the potential impact of industrial action; (Principal risk: Industrial Action)

(ii) deteriorating economic and market conditions which could result in letters volume decline greater than our projected four to six per cent range (Principal risk: Economic and Political Environment) and

(iii) increased competition in the UK parcels sector. (Principal risk: Customer expectations and Royal Mail's responsiveness to market changes)

These risks were quantified to create a downside scenario that took into account the levels of committed capital and expenditure, as well as other short term cost and cash actions which could mitigate the impact of the risks. Mitigating actions included:

(i) reducing variable hours and cost of sales

(ii) removing discretionary pay

(iii) reducing our internal investment

(iv) suspending our acquisition programme

Consideration was also given to the large fixed cost base required to deliver the Universal Service Obligation in its current form. The downside scenario was tested to determine whether the Group would remain solvent.

We are pleased to have reached a ground-breaking agreement with the CWU on pay, pensions and a number of customer-focused operational changes. The Royal Mail Pension Plan (RMPP) closed to future accrual in its previous Defined Benefit form from 31 March 2018 and Royal Mail and the CWU have committed to work towards the introduction of a Collective Defined Contribution (CDC) scheme for all employees. This will be subject to necessary legislative changes being enacted. A Defined Benefit Lump Sum Scheme will sit alongside it. Transitional pension arrangements commenced on 1 April 2018 and will continue until a CDC scheme can be established. It is anticipated that the ongoing annual cash cost of pensions to the Company will continue to be around £400 million. In making their assessment of viability, the Directors have assumed that future cash pension contributions remain around this level.

Viability statement

Based on the results of their analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2021.

RESPONSIBILITY STATEMENT OF THE DIRECTORS

The Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (which includes the management report) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the

information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement is approved by the Board of Directors and is signed on its behalf by:

Moya Greene
Chief Executive Officer

Stuart Simpson
Chief Finance Officer

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

	Notes	**Reported 52 weeks 2018 £m**	Reported 52 weeks 2017 £m
Continuing operations			
Revenue	2	**10,172**	9,776
Operating costs[1]	3/4	**(9,936)**	(9,286)
People costs		**(5,974)**	(5,576)
Distribution and conveyance costs		**(2,356)**	(2,106)
Infrastructure costs		**(899)**	(868)
Other operating costs		**(707)**	(736)
Operating profit before transformation costs[2]		**236**	490
Transformation costs		**(113)**	(137)
Operating profit after transformation costs[2]		**123**	353
Operating specific items			
Employee Free Shares charge		**(33)**	(105)
Legacy/other costs		**(8)**	(18)
Amortisation of intangible assets in acquisitions		**(16)**	(11)
Operating profit		**66**	219
Non-operating specific items			
Profit on disposal of property, plant and equipment		**71**	14
Loss on disposal of business		**-**	(2)
Earnings before interest and tax		**137**	231
Finance costs	5	**(19)**	(18)
Finance income	5	**3**	2
Net pension interest (non-operating specific item)	9(c)	**91**	120
Profit before tax		**212**	335
Tax credit/(charge)	6	**46**	(62)
Profit for the year		**258**	273
Profit for the year attributable to:			
Equity holders of the parent Company		**259**	272
Non-controlling interests		**(1)**	1
Earnings per share			
Basic	7	**25.9p**	27.5p
Diluted	7	**25.7p**	27.3p

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

[2] These measures of performance are both before operating specific items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

	Notes	**Reported 52 weeks 2018 £m**	Reported 52 weeks 2017 £m
Profit for the year		**258**	273
Other comprehensive (expense)/income for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**(658)**	405
IFRIC 14 adjustment relating to defined benefit surplus	9	(1,144)	113
Remeasurement gains of the defined benefit surplus	9(c)	10	399
Deferred tax	6	476	(107)
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**(4)**	18
Exchange differences on translation of foreign operations (GLS)		1	63
Net loss on hedge of a net investment (€500 million bond)		(5)	(38)
Net loss on hedge of a net investment (Euro-denominated finance lease payables)		-	(3)
Tax on above items	6	-	(4)
Designated cash flow hedges		**2**	32
Gains on cash flow hedges deferred into equity		11	22
(Gains)/losses on cash flow hedges released from equity to income		(7)	16
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	(1)
Tax on above items	6	(1)	(5)
Total other comprehensive (expense)/income for the year		**(660)**	455
Total comprehensive (expense)/income for the year		**(402)**	728
Total comprehensive (expense)/income for the year attributable to:			
Equity holders of the parent Company		**(401)**	727
Non-controlling interests		**(1)**	1

CONSOLIDATED BALANCE SHEET

At 25 March 2018 and 26 March 2017

	Notes	**Reported at 25 March 2018 £m**	Reported at 26 March 2017 £m
Non-current assets			
Property, plant and equipment		**2,016**	2,062
Goodwill		**324**	316
Intangible assets		**608**	567
Investments in associates and joint venture		**5**	7
Financial assets			
Pension escrow investments		**198**	20
Derivatives		**5**	4
Retirement benefit surplus – net of IFRIC 14 adjustment	9	**2,163**	3,839
Other receivables		**13**	13
Deferred tax assets	6	**72**	15
		5,404	6,843
Assets held for sale		**50**	37
Current assets			
Inventories		**25**	23
Trade and other receivables		**1,160**	1,117
Income tax receivable		**3**	7
Financial assets			
Derivatives		**15**	8

Cash and cash equivalents		**600**	299
		1,803	1,454
Total assets		**7,257**	8,334
Current liabilities			
Trade and other payables		**(1,927)**	(1,810)
Financial liabilities			
Interest-bearing loans and borrowings		**(1)**	(33)
Obligations under finance leases		**(59)**	(64)
Derivatives		**(3)**	(9)
Income tax payable		**(33)**	(12)
Provisions		**(59)**	(88)
		(2,082)	(2,016)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		**(436)**	(430)
Obligations under finance leases		**(110)**	(130)
Derivatives		**(4)**	(2)
Provisions		**(103)**	(108)
Other payables		**(41)**	(47)
Deferred tax liabilities	6	**(45)**	(603)
		(739)	(1,320)
Total liabilities		**(2,821)**	(3,336)
Net assets		**4,436**	4,998
Equity			
Share capital		**10**	10
Retained earnings		**4,381**	4,940
Other reserves		**45**	47
Equity attributable to parent Company		**4,436**	4,997
Non-controlling interests		**-**	1
Total equity		**4,436**	4,998

The financial statements were approved and authorised for issue by the Board of Directors on 16 May 2018 and were signed on its
behalf by:

Moya Greene
Chief Executive Officer

Stuart Simpson
Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

	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 year	-	272	-	-	272	1	273
Other comprehensive income for the year	-	405	18	32	455	-	455
Total comprehensive income for the year	-	677	18	32	727	1	728
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	-	(222)	-	-	(222)	-	(222)
Dividend paid to non-controlling interests	-	-	-	-	-	(8)	(8)

Acquisition of non-controlling interests	-	(15)	-	-	(15)	(6)	(21)
Recognition of put options for non-controlling interests	-	(6)	-	-	(6)	-	(6)
Disposal of subsidiary	-	-	-	-	-	(1)	(1)
Acquisition of subsidiary	-	-	-	-	-	6	6
Share-based payments							
Employee Free Shares issue[1]	-	100	-	-	100	-	100
Save As You Earn (SAYE) scheme	-	2	-	-	2	-	2
Long-Term Incentive Plan (LTIP)[2]	-	9	-	-	9	-	9
Purchase of own shares[3]	-	(53)	-	-	(53)	-	(53)
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 year	**-**	**259**	**-**	**-**	**259**	**(1)**	**258**
Other comprehensive income for the year	**-**	**(658)**	**(4)**	**2**	**(660)**	**-**	**(660)**
Total comprehensive income for the year	**-**	**(399)**	**(4)**	**2**	**(401)**	**(1)**	**(402)**
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	**-**	**(231)**	**-**	**-**	**(231)**	**-**	**(231)**
Share-based payments							
Employee Free Shares issue[1]	**-**	**35**	**-**	**-**	**35**	**-**	**35**
Save As You Earn (SAYE) scheme	**-**	**1**	**-**	**-**	**1**	**-**	**1**
Long-Term Incentive Plan (LTIP)[2]	**-**	**3**	**-**	**-**	**3**	**-**	**3**
Deferred Share Bonus Plan (DSBP)	**-**	**2**	**-**	**-**	**2**		**2**
Employee exercise of SAYE options	**-**	**28**	**-**	**-**	**28**	**-**	**28**
Deferred tax on share-based payments	**-**	**5**	**-**	**-**	**5**	**-**	**5**
Settlement of LTIP 2014	**-**	**(3)**	**-**	**-**	**(3)**	**-**	**(3)**
Reported at 25 March 2018	**10**	**4,381**	**36**	**9**	**4,436**	**-**	**4,436**

[1] Excludes £2 million credit (2016-17: £5 million charge) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.
[2] Excludes £1 million charge (2016-17: £1 million charge) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.
[3] Shares required for employee share schemes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

	Notes	**Reported 52 weeks 2018 £m**	Reported 52 weeks 2017 £m
Cash flow from operating activities			
Profit before tax		**212**	335
Adjustment for:			
Net pension interest		**(91)**	(120)
Net finance costs		**16**	16
Profit on disposal of property, plant and equipment		**(71)**	(14)
Loss on disposal of business		**-**	2
Legacy/other costs		**8**	18
Amortisation of intangible assets in acquisitions		**16**	11
Employee Free Shares charge		**33**	105
Transformation costs		**113**	137
Operating profit before transformation costs[1]		**236**	490
Adjustment for:			
Depreciation and amortisation		**341**	301
Share of post-tax loss from associates and joint venture		**-**	2
EBITDA before transformation costs[1]		**577**	793
Working capital movements		**71**	(9)
Increase in inventories		(2)	(2)
Increase in receivables		(7)	(40)
Increase in payables		89	56
Net (increase)/decrease in derivative assets		(9)	2

Decrease in provisions (non-specific items)		-	(25)
Pension charge to cash difference adjustment		**458**	222
Share-based awards (SAYE, LTIP and DSBP) charge		**6**	11
Cash cost of transformation operating expenditure[2]		**(125)**	(142)
Cash cost of operating specific items		**(12)**	(61)
Cash inflow from operations		**975**	814
Income tax paid		**(75)**	(60)
Research and development expenditure credit		**5**	-
Net cash inflow from operating activities		**905**	754
Cash flow from investing activities			
Finance income received		**3**	3
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment		**40**	37
London Development Portfolio net proceeds/(costs) (non-operating specific item)		**10**	(34)
Disposal of business (non-operating specific item)		**-**	(3)
Purchase of property, plant and equipment[2]		**(219)**	(230)
Acquisition of business interests, net of cash acquired		**(16)**	(122)
Purchase of intangible assets (software)[2]		**(141)**	(157)
Payment of deferred consideration in respect of prior years' acquisitions		**(2)**	(4)
Net cash outflow from investing activities		**(325)**	(510)
Net cash inflow before financing activities		**580**	244
Cash flow from financing activities			
Finance costs paid		**(18)**	(17)
Acquisition of non-controlling interests		**-**	(18)
Purchase of own shares		**-**	(53)
Employee exercise of SAYE options		**28**	-
Payment of capital element of obligations under finance lease contracts		**(63)**	(74)
Cash received on sale and leasebacks		**35**	41
Drawdown of loan facility		**-**	31
Repayment of loans and borrowings		**(32)**	(7)
Dividends paid to equity holders of the parent Company	8	**(231)**	(222)
Dividend paid to non-controlling interests		**-**	(8)
Net cash outflow from financing activities		**(281)**	(327)
Net increase/(decrease) in cash and cash equivalents		**299**	(83)
Effect of foreign currency exchange rates on cash and cash equivalents		**2**	14
Cash and cash equivalents at the beginning of the year		**299**	368
Cash and cash equivalents at the end of the year		**600**	299

[1] See APMs section for a definition of these measures

[2] Items comprise total gross investment within 'In-year trading cash flow' measure (see Financial Review).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

General information

Royal Mail plc ('the Company') is incorporated in the United Kingdom (UK) and listed on the London Stock Exchange. The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 52 weeks ended 25 March 2018 (2016-17: 52 weeks ended 26 March 2017) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings and joint venture.

Basis of preparation and accounting

(a) The Directors consider that the Group has adequate resources to continue in operational existence for a minimum of 12 months from the signing date of these financial statements and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

(b) The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and applicable IFRS as adopted for use in the EU. The consolidated financial statements have been prepared in accordance with the accounting policies stated in the Group's Annual Report and Financial Statements for the reporting year ended 25 March 2018.

The financial information set out in this document does not constitute the Group's statutory financial statements for the reporting years ended 25 March 2018 or 26 March 2017, but is derived from those financial statements. Statutory financial statements for the reporting year ended 26 March 2017 have been delivered to the Registrar of Companies. The statutory financial statements for the reporting year ended 25 March 2018 were approved by the Board of Directors on 16 May 2018 along with this Financial report, but will be delivered to the Registrar of Companies in due course. The auditor has reported on those statutory financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which

the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Financial Statements 2017-18, together with details of the Annual General Meeting (AGM), will be despatched to shareholders before the AGM. The AGM will take place on 19 July 2018.

Presentation of results and accounting policies

The Group's significant accounting policies, including details of new and amended accounting standards adopted in the reporting year, can be found in the Annual Report and Financial Statements 2017-18. Details of key sources of estimation uncertainty and critical accounting judgements are provided below.

These financial statements and associated Notes 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 are 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 APMs used by the Group are provided in the Financial Review.

Key sources of estimation uncertainty and critical accounting judgements

The preparation of consolidated financial statements necessarily requires Management to make certain estimates and judgements that can have a significant impact on the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where there is thought to be a significant risk of a material adjustment to the consolidated financial statements within the next financial year as a result of the estimation uncertainty are disclosed below.

Key sources of estimation uncertainty

Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for RMPP are included within Note 9.

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Group applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 9.

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact. The industrial diseases claims provision arose as a result of a Court of Appeals judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981.

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The result of a 0.5 per cent decrease in the discount rate estimate would be a £6 million increase in the overall industrial diseases provision. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item.

Critical accounting judgements

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate.

The majority of this balance is made up of stamps sold to the general public. For sales to the general public, estimates of stamp volumes held are made on the basis of monthly surveys performed by an independent third-party. In order to avoid over-

estimation of the typical number of stamps held, Management applies a cap to the results to exclude what are considered to be abnormal stamp holdings from the estimate. The level at which holdings are capped is judgemental and is currently set at 99 of each class of stamp per household. The impact of applying alternative capping values on the year end public stamp deferred revenue balance is shown in the table below.

Public stamp holdings value (£m)	Capped 30	As reported 99	300	Uncapped
At 25 March 2018	**154**	**179**	**188**	**188**
At 26 March 2017	152	184	200	216

The value of stamps and meter credits held by retail and business customers are more directly estimated through the analysis of sales volumes and monthly meter sampling. Further adjustments are also made for each type of sale to take into account volume purchasing of stamps when price changes are announced.

The results of the above procedures are reviewed by Management in order to make a judgement of the carrying amount of the accrual. The total accrual is held within current trade and other payables but a portion (which cannot be measured) will relate to stamps and meter credits used one year or more after the balance sheet date.

Allocation of costs for sale of 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) for a total gross consideration of £193.5 million. The consideration is made up of £190 million in cash and the fair value of the parking facilities provided to Royal Mail of £3.5 million. The sale of the Phoenix Place plot has been recognised in the current accounting year whereas the sale of the Calthorpe Street site will be recognised upon completion of certain enabling works.

Management have applied judgement in allocating the transaction proceeds between the two plots on a different basis to the schedule of cash receipts agreed with the purchaser. This is to more accurately reflect the commercial substance of the transaction, which is that some of the proceeds of the Phoenix Place sale would be used to fund the Calthorpe Street enabling works. The allocation of total contract proceeds has been carried out according to the relative fair value method described in IFRIC 15 'Agreements for the Construction of Real Estate'. In applying this method proceeds which can be directly attributed to funding completion of the enabling works have been allocated to the Calthorpe Street plot proceeds, with the remaining proceeds being allocated proportionately according to the final residential development area of the two sites.

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.

A 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, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see APMs section). This 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. Transfer prices between segments are set at an arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments. Trading between UKPIL and GLS is not material.

52 weeks 2018	Adjusted			Specific items and pension adjustment[1]	Reported
Continuing operations	**UKPIL (UK operations) £m**	**GLS (Non-UK operations) £m**	**Group £m**	**£m**	**Group £m**
Revenue	**7,615**	**2,557**	**10,172**	**-**	**10,172**

People costs	**(4,908)**	**(608)**	**(5,516)**	**(458)**	**(5,974)**
Non-people costs	**(2,204)**	**(1,758)**	**(3,962)**	**-**	**(3,962)**
Operating profit before transformation costs	**503**	**191**	**694**	**(458)**	**236**
Transformation costs	**(113)**	**-**	**(113)**	**-**	**(113)**
Operating profit after transformation costs	**390**	**191**	**581**	**(458)**	**123**
Operating specific items					
Employee Free Shares charge	**-**	**-**	**-**	**(33)**	**(33)**
Legacy/other costs	**-**	**-**	**-**	**(8)**	**(8)**
Amortisation of intangible assets in acquisitions	**-**	**-**	**-**	**(16)**	**(16)**
Operating profit	**390**	**191**	**581**	**(515)**	**66**
Non-operating specific items					
Profit on disposal of property, plant and equipment	**-**	**-**	**-**	**71**	**71**
Earnings before interest and tax	**390**	**191**	**581**	**(444)**	**137**
Finance costs	**(18)**	**(1)**	**(19)**	**-**	**(19)**
Finance income	**1**	**2**	**3**	**-**	**3**
Inter-segment interest	**5**	**(5)**	**-**	**-**	**-**
Net pension interest (non-operating specific item)	**-**	**-**	**-**	**91**	**91**
Profit before tax	**378**	**187**	**565**	**(353)**	**212**

52 weeks 2017	Adjusted			Specific items and pension adjustment[2]	Reported
Continuing operations	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m	£m	Group £m
Revenue	7,658	2,118	9,776	-	9,776
People costs	(4,865)	(489)	(5,354)	(222)	(5,576)
Non-people costs	(2,245)	(1,465)	(3,710)	-	(3,710)
Operating profit before transformation costs	548	164	712	(222)	490
Transformation costs	(137)	-	(137)	-	(137)
Operating profit after transformation costs	411	164	575	(222)	353
Operating specific items					
Employee Free Shares charge	-	-	-	(105)	(105)
Legacy/other costs	-	-	-	(18)	(18)
Amortisation of intangible assets in acquisitions	-	-	-	(11)	(11)
Operating profit	411	164	575	(356)	219
Non-operating specific items					
Profit on disposal of property, plant and equipment	-	-	-	14	14
Loss on disposal of business	-	-	-	(2)	(2)
Earnings before interest and tax	411	164	575	(344)	231
Finance costs	(17)	(1)	(18)	-	(18)
Finance income	1	1	2	-	2
Inter-segment interest	3	(3)	-	-	-
Net pension interest (non-operating specific item)	-	-	-	120	120
Profit before tax	398	161	559	(224)	335

The depreciation and amortisation and share of loss from associates and joint venture below are included within operating profit before transformation costs in the income statement.

The non-current assets below are included within non-current assets on the balance sheet but exclude financial assets, retirement benefit surplus and deferred tax.

[1] A £119 million credit for specific items and a £458 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £14 million charge for specific items relates to GLS.

[2] A £7 million credit for specific items and a £222 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £9 million charge for specific items relates to GLS.

52 weeks 2018	**UKPIL (UK operations) £m**	**GLS (Non-UK Operations) £m**	**Total £m**
Depreciation	**(207)**	**(39)**	**(246)**
Amortisation of intangible assets (mainly software)[3]	**(83)**	**(28)**	**(111)**
Share of post-tax loss from associates and joint venture	**-**	**-**	**-**
Non-current assets	**2,160**	**806**	**2,966**

52 weeks 2017	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(198)	(37)	(235)
Amortisation of intangible assets (mainly software)[3]	(56)	(21)	(77)
Share of post-tax loss from associates and joint venture	(1)	(1)	(2)
Non-current assets	2,199	766	2,965

[3] Includes £16 million (2016-17: £11 million) presented as an operating specific item in the income statement.

3. Operating costs

Operating profit before transformation costs is stated after charging the following operating costs:

	52 weeks 2018 £m	52 weeks 2017 £m
People costs (see Note 4)	**(5,974)**	(5,576)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(342)**	(356)
Fuel costs	**(147)**	(159)
Operating lease costs – vehicles	**(21)**	(17)
Short-term vehicle hire	**(28)**	(32)
Infrastructure costs		
Depreciation and amortisation	**(341)**	(301)
Depreciation of property, plant and equipment	(246)	(235)
Amortisation of intangible assets[1]	(95)	(66)
Other operating costs		
Post Office Limited charges	**(341)**	(343)
Inventory expensed	**(35)**	(49)
Operating lease costs - property, plant and equipment	**(152)**	(143)

Research and development (R&D)

During the year, the Group continued to develop products and services within the business. See the Strategic Report in the Annual Report and Financial Statements for more details.

Regulatory body costs

The following disclosure is relevant in understanding the extent of costs in relation to the regulation of the Group.

	52 weeks 2018 £m	52 weeks 2017 £m
Ofcom administrative charge	**(3)**	(4)
Citizens Advice/Consumer Council for Northern Ireland	**(2)**	(3)
Total	**(5)**	(7)

[1] Excludes £16 million (2016-17: £11 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

Statutory audit costs

Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

Auditor's fees	**52 weeks 2018 £000**	52 weeks 2017 £000
Audit of Group statutory financial statements	**(2,146)**	(2,178)
Other fees to Auditor:		
Regulatory audit	**(125)**	(122)
Other assurance	**(72)**	(44)
Other non-audit services	**-**	(342)
Total	**(2,343)**	(2,686)

The 2017-18 fees relate to the services of the Group's appointed auditor KPMG LLP who, in addition to the above amounts, were paid by the respective Trustees, £98,000 for the audit of the Royal Mail Pension Plan (2016-17: £88,000) and £31,000 for the audit of the Royal Mail Defined Contribution Plan (2016-17: £28,000).

4. People information

People costs

	52 weeks 2018 £m	52 weeks 2017 £m
Wages and salaries	**(4,506)**	(4,371)
UK-based	(3,976)	(3,949)
GLS	(530)	(422)
Pensions (see Note 9)	**(1,006)**	(776)
Defined benefit UK	(791)	(568)
Defined contribution UK	(57)	(51)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(151)	(151)
GLS	(7)	(6)
Social security	**(462)**	(429)
UK-based	(391)	(368)
GLS	(71)	(61)
Total people costs	**(5,974)**	(5,576)

Defined benefit pension plan rates:		
Income statement	**41.1%**	28.8%
Cash flow	**17.1%**	17.1%
Defined contribution pension plan average rate:		
Income statement and cash flow[1]	**6.3%**	6.0%

People numbers

The number of people employed during the reporting year was as follows:

	Full-time equivalents[2]				Headcount			
	Year end		Average		Year end		Average	
	52 weeks 2018	52 weeks 2017	**52 weeks 2018**	52 weeks 2017	**52 weeks 2018**	52 weeks 2017	**52 weeks 2018**	52 weeks 2017
UKPIL	**147,985**	148,170	**149,281**	151,601	**141,162**	141,819	**141,034**	142,579
GLS – continuing operations	**13,866**	12,966	**13,694**	12,617	**17,955**	17,136	**17,812**	16,912
Total	**161,851**	161,136	**162,975**	164,218	**159,117**	158,955	**158,846**	159,491

Directors' remuneration

	52 weeks 2018 £000	52 weeks 2017 £000
Directors' remuneration[3]	**(3,257)**	(3,345)
Amounts earned under Long-Term Incentive Plans (LTIP)	**(356)**	(440)
Number of Directors accruing benefits under defined benefit plans	**-**	-
Number of Directors accruing benefits under defined contribution plans	**2**	1

[1] Employer contribution rates are one per cent for employees in the entry level category and seven to nine per cent for those in the standard level category, depending on the employees' selected contribution rate.
[2] These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same year.
[3] These amounts include any cash supplements received in lieu of pension. Details of the highest paid Director are included in the Directors' remuneration report.

5. Net finance costs

	52 weeks 2018 £m	52 weeks 2017 £m
Unwinding of discount relating to industrial diseases claims provision	**(2)**	(2)
Interest payable on financial liabilities	**(17)**	(16)
Syndicated bank loan facility		
Loans and borrowings	-	(1)
Unused facility fees	(2)	(2)
Arrangement fees	(1)	(1)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(11)	(11)
Finance leases	(4)	(4)
Capitalisation of borrowing costs on specific qualifying assets	3	4
Other finance costs	(2)	(1)
Finance costs	**(19)**	(18)
Finance income - interest receivable on financial assets	**3**	2
Net finance costs	**(16)**	(16)

6. Taxation

	52 weeks 2018 £m	52 weeks 2017 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	**(45)**	(16)
Foreign tax	**(51)**	(45)
Current income tax charge	**(96)**	(61)

	52 weeks 2018 £m	52 weeks 2017 £m
Amounts overprovided in previous years	**-**	1
Total current income tax charge	**(96)**	(60)
Deferred income tax:		
Effect of change in tax rates	**(4)**	9
Relating to origination and reversal of temporary differences	**133**	(20)
Amounts overprovided in previous years	**13**	9
Total deferred income tax credit/(charge)	**142**	(2)
Tax credit/(charge) in the consolidated income statement	**46**	(62)

Tax credited/(charged) to other comprehensive income

Current tax:		
Tax credit on foreign currency translation	**-**	1
Deferred tax:		
Tax charge in relation to remeasurement gains of the defined benefit pension surplus	**(2)**	(42)
Tax credit/(charge) in relation to the change in manner of recovery of the defined benefit pension surplus	**478**	(65)
Tax charge on revaluation of cash flow hedges	**(1)**	(5)
Tax charge on foreign currency translation	**-**	(5)
Total deferred income tax credit/(charge)	**475**	(117)
Total credit/(charge) in the consolidated statement of other comprehensive income	**475**	(116)

In addition to the amount charged to the income statement and other comprehensive income, the following amount relating to tax has been recognised directly in equity:

	52 weeks 2018 £m	52 weeks 2017 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**5**	-
Total deferred income tax credit recognised directly in equity	**5**	-

Reconciliation of the total tax credit/(charge)

A reconciliation of the tax credit/(charge) in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017 is shown below.

	52 weeks 2018 £m	52 weeks 2017 £m
Profit before tax	**212**	335
At UK statutory rate of corporation tax of 19% (2016-17: 20%)	**(40)**	(67)
Effect of higher taxes on overseas earnings	**(7)**	(9)
Tax overprovided in previous years	**-**	10
Non-deductible expenses	**(7)**	(5)
Tax effect of property disposals	**17**	5
Release of deferred tax liability resulting from closure of Royal Mail Pension Plan to future accrual	**78**	-
Uncertain current tax positions	**(2)**	-
Tax reliefs and incentives (including previous years)	**12**	-
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	**(1)**	(5)
Effect of change in tax rates	**(4)**	9
Tax credit/(charge) in the income statement	**46**	(62)

Tax on specific items and pension adjustment

	52 weeks 2018 £m	52 weeks 2017 £m
Continuing operations	**157**	59
Total tax credit on specific items and pension adjustment	**157**	59

The tax credit on specific items of £157 million (2016-17: £59 million) comprises tax at statutory rates on certain specific items and the pension adjustment of £81 million credit (2016-17: £48 million credit), plus certain tax-only adjustments of £76 million credit (2016-17: £11 million credit). The tax-only adjustments comprise; the impact of the closure of the RMPP to future accrual from 31 March 2018 of £78 million credit (2016-17: £nil million); the impact of property transactions of £2 million credit (2016-17: £2 million credit); and the impact of changes in tax law of £4 million charge (2016-17: £9 million credit).

Effective tax rate

The Group reported tax in the income statement was a credit of £46 million on a reported profit of £212 million. This arises mainly due to the one-off deferred tax credit of £78 million related to the closure of the RMPP to future accrual after 31 March 2018.

GLS pays tax in a number of territories. The majority of its profits in the reporting year to 25 March 2018 were earned in territories where the tax rate is above the UK statutory tax rate. Certain subsidiaries, notably GLS France, continue to not recognise deferred tax credits on losses made during the reporting year as they are not sufficiently certain of their capacity to utilise them in the future. These factors contribute to GLS having a higher effective tax rate for the year than the UK statutory rate.

Deferred tax

Deferred tax by balance sheet category 52 weeks 2018	**At 27 March 2017 £m**	**(Charged) /credited to income statement £m**	**(Charged)/ credited to other comprehensive income £m**	**(Charged)/ credited directly to equity £m**	**Acquisition of subsidiaries £m**	**R&D credit £m**	**At 25 March 2018 £m**
Liabilities							
Accelerated capital allowances	**(16)**	**13**	**-**	**-**	**-**	**-**	**(3)**
Pensions temporary differences	**(647)**	**170**	**476**	**-**	**-**	**-**	**(1)**
Employee share schemes	**(11)**	**5**	**-**	**5**	**-**	**-**	**(1)**
Intangible assets	**(36)**	**(9)**	**-**	**-**	**(3)**	**-**	**(48)**
Hedging derivatives temporary differences	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**(2)**
Deferred tax liabilities	**(711)**	**179**	**475**	**5**	**(3)**	**-**	**(55)**
Assets							
Deferred capital allowances	**37**	**(23)**	**-**	**-**	**-**	**-**	**14**
Provisions and other	**20**	**(1)**	**-**	**-**	**-**	**-**	**19**
Losses available for offset against future taxable income	**62**	**(14)**	**-**	**-**	**-**	**-**	**48**
R&D expenditure credit	**4**	**1**	**-**	**-**	**-**	**(4)**	**1**
Deferred tax assets	**123**	**(37)**	**-**	**-**	**-**	**(4)**	**82**
Net deferred tax asset	**(588)**	**142**	**475**	**5**	**(3)**	**(4)**	**27**

Deferred tax by balance sheet category 52 weeks 2017	At 28 March 2016 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	R&D credit £m	At 26 March 2017 £m
Liabilities							
Accelerated capital allowances	(1)	(13)	(2)	-	-	-	(16)
Pensions temporary differences	(565)	25	(107)	-	-	-	(647)
Employee share schemes	(25)	15	-	(1)	-	-	(11)
Intangible assets	(33)	17	(3)	-	(17)	-	(36)

Deferred tax by balance sheet category 52 weeks 2017	At 28 March 2016 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	R&D credit £m	At 26 March 2017 £m
Hedging derivatives temporary differences	4	-	(5)	-	-	-	(1)
Deferred tax liabilities	(620)	44	(117)	(1)	(17)	-	(711)
Assets							
Deferred capital allowances	78	(41)	-	-	-	-	37
Provisions and other	19	-	-	-	1	-	20
Losses available for offset against future taxable income	63	(5)	-	-	4	-	62
R&D expenditure credit	-	-	-	-	-	4	4
Deferred tax assets	160	(46)	-	-	5	4	123
Net deferred tax liability	(460)	(2)	(117)	(1)	(12)	4	(588)

Deferred tax – balance sheet presentation	**At 25 March 2018 £m**	At 26 March 2017 £m
Liabilities		
GLS group	**(45)**	(50)
Net UK position	**-**	(553)
Deferred tax liabilities	**(45)**	(603)
Assets		
GLS group	**11**	15
Net UK position	**61**	-
Deferred tax assets	**72**	15
Net deferred tax asset/(liability)	**27**	(588)

The deferred tax position shows a decreased overall liability in the reporting year to 25 March 2018. This decrease in the liability is primarily as a result of the closure of the RMPP to future accrual after 31 March 2018.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangible assets in GLS Germany, for which the Group has already taken tax deductions, and intangible assets in relation to acquisitions in Spain and the US.

At 25 March 2018, the Group had unrecognised deferred tax assets of £83 million (2016-17: £73 million) comprising £78 million (2016-17: £68 million) relating to tax losses of £300 million (2016-17: £259 million), mainly in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £5 million (2016-17: £5 million) in relation to £29 million (2016-17: £30 million) of UK capital losses carried forward. The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £202 million (2016-17: £211 million) of capital losses, the tax effect of which is £34 million (2016-17: £36 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £406 million (2016-17: £212 million) of gains for which rollover relief has been claimed, the tax effect of which is £69 million (2016-17: £36 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate

The UK corporation tax rate reduced from 20 per cent to 19 per cent on 1 April 2017 and it will reduce to 17 per cent on 1 April 2020. In the future, this will reduce the Group's current tax charge accordingly. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

7. Earnings per share

	52 weeks 2018			52 weeks 2017		
	Reported	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Attributable to equity holders of the parent Company						
Profit for the year (£million)	**259**	**(196)**	**455**	272	(165)	437
Weighted average number of shares issued (million)	**999**	**n/a**	**999**	990	n/a	990
Basic earnings per share (pence)	**25.9**	**n/a**	**45.5**	27.5	n/a	44.1
Diluted earnings per share (pence)	**25.7**	**n/a**	**45.2**	27.3	n/a	43.8

[1] Further details of the specific items and pension adjustment total can be found in the Financial Review.

The diluted earnings per share for the year ended 25 March 2018 is based on a weighted average number of shares of 1,005,852,049 (2016-17: 996,593,330) to take account of the potential issue of 5,762,572 ordinary shares resulting from the Long-Term Incentive Plans (LTIP) for certain senior management, 133,961 ordinary shares resulting from the Deferred Share Bonus Plans (DSBP) for certain senior management and 468,746 ordinary shares resulting from the Save As You Earn (SAYE) scheme.

The 513,230 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.

8. Dividends

Dividends on ordinary shares	**52 weeks 2018 Pence per share**	52 weeks 2017 Pence per share	**52 weeks 2018 £m**	52 weeks 2017 £m
Final dividends paid	**15.6**	15.1	**154**	149
Interim dividends paid	**7.7**	7.4	**77**	73
Total dividends paid	**23.3**	22.5	**231**	222

In addition to the above dividends paid, the Directors are proposing a final dividend for the year ending 25 March 2018 of 16.3 pence per share, equivalent to £163 million. This dividend will be paid to shareholders on 31 August 2018 subject to approval at the AGM to be held on 19 July 2018.

9. Retirement benefit plans

Summary pension information

	52 weeks 2018 £m	52 weeks 2017 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs)[1]	**(791)**	(568)
UK defined contribution plan	**(57)**	(51)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions	**(151)**	(151)
Total UK ongoing pension service costs	**(999)**	(770)
GLS defined contribution type plan costs	**(7)**	(6)
Total Group ongoing pension service costs	**(1,006)**	(776)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions[2]	**(321)**	(336)
Defined contribution plans' employer contributions	**(64)**	(57)
UK defined benefit and defined contribution plans' PSE employer contributions	**(151)**	(151)
Total Group cash flows relating to ongoing pension service costs	**(536)**	(544)
RMSEPP deficit correction payments	**(10)**	(10)
Pension related accruals (timing difference)	**(2)**	-
Pension charge to cash difference adjustment	**(458)**	(222)

	At 25 March 2018 '000	At 26 March 2017 '000
UK pension plans – active members		

	At 25 March 2018 '000	At 26 March 2017 '000
UK defined benefit plan	**83**	88
UK defined contribution plan	**47**	45
Total	**130**	133

[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 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 £7 million (2016-17: £5 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 year) forms part of the payroll expense and is paid in respect of the RMPP. This includes payments into RMPP pension escrow investments. The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial funding valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail.

In the period, the Group operated the following plans.

UK Defined Contribution plan

Royal Mail Group Limited, the Company's main operating subsidiary, operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the RMPP to new members.

Ongoing UK defined contribution plan costs have increased from £82 million in 2016-17 to £93 million (including £36 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 6.0 per cent in 2016-17 to 6.3 per cent in 2017-18.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)

The RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions. Benefits provided are based on final salary in respect of service to 31 March 2008, and on career salary blocks for each year of service, revalued annually, for service from 1 April 2008.

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals. They provide day-to-day plan management, advise the Trustee on its responsibilities and ensure that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries – including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP - to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions - the Trustee invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members; and
- keeping members informed - the Trustee sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. Under the February 2013 Funding Agreement with the Trustee, the Group agreed to make deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed. Deficit correction payments in 2017-18 were £10 million (2016-17: £10 million). The Group has now agreed a new Funding Agreement dated 27 March 2018. Consistent with that, a new Schedule of Contributions was agreed for the period 29 March 2018 to 31 March 2025. No further deficit payments will be paid in respect of the period after 31 March 2018. Payments of £1 million per annum will be paid for the period 1 April 2018 to 31 March 2025 in respect of the continued provision of death-in-service lump sum benefits and expenses of administering the Plan.

In April 2016, the RMSEPP Trustee purchased a 'buy-in' policy of insurance in respect of pensions in payment to its oldest members. This is considered an asset of the RMSEPP and does not confer any rights to individual members. All benefit

payments due from the RMSEPP remain unchanged. The insurance policy exactly matches the value and timing of the benefits payable under the RMSEPP (for the oldest members). The fair value is deemed to be the present value of the related obligation. The buy-in policy valued at £148 million is included as a pension asset and a pension liability at 25 March 2018.

A liability of £2 million (2016-17: £2 million) has been recognised for future payment of pension benefits to a past Director.

2018 Pensions Review

In January 2017, the Company consulted RMPP members about its proposal for the future of the RMPP. The consultation closed on 10 March 2017. Following a review of member feedback, on 13 April 2017, the Company announced that it had not found an affordable way to keep the RMPP open in its current form after March 2018. It therefore made the decision to close the RMPP[3] to future accrual in its current form on 31 March 2018.

On 8 May 2017, after the 2016-17 balance sheet date, agreement was reached between the Company and the RMPP Trustee on the March 2015 actuarial funding valuation and a revised Schedule of Contributions. In accordance with this Schedule of Contributions, the service contribution rate for 2017-18 remained at 17.1 per cent. The March 2015 valuation continued to show the plan in surplus and therefore no deficit correction payments were required.

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Company more flexibility over how these assets are best used for the benefit of members in future.

One week of RMPP service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2015 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

Future pension arrangements

A new Defined Benefit Cash Balance Scheme (DBCBS) has been put in place from 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Improvements to the RMDCP are also being made. Further details can be found in the Financial Review.

The Company signed a new Schedule of Contributions on 27 March 2018. This covers the period of five years from the date of certification of the schedule i.e. until March 2023. In accordance with this schedule, the Company is required to make payments totalling 15.6 per cent per annum in respect of DBCBS.

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[3] The decision was made to close Sections B and C of the RMPP to future defined benefit pension accrual. Section A of the Plan which has a small number of active members remains open to future accrual.

In 2018-19 the Company expects to contribute around £400 million in respect of all UK pension schemes. This amount comprises £350 million in respect of RMPP, RMSEPP and DBCBS and £50 million in respect of RMDCP. Employees are expected to contribute around £135 million, including through PSE.

Accounting and actuarial funding surplus position (RMPP and RMSEPP)

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds. The actuarial funding valuation uses gilt yields. The combined plans' assets and liabilities on an accounting (IAS 19) basis and on an actuarial funding basis (based on an approximate update of the principles and assumptions relevant to the 2015 actuarial funding valuation) are shown below.

	Accounting (IAS 19)		**Actuarial funding**	
	At 25 March 2018 £m	At 26 March 2017 £m	**At 31 March 2018 £m**	At 31 March 2017 £m
Fair value of plans' assets (9(b) below)[4]	**10,361**	9,847	**10,461**	10,066
Present value of plans' liabilities	**(7,038)**	(5,992)	**(10,318)**	(8,984)
Surplus in plans (pre IFRIC 14 adjustment)	**3,323**	3,855	**143**	1,082
IFRIC 14 adjustment	**(1,160)**	(16)	**n/a**	n/a
Surplus in plans	**2,163**	3,839	**143**	1,082

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

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 on an actuarial 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 funding 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. This is a technical adjustment made on an accounting basis. There is no cash benefit from 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 from 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 25 March 2018 only one week of economic benefit is recoverable as a reduction to future employer contributions. The remaining surplus is assumed to be available as a refund. This surplus is presented net of an IFRIC 14 adjustment of £1,134 million (2016-17: £nil million) on the balance sheet, which represents the taxation that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 25 March 2018 of £73 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 as per IFRIC 14 and, as such, is shown net of taxation withheld in both years.

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

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

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. RMSEPP will continue in line with legacy RMPP benefits.

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

	At 25 March 2018	At 26 March 2017
Retail Price Index (RPI)	**3.1%**	3.2%
Consumer Price Index (CPI)	**2.1%**	2.2%
Discount rate[5]		
– nominal	**2.4%**	2.5%
– real (nominal less RPI)	**(0.7%)**	(0.7%)
Rate of increase in pensionable salaries[6]	**RPI–0.1%**	RPI–0.1%
Rate of increase for deferred pensions	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[6]	**RPI–0.1%**	RPI–0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases – RMSEPP all other members[6]	**RPI–0.1%**	RPI–0.1%
Rate of pension increases – DBCBS benefits	**CPI+2.0%**	-
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	**28/26 years**	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**31/29 years**	31/29 years

[4] Difference between accounting and actuarial funding asset fair values arises from the different year end dates used for the valuation of the assets under both methods.
[5] The discount rate reflects the long average duration of the RMPP of around 30 years. Whilst DBCBS benefits have a significantly shorter average duration (11 ½ years), the same discount rate is justified.
[6] The rate of increase in salaries, and the rate of pension increase for Section C members (who joined RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

Mortality

The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (116 per cent for male pensioners and 109 per cent for female pensioners). Future improvements are based on the CMI 2015 core projections with a long-term trend of 1.5 per cent per annum.

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	**240**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	**180**
Decrease in discount rate of 0.1% p.a.	**180**
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	**35**

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes 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).

b) RMPP and RMSEPP assets

	At 25 March 2018			At 26 March 2017		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities						
UK	**15**	**106**	**121**	22	126	148
Overseas	**411**	**25**	**436**	561	27	588
Bonds						
Fixed interest – UK	**336**	**12**	**348**	306	11	317
– Overseas	**600**	**67**	**667**	938	14	952
Index linked – UK	**175**	**148**	**323**	26	151	177
Pooled investments						
Managed funds	**1,149**	**-**	**1,149**	1,018	–	1,018
Unit Trusts	**6,682**	**-**	**6,682**	6,004	–	6,004
Property (UK)	**28**	**271**	**299**	26	317	343
Cash and cash equivalents	**426**	**-**	**426**	320	–	320
Other	**2**	**-**	**2**	5	–	5
Derivatives	**(92)**	**-**	**(92)**	(25)	–	(25)
Total plans' assets	**9,732**	**629**	**10,361**	9,201	646	9,847

There were no open equity futures or options derivatives within this portfolio at 25 March 2018 (2016-17: £1 million). £6 billion (2016-17: £5 billion) of HM Government Bonds are primarily included in Unit Trusts above. The plans' assets do not include property or assets used by the Group, but do include shares of the Royal Mail plc with an approximate market value of £84,000 at 25 March 2018 (2016-17: £21,000).

Risk exposure and investment strategy

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

RMPP's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the funding liabilities which it was estimated would be built up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps and Gilt repurchase agreements) held in Unit Trust pooled investments providing economic exposure to gilts and swap rates.

The change in value of the liability-hedging assets is predominantly reflected in the Unit Trust values above, which have increased from £6,004 million at 26 March 2017 to £6,682 million at 25 March 2018.

The notional value covered by the inflation rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 25 March 2018 was £2.4 billion (2016-17: £2.3 billion). The notional value covered by the interest rate swaps at 25 March 2018 was £3.2 billion (2016-17: £1.9 billion).

The equity exposure of RMPP has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to

reduce downside risk whilst broadly maintaining the existing expected returns. The TRS have a market value as at 25 March 2018 of £21 million (2016-17: £(17) million included in the derivative values above. The TRS economically offset £257 million as at 25 March 2018 (2016-17: £260 million) of the Plan's global equity market exposure.

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

In addition to holding return-seeking assets, RMSEPP holds long-dated index linked gilts of £175 million (2016-17: £26 million) and the buy-in annuity policy of £148 million at 25 March 2018 (2016-17: £151 million) to match its liabilities. In order to increase the level of interest rate and inflation hedging, RMSEPP has borrowed £115 million (2016-17: £nil million) of the UK Government Bonds it holds via Gilt repurchase agreements. These are included in the derivative values above.

c) 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 25 March 2018 £m	At 26 March 2017 £m	**At 25 March 2018 £m**	At 26 March 2017 £m	**At 25 March 2018 £m**	At 26 March 2017 £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)	**(7)**	(5)	**(899)**	(683)	**(906)**	(688)
Pension interest income/(cost)[7]	**251**	265	**(160)**	(145)	**91**	120
Total included in profit before tax	**244**	260	**(1,059)**	(828)	**(815)**	(568)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial (loss)/gain arising from:						
Financial assumptions	**-**	-	**(53)**	(1,711)	**(53)**	(1,711)
Demographic assumptions	**-**	-	**-**	243	**-**	243
Experience assumptions	**-**	-	**1**	76	**1**	76
Return on plans' assets (excluding interest income)	**62**	1,791	**-**	-	**62**	1,791
Total remeasurement gains/(losses) of the defined benefit surplus	**62**	1,791	**(52)**	(1,392)	**10**	399
Other						
Employer contributions[8]	**272**	476	**-**	-	**272**	476
Employee contributions	**5**	6	**(5)**	(6)	**-**	-
Benefits paid	**(70)**	(55)	**70**	55	**-**	-
Curtailment costs	**-**	-	**(3)**	(5)	**(3)**	(5)
Movement in pension-related accruals	**1**	(5)	**3**	(1)	**4**	(6)
Total other movements	**208**	422	**65**	43	**273**	465
Retirement benefit surplus (pre IFRIC 14 adjustment) at 25 March 2018 and 26 March 2017	**10,361**	9,847	**(7,038)**	(5,992)	**3,323**	3,855
IFRIC 14 adjustment	**n/a**	n/a	**n/a**	n/a	**(1,160)**	(16)
Retirement benefit surplus (net of IFRIC 14 adjustment) at 25 March 2018 and 26 March 2017	**n/a**	n/a	**n/a**	n/a	**2,163**	3,839

In addition to the above items which affect the net defined benefit surplus, estimated curtailment costs of £nil million (2016-17: £4 million) have been provided for in transformation costs in the income statement, along with the associated redundancy costs.

[7] 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.

[8] Excludes payments into pension escrow investments of £178 million (2016-17: £nil million).

Financial Calendar
Trading update – 17 July 2018
Annual General Meeting – 19 July 2018
Ex-dividend date – 26 July 2018
Record date – 27 July 2018
Payment date – 31 August 2018

FORWARD-LOOKING STATEMENTS

Disclaimers

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

Forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward looking statements.

By their nature, forward looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

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