

FINANCIAL RESULTS

15 November 2018

ROYAL MAIL PLC RESULTS FOR THE HALF YEAR ENDED 23 SEPTEMBER 2018

Royal Mail plc (RMG.L) today announces its results for the half year ended 23 September 2018.

Rico Back, Group Chief Executive Officer, commenting on the results, said: “We have put in place a range of actions to improve our performance. We are reconfirming our commitment to our revised £100 million cost avoidance target and adjusted Group operating profit before transformation costs of £500 million - £550 million for the financial year.

“We will update the market next year on our strategy. There will be a greater emphasis on how we connect customers, companies and countries through our domestic and international businesses. There will be a clearer focus on financial performance and management accountability. In March, we will host our first Capital Markets day since IPO in 2013. We will share more detail then about our direction for the next five years.”

Group financial summary¹

	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017	Underlying change ²
Reported results (£m)			
Revenue	4,932	4,829	1%
Operating profit before transformation costs	208	89	
Operating profit after transformation costs	156	26	
Profit before tax	33	77	
Profit after tax	5	168	
Basic earnings per share (pence)	0.5p	17.1p	
In-year trading cash flow	(100)	125	
Net debt	(470)	(382)	
Interim dividend per share (pence)	8.0p	7.7p	4%
Adjusted results (£m)			
Revenue	4,932	4,829	1%
Operating profit before transformation costs	242	323	(25%)
Operating profit after transformation costs	190	260	
<i>Margin</i>	3.9%	5.4%	(150bps)
Profit before tax	183	250	(27%)
Profit after tax	136	198	
Basic earnings per share (pence)	13.6p	20.1p	

Business units

	Revenue			Adjusted operating profit before transformation costs	
	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017	Underlying change	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
(£m)					
UKPIL	3,585	3,624	(1%)	165	233
GLS	1,347	1,205	9%	77	90
GROUP	4,932	4,829	1%	242	323

Group performance^{1,2}

- Revenue up one per cent on an underlying basis. GLS revenue increased nine per cent, more than offsetting one per cent decline in UKPIL revenue.
- Adjusted operating profit before transformation costs of £242 million was down 25 per cent on an underlying basis, primarily reflecting lower revenue in the UK, poor productivity performance and, consequently, lower cost avoidance in the UK, as well as higher than expected cost pressures in GLS.
- In-year trading cash outflow of £100 million arising primarily from, as previously indicated, a £101 million payment in relation to the 2017-18 pay award³.
- Adjusted operating profit margin after transformation costs of 3.9 per cent, down 150 basis points.
- Adjusted profit before tax of £183 million was down 27 per cent on an underlying basis, largely reflecting the operational performance.
- Adjusted basic earnings per share (EPS) of 13.6 pence was down 6.5 pence.

Business performance^{1,2}

UKPIL

- UKPIL revenue down one per cent on an underlying basis.
- UK parcels business performing well. UK parcel revenue and volumes up six per cent. Royal Mail domestic account parcel volumes, excluding Amazon, up eight per cent.
- Addressed letter volumes (excluding the impact of political parties' election mailings) down seven per cent. Total letter revenue (including marketing mail) down by seven per cent. Excluding the benefit of political parties' mailings in relation to the general election in H1 2017-18, total letter revenue down five per cent.
- Disappointing UK productivity performance, significantly below plan at -0.2 per cent⁴. UKPIL total costs up one per cent. Transformation costs of £52 million.
- Costs avoided of £41 million.
- Implementing short-term cost actions, including a review of our organisational structure and management roles, discretionary spend and central costs.

GLS

- GLS revenue up nine per cent on an underlying basis. Volumes up six per cent, excluding recent acquisitions. Including acquisitions, revenue up 11 per cent on a constant currency basis.
- Adjusted GLS operating profit margin declined to 5.7 per cent, due to previously highlighted labour market and other cost pressures across Europe and the US.
- Good revenue growth at Golden State Overnight (GSO). GSO and Postal Express being integrated to create an interstate overnight parcel delivery service with full US west coast coverage. Expected synergies and benefits will now take longer to be realised. This is because of local cost pressures, refocusing the customer base, transitioning to the new business model and ongoing integration costs. Recognising a £68 million impairment against the goodwill and other assets related to the acquisition of these businesses: non-cash operating specific item.

Outlook summary for 2018-19

- Outlook and other guidance for 2018-19 unchanged.
- Adjusted Group operating profit before transformation costs of £500 million to £550 million on a 52 week basis.
- UKPIL parcel volumes and revenue growth rates to be better than in 2017-18.
- Addressed letter volume decline (excluding political parties' election mailings) similar to decline in first half.
- Committed to £100 million cost avoidance target; UKPIL productivity improvement significantly below our original expectation (towards the upper end of the two to three per cent range).
- Transformation costs of around £150 million due to short-term cost actions.
- Continued good revenue growth in GLS. Targeting adjusted operating profit margins of over six per cent.
- Total net cash investment of around £500 million.
- The Group has a progressive dividend policy. In line with our dividend policy, the interim dividend of 8.0 pence has been set as one third of the prior year's total dividend.

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Results presentation:

A results presentation for analysts and institutional investors will be held in London at 9:30am on Thursday 15 November 2018. A simultaneous webcast will be available at www.royalmailgroup.com/results.

A trading update covering the nine months ending 23 December 2018 is expected to be issued on 29 January 2019. A conference call for analysts and institutional investors will be held on that date.

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Company number 08680755

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

² Movements are presented on an underlying basis.

For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the half year ended 23 September 2018, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures.'

³ The Agreement applies to employees in CWU represented grades in Core Operations, Logistics (excluding RM Fleet), Engineers, RMSS and Royal Mail International. It is subject to contract. A separate agreement has been finalised between Parcelforce Worldwide and the CWU. Details of arrangements for RM Fleet and Parcelforce Worldwide employees are appended to the Agreement. Separate negotiations will take place for other CWU grade employees within Royal Mail as per current arrangements. It does not apply to Unite-represented grades.

⁴ We have refined the calculation of workload since the October trading update, resulting in a change to the productivity performance for the first half.

CHIEF EXECUTIVE OFFICER'S REVIEW¹

Introduction

Four months into my new role as CEO, it was very disappointing to have to announce in early October our poor UK productivity and cost performance. In our trading update, we lowered our 2018-19 cost avoidance target to £100 million. We are committed to this target. We are also maintaining our revised outlook for adjusted Group operating profit before transformation costs of £500 million to £550 million for this financial year.

We are setting out, in some detail, the actions we are taking to address our performance issues. They include: the known and understood actions underpinning our £100 million cost avoidance target; pricing movements in UK business mail and in many GLS markets; undertaking an assessment of the productivity and efficiency opportunities under our Agreement with CWU; conducting a UK Network Review, which aims to clarify how we can create a modern, optimised and efficient network to deliver letters, parcels and other products; and at the Capital Markets day we will provide an update on a Royal Mail for the future and our direction for the next five years.

In short, we as a management team are focused on pulling all the short and medium-term levers at our disposal to improve our performance.

Setting out our plans for the future

Against the backdrop of difficult trading conditions, it is important to highlight the major advantages underpinning our business model. This is a great Company with great brands. We have, by far, the best delivery network in the UK: our ability to deliver most of our letters and parcels together is a major asset. In GLS, we have one of the largest deferred, ground-based networks in Europe. Product and geographical diversification is a key and ever-increasing part of our business model. We have a strong balance sheet and strong cash generation characteristics.

Our results presentation today will be followed by a Christmas update in January and a Capital Markets day in March 2019. As we will just have come to the end of our annual business planning process, the Capital Markets Day will be our first opportunity to share our plans on a number of key topics. They include our assessment of the productivity and efficiency opportunities under the Pensions, Pay and Pipeline Agreement ('the Agreement') with the CWU and a UK Network Review. We will also provide an update on our productivity plans.

We will be updating the market next year on our strategy. All the work we will share with you is about a Royal Mail for the future, and our direction for the next five years. There will be many elements of our strategy that we will retain. You will also see a greater emphasis on how we connect customers, companies and countries through our domestic and international businesses. There will be a clearer focus on financial performance and management accountability. We are conducting a review of our overall investment spending for this financial year. That process is underway. We will continue to invest in the UK.

Our UK productivity and cost avoidance programme

In the first three months of the financial year, we were experiencing the after-effects of the industrial dispute. We therefore did not expect a great deal in the way of productivity improvements. This proved to be the case in the first quarter.

We did expect, however, a move upwards in productivity during the second quarter. The slower ramp up in productivity in the second quarter was due to a combination of factors. This included the continued after effects of the industrial dispute, delayed implementation of cost avoidance projects and the complexity involved in implementing elements of the Agreement. The lack of progress in this respect crystallised our management judgement that we would not be able to deliver our productivity improvement target for the full year (i.e. towards the upper end of the two to three per cent range). Accordingly, we revised our 2018-19 cost avoidance target downward from £230 million to £100 million.

¹ Movements are presented on an underlying basis. For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the half year ended 23 September 2018, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures'.

The £100 million of sustainable savings is underpinned by a series of initiatives across all areas of the business. The initiatives behind these savings are on track. We are confident we will deliver the £100 million. We are also deploying a range of short-term cost actions, including a review of our organisational structure and management roles, discretionary spend and central costs.

New ways of working

The operational elements of the Agreement, coupled with business-as-usual initiatives and continuous improvement, are the means by which we aim to deliver productivity improvements.

Specific efficiency incentives were detailed in the Agreement. The Delivery Methods trial is about testing multiple new modes of letter delivery. The conclusions will be important in negotiations for a new delivery agreement in 2019. Postal Digital Assistant (PDA) Outdoor Actuals, alongside the ongoing trials of Automated Hours Data Capture (AHDC) and Resource Scheduler, are about aligning hours worked with workload and fairness in processing, logistics and delivery. The annual Processing and Logistics Review optimises network planning and logistics management – a sizeable operation for us in its own right – across the UK.

The Agreement is wide ranging and has secured a fair and sustainable pensions solution for the Company and colleagues. Funding the overall deal, however, requires the successful deployment of the specific measures too. We are conducting an assessment of (a) our existing business-as-usual initiatives and continuous improvement programme and (b) current trials, including scalability and ability to deliver services required to pay for the Agreement.

Our UK Network Review

We get very considerable benefits from the combined delivery of letters and parcels in the UK. This is our economic sweet spot. It will remain the case for a considerable period that letters will be central to the economics of our business. This is the environment within which we have begun a UK Network Review ('the Review') to develop the blueprint for a modern, optimised, efficient network to deliver letters, parcels and new products, combining new methods of processing and delivery with automation, where appropriate. For clarity, we have got the best network in the UK. This is about getting the best from it. It is not about building a new network.

Since privatisation, we have invested around £2 billion in modernisation – particularly in IT and parcels development. This has delivered great benefits. But, recent investment in our UK network itself has been more modest. If further investment is required, we will ensure this is targeted and focused on delivering efficiencies and greater effectiveness. We will take an evolutionary and phased approach within an agreed expenditure envelope.

Our international business

Our Company is becoming more diversified on two counts. Firstly, parcels account for 62 per cent of our Group revenue in the first half, compared to 50 per cent five years ago. Secondly, we are becoming more international. The UK and continental Europe are our two linchpins. We have a growing presence in North America too. In the first half of the year, our non-UK revenue² was around 38 per cent of the Group total. This is probably more than many people might think.

In the future, there will be a determined focus to leverage the synergies between Royal Mail and GLS more effectively. Royal Mail International is well placed to benefit from the UK's leading presence in cross-border e-commerce. Royal Mail International is already accessing the GLS European network, and in the first half shipped around two million parcels from the UK into the network. The next stage will be to connect into GLS North America. Royal Mail's global network is a postal option for all our GLS and UK clients. Our ambition is to offer parcel solutions to anywhere in the world, for any customer.

² Non-UK revenue consists of GLS, Royal Mail International and Parcelforce Worldwide international revenue.

GLS

GLS performance in the first half of the year reflects the ups and downs of good economic growth across Europe. On one hand, revenue was up nine per cent based on good volume growth and necessary price increases. On the other hand, the adjusted operating profit margin has declined to 5.7 per cent. This is primarily because of the labour and other cost pressures associated with that economic growth, and due to losses in France and the US.

Our current view is that we can recover some of that margin in the second half through prudent pricing actions and tight cost management. We are targeting adjusted operating profit margins of over six per cent for the full year.

Our combined Spanish business is performing well. GLS Spain revenue was up 17 per cent in the first half on an underlying basis. We are now a major player in the Spanish market. Dicom Canada has just become part of our Group, giving us a significant presence in one of the world's largest economies and a primarily B2B focus.

Our US business

We acquired two separate businesses on the west coast of the United States in the last two years – GSO and Postal Express. We are in the process of integrating these operations to create an interstate overnight parcel delivery service with full US west coast coverage, with the aim of realising operational synergies and commercial benefits.

We are pleased with the revenue development in GSO, which is showing good growth. We are investing organically to expand the network further in Idaho and into Utah. In Postal Express, profitability continues to be impacted by its integration with GSO and the decision to refocus our customer base to SMEs and mid-sized corporate customers.

As well as integrating the operations, we have accelerated the transition of the businesses to a fully independent contractor model. This is in line with the tried and tested GLS approach elsewhere. It is a necessary and important step. But, it does generate transitional costs. While we are making progress with our plans, the combined impact of cost pressures and our actions means that the expected synergies and benefits will now take longer to be realised. Accordingly, we are recognising a £68 million impairment against the goodwill and other assets related to the acquisition of these businesses. This is a non-cash operating specific item.

Conclusion

The last few months have been challenging. We are disappointed with our performance, and are taking a range of actions to address this.

We are comfortable with our guidance for the financial year. Our cost avoidance target is underpinned by a range of known and understood actions. Christmas, as always, is a key factor in the equation. Our preparations for the festive season are going very well. We will share our seasonal performance with you in January.

We have got some great strengths. They include our people, our brands, our product and geographical diversification, and our strong balance sheet. Over the next few months, we are focused on leveraging those strengths to deliver for our shareholders, while taking the next steps to plan for our future. We will provide shareholders with a further update at our Capital Markets day in March 2019.

Royal Mail has been in existence in one form or another for over 500 years. We have transformed ourselves many times before. We will succeed by working, first and foremost, with our people and our customers.

BUSINESS REVIEW¹

UKPIL Parcels

Parcels growth in the UK is largely driven by e-commerce. The UK alone makes up around 30 per cent of the European e-commerce market. UK retailers, and their customers, have many options. Access to an extensive network is vital. Royal Mail has the most developed UK network: over 90 per cent of the UK population are within one mile of a Royal Mail parcel access point. Through our Local Collect service, customers can collect their parcels from over 11,000 sites.

We continue to look for new areas of growth. Our recent Subscription Economy Report² found that the subscription box market is forecast to grow by 72 per cent to £1 billion by 2022. Subscription e-commerce has moved on from a previous focus on magazines and newspapers, to everything from recipe kits to shaving gear.

Our progress

UK parcels performed well. Volumes and revenue were up six per cent on an underlying basis, driven by new business wins and more traffic with existing customers in domestic parcels. Royal Mail domestic account volumes (excluding Amazon) were up eight per cent. At 25 per cent, Royal Mail Tracked 24[®]/48[®] and Tracked Returns[®] volume growth is strong. Amazon parcel volumes grew strongly due to higher volumes of letterboxable items. The extension of our customer Latest Acceptance Times for our Tracked 24[®] product in July 2018 will help support the growth in e-commerce in the UK. It enables late night online shopping for next day delivery at scale, covering 95 per cent of the United Kingdom. This service has already won new business.

We are making a significant investment in Christmas, our most important time of the year. We are opening six temporary parcel sort centres and recruiting around 23,000 temporary workers. Over 1,100 Enquiry Offices will be open on Sunday 23 December 2018. All will open on Christmas Eve. These measures are about delivering the best possible service to our customers throughout the Christmas period.

We are embedding sustainability into the heart of our delivery strategy. With the UK's biggest by far "feet on the street" network, we play a key role in lowering carbon emissions associated with delivery. The many letterboxable items in our network are ideally suited for foot delivery. In addition, 100 electric vans are now in active use at 17 sites across the country.

UKPIL Letters

Challenging market conditions

UK letter volumes are impacted by a number of factors. They include ongoing structural decline due to e-substitution, business uncertainty and the impact of GDPR, which particularly impacts marketing material. Some businesses are replacing physical letters with other media. They are also consolidating mailings to reduce costs.

Addressed letter volumes were down seven per cent (excluding political parties' election mailings). We expect a similar decline for the full year. Total letter revenue (including marketing mail) was down by seven per cent. Excluding the benefit of political parties' mailings in relation to the general election in the first half of 2017-18, total letter revenue was down five per cent. Marketing mail revenue, which includes redirections and our Address Management Unit, decreased by five per cent.

Over the years, there has been major investment in our letters operations to increase efficiency. In 2010, only eight per cent of Royal Mail letters were automatically sequenced into walk order. Now, around 85 per cent of letters are walk-sequenced. We have expanded Mailmark[™] to more letters, providing senders with more detailed mailing information and ensuring we bill accurately for our services.

¹ Movements are presented on an underlying basis. For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the half year ended 23 September 2018, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures'.

² The UK Subscription Box Boom Report, compiled by GlobalData for Royal Mail, draws findings from a bespoke consumer survey using a nationally representative sample of 2,000 shoppers and a bespoke B2B survey of 53 directors and senior managers. It was commissioned in May 2018.

Our Keep Me Posted campaign is supported by 126 organisations that recognise the importance of giving consumers the choice of paper bills and statements. As part of the Joint Industry Committee for Mail, we are continuing our efforts to offer standardised data on the reach and readership of mail. This engagement will demonstrate more clearly to the market how consumers interact with direct mail.

As previously announced, we exceeded our regulatory Quality of Service target for Second Class mail in the first half of the year. Disappointingly, we could not, however, meet our regulatory target for First Class mail. We are working closely with Ofcom in relation to the regulatory investigation into our regulated Quality of Service performance for 2017-18. In the non-regulated area, business customer satisfaction for Royal Mail Tracked 24[®]/48[®] services is high. 94 per cent of customers are satisfied with the service.

In August, we announced that we would appeal Ofcom's competition law infringement decision. The decision, and fine of £50 million, relates to a price change announced in 2014 – never implemented or paid – under our Access Letters Contract. The announced price change had been robustly stress tested by Royal Mail under competition law and the relevant regulatory framework. Royal Mail has now lodged an appeal with the Competition Appeal Tribunal to have both Ofcom's decision and fine overturned. No fine is payable until the appeals process is exhausted.

In October, we informed Access mail operators and large business mail senders that we were increasing wholesale pricing for business mail by an average of nine per cent from January 2019. This affects businesses like banks and insurance companies sending large volumes of business mail. We thought long and hard about these changes. But, we reported an operating loss for our wholesale business on a regulated business basis in 2017-18³. This move will help us maintain, sustain and invest in the Universal Service.

Customer-focused and digitally-enabled

Since privatisation in 2013, we have invested around £2 billion in the ongoing modernisation of our UK operation. For example, our rollout of more than 80,000 PDAs – completed in 2018 – established one of the largest IT estates of its kind in Europe.

Customer-focused innovation has continued at pace. New initiatives have been announced in recent months. They include trialling the UK's first parcel postboxes in Northampton and Leicester, the first potential major change for the postbox in 160 years.

Another important development was the introduction of new measures to improve the online shopping experience. They include Delivery to Neighbour enhancements; retailers can give customers more information about the delivery progress of their items. Notifications now identify the neighbour's address. This makes it even easier for recipients to know who has their parcel if they are not at home for delivery.

Our international parcels business

Continued geographical diversification

A key focus for us is the development of our international parcels business, which now operates in 44 countries. Improved integration between Royal Mail International and GLS means more customers benefit from Royal Mail's global experience, and GLS' expertise and reach across continental Europe. Outbound parcels are delivered by a range of delivery partners elsewhere: the Universal Service Obligation (USO) provider, or other players where appropriate. Another example of our increased international focus is the success of Royal Mail International's initiative to attract more cross-border traffic from Asia. This service is being expanded, with opportunities in the US being explored.

As part of our focused geographical expansion, we announced in September that we had acquired Dicom Canada. It is primarily a B2B parcel services provider. Dicom Canada operates across Canada with a major focus on the Eastern Provinces of Ontario and Quebec. Canada is the world's tenth largest economy⁴, with Ontario and Quebec representing 57 per cent of the country's GDP⁵. Dicom Canada is well-placed to leverage growth trends in these markets and give us an established market position in this key economy.

³ An operating loss after transformation costs was reported for Network Access products in the 2017-18 Regulatory Financial Statements, prepared in accordance with the USP Accounting Condition and Regulatory Accounting Guidelines as defined by Ofcom.

⁴ Based on current GDP in November 2018 from International Monetary Fund DataMapper.

⁵ Gross domestic product (GDP) at basic prices, by industry, provinces and territories. Statistics Canada.

The company's performance was in line with our expectations in the first month following acquisition. The transaction is expected to be earnings and cash flow accretive to the Group in the current financial year.

GLS

Across Europe, GLS is benefiting from good economic conditions. At the same time, however, those stronger economic conditions are leading to a significant increase in labour and non-labour costs, e.g. contractor costs. This is having an impact on the GLS margin. We expect to implement price increases in a number of countries in the second half of the year. We are also actively reviewing discretionary spend across all our markets.

Volumes were up six per cent, while revenue increased by nine per cent. The strong revenue performance was driven by price increases in several markets. Revenue growth was achieved in most markets. Our three largest markets, Germany, Italy and France, accounted for 58 per cent of total revenue, down slightly from the first half of 2017-18. This reflects our growth in other European markets and recent acquisitions in North America.

In Germany, GLS' largest market, revenue was up seven per cent. In Italy, it increased by eight per cent. Revenue in France was up five per cent. France continues to be a challenging market. Actions are underway to improve quality and profitability. GLS Spain is performing strongly, with strong B2B and B2C volume growth.

In the western United States, we are integrating GSO and Postal Express to create an interstate overnight parcel delivery service. While we are making progress with our plans, the combined impact of local cost pressures, refocussing the customer base, transitioning to the new business model and ongoing integration costs means that the expected synergies and benefits will now take longer to be realised. Accordingly, we are recognising a £68 million impairment against the goodwill and other assets related to the acquisition of these businesses. This is a non-cash operating specific item. Please see the paragraph entitled 'USA' in the section entitled 'General Logistics Systems (GLS)' and the paragraph entitled 'Specific items and pension charge to cash difference adjustment' in the section entitled 'Group Results' in the Financial Review for more information.

Pensions, productivity, new ways of working and network review

Pensions

We are making good progress with the pension elements of our Agreement with the CWU. The closure of the Royal Mail Pension Plan to future accrual in its previous form ensured we avoided an expected increase in cash contributions to around £1.25 billion per annum. Our total contributions in respect of all pension schemes remain at around £400 million per annum. This is one of the largest ongoing annual cash costs for any UK company. We are working closely with the CWU to secure the introduction of the UK's first Collective Defined Contribution (CDC) scheme. We were pleased to see the Government's recent publication of the public consultation on the introduction of CDC schemes. This is an important step forward in our campaign to allow us to offer a CDC scheme for over 140,000 UK employees as soon as possible.

Productivity and cost avoidance

Delivering significant productivity gains is vital to sustaining the Universal Service. It was very disappointing that we announced a productivity decline of 0.2 per cent⁶, significantly below plan. We now expect our full year performance to be significantly below our original expectation (which was towards the upper end of the two to three per cent range for 2018-19). We accordingly lowered our 2018-19 cost avoidance target from £230 million to £100 million.

Our revised £100 million cost avoidance target is underpinned by a comprehensive programme of activity. In addition, a series of short-term cost actions are being taken, including a review of our organisational structure and management roles, discretionary spend and central costs.

The operational elements of the new Agreement are about new working conditions, new technology and digitisation, and new growth initiatives. This is a challenging agenda. In addition, in the first three months of the financial year, we had not expected a great deal in the way of productivity improvement. Indeed, the first quarter was as we expected it to be.

We had, however, expected a move upwards in productivity in our second quarter. The slower ramp up in productivity in the second quarter was due to a combination of factors. This included the continued after effects of the industrial dispute, delayed implementation of cost avoidance projects and the complexity involved in implementing elements of the Agreement. We are working on an assessment of the efficiency and productivity opportunities available under the Agreement (see the 'New ways of working' section).

Our UK Network Review

Royal Mail derives very considerable benefits from the combined delivery of letters and parcels. Whilst we are transforming into a UK parcels operation that also handles letters, it will remain the case for some time that letters are central to the economics of our business.

Against this strategic backdrop, Royal Mail is undertaking a UK Network Review ('the Review'). This is a holistic exercise. It is about finding the best way to collect, process, and deliver letters and parcels. It will take into account changing market conditions in letters and parcels. One of its starting points, however, is that based on previous analysis, the current USO specification is the best way to maintain the revenue available to sustain the Universal Service.

Fundamentally, the Review will focus on how we can create a modern, optimised, efficient network to process and deliver letters, parcels and innovative new products as well. More automation is only part of the answer. Most of our items, especially those that are letterboxable, will continue to be delivered on foot through our network.

We will take an evolutionary and phased approach to any investment within an agreed expenditure envelope. The main findings from the Review will be shared with stakeholders at the Capital Markets day.

Brexit

While the shape of the future relationship between the UK and the EU remains unclear, it is not possible to predict with any degree of accuracy the impact Brexit could have on us. The main issues for our Group relate to any potential economic downturn, and changes associated with customs and VAT processing. We believe the immediate risk to our domestic operations is low. We are working with key suppliers to ensure our supply chain remains secure. Internal procedures are in place to monitor and manage ongoing risks.

Historically, there has been a correlation between economic conditions and the level of letter and parcel volumes. Flat or adverse economic conditions have a bearing on our ability to maintain and grow revenue, particularly as business customers look to reduce costs. A decline in the value of Sterling also impacts our international business.

The impact of Brexit on cross-border parcel volumes will depend on the nature of the UK's future trading relationships, and what future EU/UK customs and VAT arrangements look like. In a 'no deal' situation, we expect the rules which apply to non-EU imports to be extended to EU items. Similarly, we would expect the EU to treat UK imports as it does non-EU imports today. We are well placed to manage the impact of changes to customs processing. Royal Mail was the only company to get a specific mention in the UK Government's Customs White Paper. We are working closely with Government on alternative models for customs and tax collection after the UK leaves the EU.

Current trading and Outlook for 2018-19

Current trading is in line with our revised expectations. Our outlook and other guidance is unchanged. We continue to expect adjusted Group operating profit before transformation costs in the range of £500 million to £550 million for the full year on a 52 week basis.

Given our performance to date, we expect UKPIL parcel volumes and revenue growth rates for the full year to be better than in 2017-18. We maintain our medium-term outlook for addressed letter volume declines of between four to six per cent per annum (excluding political parties' election mailings). For this year, we maintain our outlook for a similar decline to that which we have seen in the first half.

We are committed to our £100 million cost avoidance target. We expect UKPIL productivity improvement in 2018-19 to be significantly below our original expectation (towards the upper end of the two to three per

cent range). While productivity improvements are lower than anticipated, we continue to expect transformation costs of around £150 million due to the short-term cost actions we are taking.

We expect continued good revenue growth in GLS for the full year. As a result of pricing initiatives and cost mitigation actions, we are targeting adjusted operating profit margins of over six per cent for the full year.

We are well prepared for the Christmas season. The outcome for the full year will be dependent on our performance over this period.

We continue to target total net cash investment of around £500 million in 2018-19. The Group has a progressive dividend policy. In line with our dividend policy, the interim dividend of 8.0 pence has been set as one third of the prior year's total dividend.

Board changes

There have been a number of changes to the Board in the first half of the year. In July 2018, Paul Murray retired from the Board and as Chairman of the Audit and Risk Committee. We have benefited significantly from Paul's wisdom and experience. We thank Paul for his dedication and commitment during a key time for us. Keith Williams took over from Paul as Chair of the Audit and Risk Committee.

In September 2018, Peter Long informed the Company of his decision to step down from the Board. The Board would like to offer our thanks to Peter for his contribution to our Company. He has led the Board through a time of major change, including ongoing transformation, industrial relations agreements and changes to the Board itself, including the transition of CFO, Stuart Simpson, and Group CEO, Rico Back. At the same time, we were pleased to confirm the immediate appointment of Les Owen, a highly experienced Board member, as Chairman. Les has a deep understanding of our business and the challenges we face. September 2018 also saw the retirement of Dame Moya Greene, who had been our Chief Executive Officer for eight years. Moya stepped down from the Board in July 2018. The Board also offers Moya thanks for her considerable service to the Company and its shareholders. We wish her well in her future endeavours.

Outside the reporting period, in November 2018, we announced that Sue Whalley, CEO, Post and Parcels UK, and the Board agreed that she will leave Royal Mail. She stepped down from the Board with immediate effect and will transition her responsibilities by the end of March 2019. We would like to thank Sue for the significant contribution she has made to Royal Mail across a whole range of issues over the last 12 years. We wish her well in the future. At the same time, we announced that Keith Williams has been appointed Deputy Chairman with immediate effect, in addition to his responsibilities as Chair of the Audit and Risk Committee. Keith has a very strong track record in operational transformation, digital strategy and industrial relations, including pensions.

Finally, we would like to thank our people across our Group for their considerable effort during a challenging time.

PRINCIPAL RISKS

The Board considers that the principal risks faced by the Group for the remaining six months of the year are substantially unchanged from those described at pages 40-45 of the Royal Mail plc Annual Report and Financial Statements 2017-18, except that the status of the industrial action and efficiency risks have increased, as described under 'New Pensions, Pay and Pipeline Agreement and risk of industrial action'. The 'Employment legislation and regulation risk' has also been removed and replaced with a risk relating to workforce planning as described below under 'Regulatory and legislative environment'. Our updated principal risks are:

New Pensions, Pay and Pipeline Agreement and risk of industrial action

- As Royal Mail Group continues to pursue the necessary efficiency programmes in order to remain competitive in the letters and parcels markets and implements the new Pensions, Pay and Pipeline Agreement, there remains a risk of material disagreements or disputes between the Group and its trade unions resulting in widespread localised or national industrial action.
- We may not achieve the effective control of costs and efficiency benefits required to deliver our strategy.

As announced in the trading update on 1 October 2018, we have lowered our targets for cost avoidance and productivity improvements for 2018-19. It is also taking longer than anticipated to deliver some of the benefits of the Agreement with the CWU. As a result, the above two specific risks have increased. We are mitigating these through a comprehensive review of management structures, organisational design and restrictions on discretionary non-pay spend. We have also begun a review of the UK network, with a view to creating an optimised and efficient network.
- We may be unable to obtain the necessary legislative changes to implement the UK's first Collective Defined Contribution (CDC) pension scheme as agreed with the CWU. If alternative arrangements cannot be agreed, this may lead to industrial action.

Changes in market conditions and customer behaviour

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

Regulatory and legislative environment

- The absence of a sustainability framework may impact on Royal Mail's ability to support the USO.
- Depending on the outcome of the appeal against the Ofcom Competition Act decision, Royal Mail may be fined.
- A health and safety incident or failure could result in the serious injury, ill health or death of employees, contractors, agency workers or members of the public.
- A major breach of information security, data protection regulation and/or a cyber-attack could have a negative financial and reputational impact on the business or trigger material service and/or operational disruption.
- We may fail to attract and retain senior management and key personnel with appropriate expertise.
- Workforce planning could be adversely impacted as the demographic of our workforce changes alongside the availability of people with the right skills to join our organisation. We have added this risk to our principal risks to reflect its strategic importance.

We monitor the demographic of our workforce and in parts of our organisation we have an aging workforce as a result of the abolishment of the default retirement age. As this workforce ages, they may be incapable of fulfilling more physical roles. Advancement in technology is leading to increasing automation, which requires a different more specialist skill from a workforce. We therefore need to ensure our current workforce is capable of fulfilling the roles we require, whilst attracting the right skills and knowledge for the future.

- The risk 'Employment legislation and regulation' has now been removed from our principal risks.
The majority of changes to employment legislation and regulation that could, directly or indirectly, increase the Group's labour costs have already come into effect. There are no proposed changes in the short to medium term that are considered to have a material gross or net impact on costs.

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 'Condensed consolidated financial statements'.

In addition to reported results, the Group's performance in this Financial Review is also explained through the use of APMs that are not defined under IFRS. Management 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

	Reported 26 weeks ended 23 September 2018	Reported 26 weeks ended 24 September 2017
Summary results (£m)		
Revenue	3,585	3,624
Operating costs	(3,454)	(3,625)
Operating profit/(loss) before transformation costs	131	(1)
Transformation costs	(52)	(63)
Operating profit/(loss) after transformation costs	79	(64)
Operating specific items	(82)	(22)
Operating loss	(3)	(86)
<i>Operating profit/(loss) margin after transformation costs</i>	2.2%	<i>(1.8%)</i>

The full UKPIL reported results are set out in the paragraph entitled 'Segmental reported results'. UKPIL reported revenue was £39 million lower compared with the first half of 2017-18. This was due to lower letter revenue not being offset by growth in parcels revenue. Operating profit before transformation costs increased to £131 million. This was largely due to the reduction of the IAS 19 pension charge to £311 million (H1 2017-18: £510 million) following the closure of the Royal Mail Pension Plan (RMPP) to future accrual in its previous form from 31 March 2018.

Operating profit after transformation costs was £79 million compared with a loss of £64 million in the prior period. Operating specific items increased by £60 million, largely due to the purchase of a further buy-in insurance policy for the Royal Mail Senior Executives Pension Plan (RMSEPP). Further details are set out in the paragraph entitled 'Pensions'. Operating loss for the period decreased by £83 million to £3 million compared with the first half of 2017-18.

Adjusted results

The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'.

	Adjusted 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017	Underlying change ¹
Summary trading results (£m)			
Letters and other revenue ²	1,399	1,504	(7%)
Marketing mail ²	496	524	(5%)
Total letters ²	1,895	2,028	(7%)
Parcels	1,690	1,596	6%
Revenue ²	3,585	3,624	(1%)
Operating costs before transformation costs	(3,420)	(3,391)	1%
Operating profit before transformation costs	165	233	(29%)
Transformation costs	(52)	(63)	(18%)
Operating profit after transformation costs	113	170	(34%)
<i>Margin after transformation costs</i>	3.2%	4.7%	<i>(150bps)</i>
Letters (millions)			
Addressed letters	5,094	5,610	(7%)
Unaddressed letters	1,381	1,510	(9%)
Parcels (millions)			
Core network	550	516	6%
Parcelforce Worldwide	48	47	2%
Total	598	563	6%

Revenue declined by one per cent on an underlying basis. Total parcel revenue was up six per cent, while letter revenue was down seven per cent.

Our UK parcels business is performing well. Total parcel volumes and revenue increased by six per cent on an underlying basis. Royal Mail domestic account parcels volumes, excluding Amazon, were up eight per cent as we won new customers and gained more traffic from existing customers. Royal Mail Tracked 24[®]/48[®] and Tracked Returns[®] volumes, our key e-commerce products, grew by 25 per cent. Amazon parcel traffic grew strongly due to higher volumes of letterboxable parcels. We expect the second half to benefit from new volumes due to the extension of our customer Latest Acceptance Times for our Tracked 24[®] product.

Our international parcels business continued to benefit from our initiative to attract cross-border traffic, mainly from Asia into mainland Europe and the UK. This accounted for around two percentage points of the underlying parcel volume growth and around one percentage point of the parcel revenue growth. This service is being expanded and we are exploring cross-border opportunities with the US. We saw lower import parcel volume growth outside of our cross-border initiative. However, this was largely offset by higher revenue due to increased import rates. Contract export volumes declined due to the competitive market. We have initiatives in place to improve our export competitiveness through enhanced quality of service, tracking and customer reporting. Parcelforce Worldwide volumes increased by two per cent compared with four per cent in the first quarter, largely due to a customer withdrawing from the online retail market.

Addressed letter volumes (excluding political parties' election mailings) declined by seven per cent on an underlying basis. Our letter volumes, including marketing mail, are being impacted by ongoing structural decline, business uncertainty and General Data Protection Regulation (GDPR). We anticipate a similar decline for the full year. Our medium-term guidance of addressed letter volume (excluding political parties' election mailings) decline of four to six per cent per annum remains unchanged.

Low average unit revenue unaddressed letter volumes were down nine per cent as we lapped a period of strong growth in the prior period, due to initiatives which encouraged incremental volume growth.

Total letter revenue (including marketing mail) decreased by seven per cent. However, it was down five per cent excluding the benefit of political parties' mailings related to the general election in the first half of 2017-18. Marketing mail revenue decreased by five per cent as the decline in addressed advertising letters revenue was partially offset by growth in redirections revenue.

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. See paragraph entitled 'Underlying change' for further information.

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.

Adjusted operating costs before transformation costs

(£m)	Adjusted 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017	Underlying change ¹
People costs	(2,387)	(2,362)	1%
Non-people costs	(1,033)	(1,029)	Flat
Distribution and conveyance costs	(369)	(361)	2%
Infrastructure costs	(361)	(365)	(1%)
Other operating costs	(303)	(303)	Flat
Total	(3,420)	(3,391)	1%

Total adjusted operating costs before transformation costs increased by one per cent. This was largely driven by poor performance in people costs as we did not achieve the expected benefits from our business-as-usual initiatives and transformation projects. As a result, we saw a decline in productivity of 0.2 per cent³ in the first half. Due to an increase in variable hours as a result of high levels of sick absence and resourcing to recover Quality of Service, we only achieved a 0.1 per cent reduction in core network hours. As a result of poor productivity in the first half, we are expecting our productivity improvement in the full year to be significantly below our original expectation (towards the upper end of the two to three per cent range for 2018-19).

The UKPIL cost avoidance programme delivered £41 million costs avoided in the first half, largely due to last year's operational management headcount reduction, modernisation of our Heathrow distribution centre and savings on property, technology and central functions. Given the poor productivity performance, our 2018-19 cost avoidance target was lowered from £230 million to £100 million. We have plans in place to deliver the revised target for the full year. These include the absorption of the shorter working week. In addition, we have a range of short-term cost actions, including a review of our organisational structure and management roles, discretionary spend and central costs.

Adjusted people costs were one per cent higher on an underlying basis. This reflects the timing and amount of the frontline and manager pay awards. People costs in the period included the impact of high-levels of sickness-related absences, adverse weather conditions earlier in the year and additional investment to improve Quality of Service.

Non-people costs were flat. Distribution and conveyance costs increased by two per cent. This was largely driven by higher vehicle repair costs due to adverse weather and delays to the delivery of new vehicles. Total diesel and jet fuel costs were broadly flat (H1 2017-18: £67 million) and we expect them to be broadly flat for the full year. Terminal dues were £5 million lower, due to lower export volumes and favourable foreign exchange movements.

Infrastructure costs decreased by one per cent. Depreciation and amortisation was flat but we expect it to be £10 million higher for the full year. The cost avoidance programme delivered benefits through supplier contract renegotiations and lower discretionary spend across the property estate.

Other operating costs were flat mainly due to the impact of the cost avoidance programme.

Adjusted operating profit before transformation costs

Adjusted operating profit before transformation costs declined 29 per cent on an underlying basis. This was due to the prior period benefiting from political parties' mailings related to the general election in the first half of 2017-18, the impact of GDPR on marketing mail revenues and poor performance in people costs as we did not achieve the expected benefits from our business-as-usual initiatives and transformation projects.

The slower ramp up in productivity in the second quarter was due to a combination of factors. This included the continued after effects of the industrial dispute, delayed implementation of cost avoidance projects and the complexity involved in implementing elements of the Agreement. In addition, sick absence, which had increased during the dispute, was expected to reduce. However, sick absence has remained at elevated levels.

Transformation costs

(£m)	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Voluntary redundancy	(10)	(31)
Project costs	(42)	(32)
Total	(52)	(63)

³ We have refined the calculation of workload since the October trading update, resulting in a change to the productivity performance for the first half.

Transformation costs decreased by £11 million. Voluntary redundancy costs were lower than expected in the first half, as we have not achieved the expected levels of efficiency. There was a net increase of around 390 employees in the first half as we invested in resource to improve Quality of Service. There was a reduction of around 1,530 full-time equivalent employees (FTE)⁴ to around 146,455 compared with March 2018, as we have decreased variable hours compared with the high levels at that time.

Project costs of £42 million were £10 million higher compared with the prior period and largely comprised initiatives supporting investments and the cost avoidance programme. The increase was largely due to investment to upgrade our IT systems and projects related to the implementation of the Defined Benefit Cash Balance Scheme (DBCBS) and development of the Collective Defined Contribution (CDC) pension scheme.

We continue to forecast transformation costs of between £130 million to £150 million per annum. We expect transformation costs of around £150 million for 2018-19 due to the short-term cost actions we are taking.

Adjusted operating profit after transformation costs

Adjusted operating profit after transformation costs of £113 million was 34 per cent lower on an underlying basis due to lower revenue in the UK and higher costs. Operating profit margin after transformation costs was 3.2 per cent, down 150 basis points compared with the first half of 2017-18.

⁴ 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

	Reported 26 weeks ended 30 September 2018	Reported 26 weeks ended 30 September 2017
Summary trading results (£m)		
Revenue	1,347	1,205
Operating costs	(1,348)	(1,122)
Operating (loss)/profit	(1)	83
<i>Operating (loss)/profit margin</i>	-	6.9%

The full GLS reported results are set out in the paragraph entitled 'Segmental reported results'. GLS reported revenue grew by £142 million compared with the first half of 2017-18. GLS incurred an operating loss of £1 million, mainly due to the impairment of the GSO and Postal Express businesses in the US, as explained in the paragraph entitled 'USA' in this section, and increased operational cost pressures.

Adjusted results

The table below sets out a summary of the adjusted GLS Sterling and Euro results, excluding the impact of the impairment of the US businesses and amortisation of intangible assets related to acquisitions. The adjustments made to reported results are set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'.

	Adjusted 26 weeks ended 30 September 2018	Adjusted 26 weeks ended 30 September 2017	Underlying change ¹
Summary trading results (£m)			
Revenue	1,347	1,205	9%
Operating costs	(1,270)	(1,115)	11%
Operating profit	77	90	(15%)
<i>Operating profit margin</i>	5.7%	7.5%	(160bps)
(£m)			
Revenue	1,524	1,371	9%
Operating costs	(1,437)	(1,269)	11%
Operating profit	87	102	(15%)
Volumes (m)	301	276	6%

Overall, GLS continued to perform well in terms of revenue. Performance in the half year was impacted by one additional working day due to the timing of public holidays. Excluding this impact, underlying revenue and volume movements would each have been one percentage point lower. Volumes were up six per cent on an underlying basis, with growth in both domestic and international volumes in most markets. Revenue increased by nine per cent, three percentage points higher than volume growth due largely to price increases in several markets.

Revenue in Sterling terms benefited by £7 million from exchange rate movements and £28 million from acquisitions, which have been excluded from underlying movements. Including the impact of acquisitions, revenue was up 11 per cent on a constant currency basis. Revenue growth was achieved in most markets and from a broad customer base. The largest customer accounted for around two per cent of total GLS revenue as we continue to diversify our customer base through acquisitions. The three major markets (Germany, Italy and France) accounted for 58 per cent of total GLS revenue. This is down from 60 per cent in 2017-18, reflecting the impact of recent acquisitions and growth in other GLS markets.

	Adjusted 26 weeks ended 30 September 2018	Adjusted 26 weeks ended 30 September 2017	Underlying change ¹
Adjusted operating costs (£m)			
People costs	(318)	(293)	6%
Non-people costs	(952)	(822)	12%
Distribution and conveyance costs	(841)	(725)	12%
Infrastructure costs	(78)	(71)	7%
Other operating costs	(33)	(26)	23%
Total	(1,270)	(1,115)	11%

Total adjusted operating costs were up 11 per cent. People costs increased by six per cent. This was as a result of higher semi-variable costs linked to volumes and higher rates of pay due to high wage inflation, especially across Central and Eastern European and US markets.

Adjusted non-people costs increased by 12 per cent. Distribution and conveyance costs were up 12 per cent. This was driven by higher volumes and increased network costs, due to higher contractor costs across the majority of GLS markets. We also incurred increased costs in the US as we are transitioning the GSO and Postal Express businesses to a fully independent contractor model.

Infrastructure costs increased by seven per cent, largely due to higher rent and rates, and repairs and maintenance costs. We are also seeing higher depreciation costs as we continue to invest to increase the capacity of our network.

Other operating costs increased by 23 per cent, principally due to a one-off provision release in the first half of 2017-18 and costs in relation to the acquisition of Dicom Canada.

Adjusted operating profit

Adjusted operating profit was £77 million, 15 per cent lower than the prior period on an underlying basis. Operating profit in Sterling benefited from a £1 million impact of foreign exchange movements, which is excluded from underlying movements.

Operating margins reduced by 160 basis points on an underlying basis to 5.7 per cent due to the ongoing cost pressures in the majority of GLS' markets and increasing losses in France and the US. We do not expect labour market cost pressures to ease in the short term. We are taking action in terms of pricing strategies to help mitigate these pressures. We are also actively reviewing discretionary spend across all our markets. As a result of these actions, and coupled with anticipated good revenue performance, we are targeting adjusted operating profit margins of over six per cent for the full year.

Germany

Germany remains the largest GLS market by revenue. Revenue grew by seven per cent, driven by international volumes and improved pricing.

Italy

GLS Italy revenue grew by eight per cent, moderating in line with our expectations. We experienced lower revenue growth compared with the prior period as we are being impacted by the evolving competitive environment, including the launch of Amazon's own logistics network in Italy.

France

GLS France revenue grew by five per cent, driven largely by export volumes and improved pricing, including surcharges for over-sized parcels. However, operating losses increased by €5 million to €11 million. France remains a challenging market.

Actions are underway to improve quality and profitability through the reduction of the proportion of manually sorted parcels, more streamlined processes at our hubs and the introduction of route planning software for final mile deliveries. The goal is to win new customers, improve top line growth and reduce operating losses. Despite the challenges in its 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

GLS Spain continues to grow strongly, increasing revenue by 17 per cent on an underlying basis, reflecting strong domestic and export volume growth. ASM has been fully integrated with GLS Spain and we are expecting to complete the integration of Redyser in the second half.

USA

Our US businesses, Golden State Overnight (GSO) and Postal Express, are in the process of being integrated to create an interstate overnight parcel delivery service with full US west coast coverage, with the aim of realising operational synergies and commercial benefits.

We are pleased with the revenue development in GSO, which is showing good growth. We are investing organically to expand the network further in Idaho and into Utah. Profitability continues to be impacted by local cost pressures.

In Postal Express, profitability continues to be impacted by its integration with GSO and the decision to refocus the customer base to ensure we are targeting the most profitable traffic.

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. Revenue from GLS acquisitions in the period was £28 million (H1 2017-18: £89 million), which has been excluded from underlying movements. See paragraph entitled 'Underlying change adjustments' for further information.

As well as integrating the operations, we have accelerated the transition of the businesses to a fully independent contractor model, similar to GLS' business model in Europe. While we are making progress with our plans, the combined impact of local cost pressures, refocusing the customer base, transitioning to the new business model and ongoing integration costs means that the expected synergies and benefits will now take longer to be realised. The combined businesses were loss-making in the first half, with operating losses of around \$8 million (approximately £6 million). Accordingly, we are recognising a £68 million impairment against the goodwill and other assets related to the acquisition of these businesses. This is a non-cash operating specific item.

Canada

On 3 September 2018, we announced the acquisition of Dicom Canada, a Canadian parcel delivery company, for a total consideration of C\$360 million (approximately £212 million). Dicom Canada primarily provides B2B, ground-based parcel, freight and logistics services across Canada, with a major focus on the Eastern Canadian provinces of Ontario and Quebec. It operates a network of 28 depots and works with partner carriers across Canada to provide pan-Canadian logistics services.

Performance was within our expectations in the first month since acquisition. The transaction is expected to be earnings and cash flow accretive to the Royal Mail Group in the financial year ending 31 March 2019.

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

Revenue growth was achieved in the majority of GLS' other developed European markets. There was continued strong volume and revenue growth in Denmark as we continue to drive higher B2C volumes by increasing the number of parcel shops to support growth.

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

We saw strong, double digit revenue growth in all developing/emerging European markets. We continue to invest in our network in these countries to take advantage of their growing parcel markets.

GROUP RESULTS

Reported results

	Reported 26 weeks ended 23 September 2018	Reported 26 weeks ended 24 September 2017
Summary trading results (£m)		
Revenue	4,932	4,829
Operating costs	(4,724)	(4,740)
Operating profit before transformation costs	208	89
Transformation costs	(52)	(63)
Operating profit after transformation costs	156	26
Operating specific items	(160)	(29)
Operating loss	(4)	(3)
Non-operating specific items	5	44
Net finance costs	(7)	(10)
Net pension interest (non-operating specific item)	39	46
Profit before tax	33	77
Earnings per share (basic)	0.5p	17.1p

Group revenue increased by £103 million. This was due to higher parcels revenue in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. Operating profit before transformation costs increased by £119 million, mainly due to the reduction in the IAS 19 pension charge in UKPIL as the RMPP was closed to future accrual in its previous form from 31 March 2018. Operating specific items increased by £131 million largely due to the impairment of the GSO and Postal Express businesses in GLS and the purchase of a further buy-in insurance policy for the RMSEPP.

As a result, Group operating loss increased by £1 million to £4 million. Profit before tax decreased to £33 million, of which UKPIL accounted for £37 million (H1 2017-18: loss before tax of £4 million) while GLS accounted for a loss before tax of £4 million (H1 2017-18: profit before tax of £81 million). Basic earnings per share decreased to 0.5 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 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017	Underlying change ¹
UKPIL	3,585	3,624	(1%)
GLS	1,347	1,205	9%
Total	4,932	4,829	1%

Group revenue was up one per cent, driven by parcel growth in GLS and UKPIL more than offsetting the decline in UKPIL letters revenue. Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 62 per cent (H1 2017-18: 58 per cent). The main factors impacting revenue in the half year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	Adjusted 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017	Underlying change ¹
People costs	(2,705)	(2,655)	2%
Non-people costs	(1,985)	(1,851)	6%
Distribution and conveyance costs	(1,210)	(1,086)	9%
Infrastructure costs	(439)	(436)	Flat
Other operating costs	(336)	(329)	2%
Total	(4,690)	(4,506)	3%

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 in UKPIL. See paragraph entitled 'Underlying change adjustments' for further information.

Group operating costs increased by three per cent on an underlying basis. This was mainly a result of higher people and distribution and conveyance costs in UKPIL and GLS. 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 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017
UKPIL	165	233
GLS	77	90
Total	242	323
<i>Margin</i>	4.9%	6.7%

Group operating profit after transformation costs

(£m)	Adjusted 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017
UKPIL	113	170
GLS	77	90
Total	190	260
<i>Margin</i>	3.9%	5.4%

Group operating profit margin after transformation costs was down 150 basis points on an underlying basis, driven by the lower level of profitability in both UKPIL and GLS.

Specific items and pension charge to cash difference adjustment

(£m)	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Pension charge to cash difference adjustment (within People costs)	(34)	(234)
Operating specific items		
Impairment relating to GSO and Postal Express businesses	(68)	-
Accounting impact of RMSEPP buy-in settlement	(64)	-
Employee Free Shares charge	(17)	(18)
Amortisation of acquired intangible assets	(10)	(8)
Legacy/other costs	(1)	(3)
Potential industrial diseases claim (costs)/credit	(1)	1
Other	-	(4)
Total operating specific items	(160)	(29)
Non-operating specific items		
Profit on disposal of property, plant and equipment	5	44
Net pension interest	39	46
Total non-operating specific items	44	90
Total specific items and pensions adjustment before tax	(150)	(173)
Total tax credit on specific items and pensions adjustment	19	143

The pension charge to cash difference adjustment was £34 million, £200 million lower than the first half of 2017-18. This was due to the closure of the RMPP to future accrual in its previous form from 31 March 2018. The difference between the pension charge and cash cost largely comprises the difference between the IAS 19 income statement pension charge rate of 18.9 per cent for the DBCBS from 1 April 2018 and the actual cash payments agreed with the Trustee of 15.6 per cent. There is also a small difference between the pension charge of 41.0 per cent and cash cost of 17.1 per cent for the RMPP for the week of 26 to 31 March 2018. The pension charge to cash difference adjustment is expected to be around £70 million for the full year, £20 million lower than previously expected due to fewer eligible Royal Mail Defined Contribution Plan (RMDCP) members choosing to join the DBCBS.

Operating specific items in the period included a £68 million impairment of the goodwill and assets previously related to the acquisition of the GSO and Postal Express businesses by GLS. More details on the impairment are provided in the section entitled 'General Logistics Systems (GLS)'.

Operating specific items also included a £64 million charge in relation to the purchase of a further buy-in insurance policy for the RMSEPP. A buy-in involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. This is an accounting adjustment in relation to the write off of the closing surplus as a result of the purchase of the policy. It has no cash impact to the Group. Further details are set out in the paragraph entitled 'Pensions'.

The Employee Free Shares charge for the period in relation to our Share Incentive Plans (SIP) was £17 million (H1 2017-18: £18 million). The full year charge for Employee Free Shares is expected to be around £25 million. Amortisation of acquired intangible assets of £10 million relates to acquisitions in GLS. Legacy costs in the period were driven by the reduction in the discount rate used to calculate the industrial diseases provision. Other specific items in the prior period relate to the integration of Romec into the Group.

Non-operating specific items mainly comprise the net pension interest credit of £39 million (H1 2017-18: £46 million), which was lower than the prior period due to the lower pension surplus position at 25 March 2018 compared with 26 March 2017. The pension interest credit for the full year is expected to be around £80 million.

The profit on disposal of property, plant and equipment of £5 million (H1 2017-18: £44 million) largely relates to the sale of the Hendon Delivery Office. The prior period included a £24 million overage payment in relation to the sale of Rathbone Place in 2011 and a gain of £22 million from the completion of the sale of the Phoenix Place plot at Mount Pleasant.

The tax credit on specific items related largely to deferred tax movements in relation to certain specific items. The £124 million reduction compared with the prior period mainly related to the one-off deferred tax credit following the decision to close the RMPP to future accrual in its previous form from 31 March 2018.

Net finance costs

Reported net finance costs of £7 million (H1 2017-18: £10 million) largely comprised interest on the €500 million bond of £6 million (H1 2017-18: £6 million).

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	447	447	2024
Revolving credit facility	LIBOR+0.55%	1,050	115	2020-22
Total		1,497	562	

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 in equity. £115 million has been drawn from the revolving credit facility in the period to fund business expenditure in the first half. Further details on the use of net debt are provided in the paragraph entitled 'Net debt'.

Taxation

(£m)	26 weeks ended 23 September 2018			26 weeks ended 24 September 2017		
	UK	GLS	Group	UK	GLS	Group
Reported						
Profit/(loss) before tax	37	(4)	33	(4)	81	77
Tax (charge)/credit	(10)	(18)	(28)	113	(22)	91
Adjusted						
Profit before tax	109	74	183	162	88	250
Tax charge	(21)	(26)	(47)	(28)	(24)	(52)
<i>Effective tax rate</i>	19%	35%	26%	17%	27%	21%

The Group effective tax rate on adjusted profit before tax was 26 per cent (H1 2017-18: 21 per cent). The effective tax rate was higher than the first half of 2017-18 largely due to the derecognition of deferred tax assets in GLS US, increased losses in GLS France, for which no deferred tax asset is recognised, and the increase in the proportion of the Group's profits made by GLS for which the standard tax rates are generally higher than the UK.

The UK adjusted effective tax rate was 19 per cent (H1 2017-18: 17 per cent), which is the same as the UK statutory corporation tax rate. This is higher than the prior period due to higher non-tax deductible expenditure relative to half year adjusted profits, the closure of the RMPP to future accrual in its previous form from 31 March 2018, offset by increased tax reliefs.

The GLS adjusted effective tax rate of 35 per cent (H1 2017-18: 27 per cent) was higher than the prior period mainly due to losses in GLS US and France for which no deferred tax assets are recognised.

The Group reported tax charge is £28 million on a reported profit of £33 million. This resulted in a high effective tax rate largely due to the factors which impacted GLS US and France and the impairment of goodwill in respect of GLS US for which there is no tax credit. In addition, there is no tax credit for the RMSEPP buy-in cost. The impact of these items on the effective tax rate is partially offset by the net pension interest income, on which there is no tax charge.

We currently estimate an adjusted effective tax rate of 24 per cent on Group adjusted profits for the full year. This is higher than previously expected due to the change in mix of profits between UKPIL and GLS and not recognising the tax benefit of current year losses in GLS US and France.

Earnings per share (EPS)

Adjusted basic EPS from continuing operations was 13.6 pence (H1 2017-18: 20.1 pence), largely reflecting the trading performance of the Group.

In-year trading cash flow

(£m)	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Reported EBITDA before transformation costs	375	255
Pension charge to cash difference adjustment	34	234
Adjusted EBITDA before transformation costs	409	489
Trading working capital movements	(272)	(130)
Share-based awards (SAYE, LTIP and DSBP) charge adjustment	4	1
Total investment	(184)	(198)
Income tax paid	(49)	(27)
Research and development expenditure credit	2	3
Net finance costs paid	(10)	(13)
Total	(100)	125

In-year trading cash outflow was £100 million. Adjusted EBITDA before transformation costs was £80 million lower largely due to the operational performance.

Trading working capital movements in the first half always reflect the payment of the annual bonus and the timing of terminal dues settlements. In addition, the first half of 2018-19 includes the £101 million payment in relation to the 2017-18 frontline pay award. Income tax paid increased by £22 million due to there being no tax relief on payments made to the pension escrow in the prior year. Net finance costs paid largely comprised interest on the €500 million bond and the decrease is mainly due to the increase in interest received, which includes interest from the RMPP escrow investments.

We will report on a 53-week basis for 2018-19, therefore trading working capital will include an extra VAT payment of around £20 million. There will also be 13 monthly payroll payments made in 2018-19, therefore trading working capital will also be impacted by an extra monthly payroll payment of between £40 million to £50 million.

Net cash investment

(£m)	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Growth capital expenditure	(88)	(86)
Replacement capital expenditure	(49)	(53)
Transformation operating expenditure	(47)	(59)
Voluntary redundancy	(5)	(27)
Project costs	(42)	(32)
Total investment	(184)	(198)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	9	29
Net cash investment	(175)	(169)

Growth capital expenditure increased by £2 million as we continue to invest in strategic projects in UKPIL and GLS. This included expanding the GLS network, IT systems and projects supporting parcels innovation. Replacement capital expenditure decreased by £4 million due to lower IT replacement and property refurbishments, partially offset by higher investment in vehicles.

Transformation operating expenditure decreased by £12 million largely due to lower than expected voluntary redundancy costs in the first half, as we have not achieved the expected levels of efficiency. This was partially offset by project costs that were £10 million higher largely due to expenditure on projects related to upgrades of our IT systems and projects related to the implementation of the DBCBS and CDC pension schemes.

Proceeds from disposal of property (excluding London Development Portfolio) of £9 million largely relate to the sale of the Hendon Delivery Office. The first half of 2017-18 included a £24 million overage payment in relation to the sale of Rathbone Place in 2011.

Net debt

A reconciliation of net debt is set out below.

(£m)	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Net cash/(debt) brought forward at 25 March 2018 and 26 March 2017	14	(338)
Free cash flow	(308)	115
In-year trading cash flow	(100)	125
Other working capital movements	(6)	(19)
Cash cost of operating specific items	(3)	(8)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	9	29
Acquisition of business interests	(214)	(8)
Cash flows relating to London property portfolio	6	(4)
Purchase of own shares	(10)	-
Employee exercise of SAYE options	5	-
Foreign currency exchange impact	(9)	(5)
Dividends paid to equity holders of the parent Company	(162)	(154)
Net debt carried forward	(470)	(382)

Other working capital movements outflow of £6 million consisted of stamps used but purchased in previous periods, GLS client cash and other deferred revenue. This cash outflow is £13 million lower than the prior period largely due to increases in the amount of GLS client cash held.

Cash cost of operating specific items was an outflow of £3 million due to National Insurance contributions on the SIP employee share sales, industrial disease settlements and Romec business integration costs.

Proceeds from property disposals (excluding London property portfolio) of £9 million is explained in the paragraph entitled 'Net cash investment'. Acquisition of business interests in the period largely relates to the acquisition of Dicom Canada by GLS. The acquisition spend in the prior year largely related to the purchase of Postal Express in the US by GLS.

Cash inflow relating to the London property portfolio was £6 million. The £20 million overage received under the agreement for the sale of Paddington Mail Centre was offset by £14 million of costs for separation and infrastructure works on the Mount Pleasant and Nine Elms plots, respectively. The impact of foreign currency exchange rates movements largely relates to the €500 million bond offset by GLS cash.

Pensions

The RMPP closed to future accrual in its previous form from 31 March 2018. The Company put in place transitional arrangements from 1 April 2018 and implemented a new DBCBS within the RMPP, and an improved RMDCP.

Defined Benefit Cash Balance Scheme (DBCBS)

RMPP members automatically started building up DBCBS benefits from 1 April 2018 (unless they opted to join the improved RMDCP instead) together with eligible RMDCP members who opted to join.

The DBCBS guarantees members a minimum lump sum at age 65. It is therefore being accounted for as a defined benefit scheme in a similar way to the RMPP. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance. An IAS19 deficit of £32 million is shown on the balance sheet. The scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The DBCBS will be subject to triennial valuations.

An IAS 19 pension service charge at 18.9 per cent (£181 million) has been charged to the income statement. The pension charge is greater than the cash contribution rate as the assumed rate of future increases in benefits (4.2 per cent) is greater than the assumed discount rate (2.6 per cent).

The Company has made contributions at 15.6 per cent (£147 million) of DBCBS pensionable pay in respect of the scheme. Members will contribute six per cent (including Pension Salary Exchange).

The IAS 19 pension service charge to cash difference adjustment for 2018-19 was expected to be around £90 million. This charge is now expected to be £70 million due to a lower than anticipated number of eligible RMDCP members choosing to join the DBCBS. 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.

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 (employee: six per cent; employer: ten per cent) unless they opt to contribute at a lower level.

Royal Mail Pension Plan (RMPP)

The pre IFRIC 14 accounting surplus of the RMPP at 23 September 2018 was £3,152 million, comprising assets of £9,542 million and liabilities of £6,390 million. The pre IFRIC 14 accounting surplus has reduced by £98 million in the period, as the increase in discount rate has had a greater impact on assets than on liabilities. This is because the scheme's hedging arrangements are designed to maintain its funding position, which is currently 149 per cent on an accounting basis. After the IFRIC 14 adjustment, the accounting surplus of the RMPP was £2,049 million at 23 September 2018. This is an accounting adjustment with no cash benefit to the Company. The RMPP closed to future accrual in its previous form from 31 March 2018.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The RMSEPP triennial valuation at 31 March 2018 has been completed. Based on the rolled forward assumptions used for that valuation, the RMSEPP actuarial surplus at 30 September 2018 was estimated to be £10 million (31 March 2018: £36 million). The RMSEPP closed in December 2012 to future accrual and the Company makes no regular service contributions.

In accordance with the new Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million must be paid in 2018-19, together with £1 million per annum for the period 1 April 2018 to 31 March 2025 in respect of death-in-service lump sum benefits and administration expenses.

In September 2018, the RMSEPP Trustees purchased a further buy-in policy of insurance in respect of its remaining pensioners and deferred pensioners. A buy-in involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. This transaction required no additional funding from the Company. It significantly reduces the potential risk to the Company in respect of this scheme.

Prior to the buy-in, the scheme had an IAS 19 surplus of £74 million and a funding surplus of £36 million. Although the scheme was in surplus, this position was sensitive to changes in the assumptions used. The buy-in reduces both the funding and accounting surpluses to £10 million, but significantly reduces the risk that further contributions could be required from the Company. The reduction in IAS 19 surplus from £74 million to £10 million results in an accounting charge of £64 million. As the buy-in eliminates substantially all of the remaining risk it is treated as a settlement and charged to the income statement as a non-cash operating specific item.

This insurance policy is considered an asset of the RMSEPP and does not confer any rights to individual members. All benefits payable from the RMSEPP remain unchanged. Further details can be found in the paragraph entitled 'Royal Mail Senior Executive Pension Plan (RMSEPP)' in note 7 in the condensed consolidated financial statements

The Company expects to contribute around £310 million in the 2018-19 financial year in respect of DBCBS, RMPP, and RMSEPP with employees expected to contribute around £125 million. The Company also expects to contribute around £90 million into the defined contribution plans in the Group. Total employer contributions in respect of all pension schemes will therefore be around £400 million.

The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMPs). From Royal Mail's perspective, the transfer of RMPP's historic pension liabilities to Government in 2012 included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will not be material. This is still subject to any further clarification from the Court on exact equalisation requirements, and also to the actual equalisation approach adopted by the Trustees.

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

Based on current expectations, the CDC will be accounted for as a defined contribution scheme. The DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS. The new arrangements will have fixed employer contributions of 13.6 per cent and employee contributions of six per cent.

Property

We invested around £15 million in the first half on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

Mount Pleasant

Further cash proceeds are to be paid in contractually agreed staged payments over the 2018-19 to 2020-21 financial years, with the final balance of consideration to be paid in 2024. All proceeds received up to 2020-21, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works over this period.

Nine Elms

The London Borough of Wandsworth made a resolution on 19 September 2018 to grant planning consent to Greystar for the two plots they purchased at our Nine Elms site. Subject to Greystar negotiating and agreeing the Section 106 Town Planning Agreement, we are expecting to receive further cash proceeds of £98 million on formal completion of the sale in the second half of 2018-19. We have committed to reinvesting around £30 million for infrastructure works associated with these plots.

Although we continue to market the remaining plots for sale and ensure that the existing planning permission for these plots remains protected, we do not anticipate that three of the remaining plots will be sold in the next 12 months. As a result, the £18 million book value of these plots on the balance sheet was moved from Assets held for sale to Property, plant & equipment.

Dividends

The final dividend of 16.3 pence per share in respect of the 2017-18 financial year was paid on 31 August 2018, following shareholder approval.

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

The Board has declared an interim dividend of 8.0 pence per ordinary share, payable on 16 January 2019 to shareholders on the register at the close of business on 7 December 2018.

Underlying change

Movements in revenue, costs, profits and margins are shown on an underlying basis. We also made adjustments for movements in foreign exchange in GLS (H1 2018-19: £1:€1.13; H1 2017-18 £1:€1.14) and the first year impact of acquisitions. No adjustments were made for working days in UKPIL (H1 2018-19: 152.0 working days; H1 2017-18: 152.0 working days).

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 to operating profit after transformation costs. Our working week consists of 5.5 days, therefore the adjusted UKPIL working days for 2018-19 on a 52-week basis will be 304.5 days with an estimated revenue and profit decrease of around £15 million.

(£m)	Adjusted 26 weeks ended 23 September 2018	Adjusted 26 weeks ended 24 September 2017	Foreign exchange	Acquisitions	Underlying 26 weeks ended 24 September 2017	Underlying change
Revenue						
UKPIL	3,585	3,624	-	-	3,624	(1%)
GLS	1,347	1,205	7	28	1,240	9%
Group	4,932	4,829	7	28	4,864	1%
Costs						
UKPIL						
People	(2,387)	(2,362)	-	-	(2,362)	1%
Non-people costs	(1,033)	(1,029)	-	-	(1,029)	Flat
Distribution and conveyance costs	(369)	(361)	-	-	(361)	2%
Infrastructure costs	(361)	(365)	-	-	(365)	(1%)
Other operating costs	(303)	(303)	-	-	(303)	Flat
Operating costs before transformation costs	(3,420)	(3,391)	-	-	(3,391)	1%
GLS						
People	(318)	(293)	(2)	(5)	(300)	6%
Non-people costs	(952)	(822)	(4)	(23)	(849)	12%
Distribution and conveyance costs	(841)	(725)	(4)	(20)	(749)	12%
Infrastructure costs	(78)	(71)	-	(2)	(73)	7%
Other operating costs	(33)	(26)	-	(1)	(27)	23%
Operating costs	(1,270)	(1,115)	(6)	(28)	(1,149)	11%
Group						
People	(2,705)	(2,655)	(2)	(5)	(2,662)	2%
Non-people costs	(1,985)	(1,851)	(4)	(23)	(1,878)	6%
Distribution and conveyance costs	(1,210)	(1,086)	(4)	(20)	(1,110)	9%
Infrastructure costs	(439)	(436)	-	(2)	(438)	Flat
Other operating costs	(336)	(329)	-	(1)	(330)	2%
Operating costs before transformation costs	(4,690)	(4,506)	(6)	(28)	(4,540)	3%
Profit, margin and EPS						
UKPIL						
Operating profit before transformation costs	165	233	-	-	233	(29%)
Transformation costs	(52)	(63)	-	-	(63)	(18%)
Operating profit after transformation costs	113	170	-	-	170	(34%)
Margin	3.2%	4.7%			4.7%	(150bps)
GLS						
Operating profit	77	90	1	-	91	(15%)
Margin	5.7%	7.5%			7.3%	(160bps)
Group						
Operating profit before transformation costs	242	323	1	-	324	(25%)
Transformation costs	(52)	(63)	-	-	(63)	(18%)
Operating profit after transformation costs	190	260	1	-	261	(27%)
Margin	3.9%	5.4%			5.4%	(150bps)
Profit before tax	183	250	1	-	251	(27%)
Tax	(47)	(52)				
Profit for the period	136	198				
Profit attributable to equity holders of the parent Company	136	199				
Basic earnings per share (pence)	13.6p	20.1p				

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES

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 by Management, who 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 five years ended 25 March 2018 was £2,361 million compared with cumulative adjusted profit after tax of £2,054 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 a full year impact greater than £10 million.

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. 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

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

(£m)	26 weeks ended 23 September 2018			26 weeks ended 24 September 2017		
	Reported	Specific items and pension adjustment	Adjusted	Reported	Specific items and pension adjustment	Adjusted
Revenue	4,932	-	4,932	4,829	-	4,829
Operating costs	(4,724)	(34)	(4,690)	(4,740)	(234)	(4,506)
People costs	(2,739)	(34)	(2,705)	(2,889)	(234)	(2,655)
Non-people costs	(1,985)	-	(1,985)	(1,851)	-	(1,851)
Distribution and conveyance costs	(1,210)	-	(1,210)	(1,086)	-	(1,086)
Infrastructure costs	(439)	-	(439)	(436)	-	(436)
Other operating costs	(336)	-	(336)	(329)	-	(329)
Operating profit before transformation costs	208	(34)	242	89	(234)	323
Transformation costs	(52)	-	(52)	(63)	-	(63)
Operating profit after transformation costs	156	(34)	190	26	(234)	260
Operating specific items:						
Impairment of assets relating to GSO and Postal Express businesses	(68)	(68)	-	-	-	-
Accounting impact of RMSEPP buy-in settlement	(64)	(64)	-	-	-	-
Employee Free Shares charge	(17)	(17)	-	(18)	(18)	-
Legacy/other costs	(1)	(1)	-	(3)	(3)	-
Amortisation of intangible assets in acquisitions	(10)	(10)	-	(8)	(8)	-
Operating (loss)/profit	(4)	(194)	190	(3)	(263)	260
Non-operating specific items:						
Profit on disposal of property, plant and equipment	5	5	-	44	44	-
Earnings before interest and tax	1	(189)	190	41	(219)	260
Finance costs	(10)	-	(10)	(11)	-	(11)
Finance income	3	-	3	1	-	1
Net pension interest (non-operating specific item)	39	39	-	46	46	-
Profit before tax	33	(150)	183	77	(173)	250
Tax (charge)/credit	(28)	19	(47)	91	143	(52)
Profit for the period	5	(131)	136	168	(30)	198
Profit for the period attributable to:						
Equity holders of the parent Company	5	(131)	136	169	(30)	199
Non-controlling interests	-	-	-	(1)	-	(1)
Earnings per share						
Basic	0.5p	(13.1p)	13.6p	17.1p	(3.0p)	20.1p
Diluted	0.5p	(13.1p)	13.6p	17.0p	(3.0p)	20.0p

Segmental reported results

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

(£m)	26 weeks ended 23 September 2018			26 weeks ended 24 September 2017		
	UKPIL	GLS	Group	UKPIL	GLS	Group
	(UK operations)	(Non-UK operations)		(UK operations)	(Non-UK operations)	
Revenue	3,585	1,347	4,932	3,624	1,205	4,829
People costs	(2,421)	(318)	(2,739)	(2,596)	(293)	(2,889)
Non-people costs	(1,033)	(952)	(1,985)	(1,029)	(822)	(1,851)
Operating profit/(loss) before transformation costs	131	77	208	(1)	90	89
Transformation costs	(52)	-	(52)	(63)	-	(63)
Operating profit/(loss) after transformation costs	79	77	156	(64)	90	26
Operating specific items	(82)	(78)	(160)	(22)	(7)	(29)
Operating (loss)/profit	(3)	(1)	(4)	(86)	83	(3)
Non-operating specific items	5	-	5	44	-	44
Earnings before interest and tax	2	(1)	1	(42)	83	41
Net finance costs	(4)	(3)	(7)	(8)	(2)	(10)
Net pension interest (non-operating specific item)	39	-	39	46	-	46
Profit/(loss) before tax	37	(4)	33	(4)	81	77
Tax (charge)/credit	(10)	(18)	(28)	113	(22)	91
Profit/(loss) for the period	27	(22)	5	109	59	168

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 and amortisation and share of associate company profits added back.

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

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

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

(£m)	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Reported operating profit before transformation costs	208	89
Depreciation and amortisation	167	166
Reported EBITDA before transformation costs	375	255
Pension charge to cash difference adjustment	34	234
Adjusted EBITDA before transformation costs	409	489

Adjusted earnings per share

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

People costs

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

Distribution and conveyance costs

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

Infrastructure costs

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

Other operating costs

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

Transformation costs

These costs relate to the ongoing transformation of the business, 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 IAS 19 income statement pension charge rate of 41 per cent for the RMPP to 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018 and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent of pensionable pay for RMPP to 31 March 2018 and 15.6 per cent for the DBCBS. 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.

Non-operating specific items

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

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

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

Profit/loss on disposal of business

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

Free cash flow

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

In-year trading cash flow

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

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

(£m)	Reported 26 weeks ended 23 September 2018	Reported 26 weeks ended 24 September 2017
Net cash inflow from operating activities	38	250
Adjustment for:		
Other working capital movements	6	19
Cash cost of operating specific items	3	8
Purchase of property, plant and equipment	(79)	(69)
Purchase of intangible assets (software)	(58)	(70)
Net finance costs paid	(10)	(13)
In-year trading cash inflow	(100)	125

Net cash investment

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

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. 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 debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Details of the borrowing facilities in place and the amounts drawn can be found in the section titled 'Net finance costs'.

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

(£m)	At 23 September 2018	At 24 September 2017
Loans/bonds	(562)	(440)
Finance leases	(146)	(191)
Cash and cash equivalents	218	229
Pension escrow (RMSEPP)	20	20
Net debt	(470)	(382)

Net debt excludes £186 million (2017-18: £23 million) related to the RMPP pension scheme of the total £206 million (2017-18: £43 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

Adjusted effective tax rate

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated income statement

	Notes	Reported 26 weeks ended 23 September 2018 £m	Reported 26 weeks ended 24 September 2017 £m
Continuing operations			
Revenue	2.3	4,932	4,829
Operating costs ¹		(4,724)	(4,740)
People costs		(2,739)	(2,889)
Distribution and conveyance costs		(1,210)	(1,086)
Infrastructure costs		(439)	(436)
Other operating costs		(336)	(329)
Operating profit before transformation costs²		208	89
Transformation costs		(52)	(63)
Operating profit after transformation costs²		156	26
Operating specific items			
RMSEPP buy-in settlement	7	(64)	-
Employee Free Shares charge		(17)	(18)
Impairment/legacy/other costs		(69)	(3)
Amortisation of intangible assets in acquisitions		(10)	(8)
Operating loss		(4)	(3)
Profit on disposal of property, plant and equipment (non-operating specific item)		5	44
Earnings before interest and tax		1	41
Finance costs		(10)	(11)
Finance income		3	1
Net pension interest (non-operating specific item)	7	39	46
Profit before tax		33	77
Tax (charge)/credit	4	(28)	91
Profit for the period		5	168
Profit for the period attributable to:			
Equity holders of the parent Company		5	169
Non-controlling interests		-	(1)
Earnings per share			
	5		
Basic		0.5p	17.1p
Diluted		0.5p	17.0p

¹ Operating costs are stated before transformation costs, RMSEPP buy-in settlement, Employee Free Shares charge, impairment/legacy/other costs and amortisation of intangible assets in acquisitions. Details of specific items are provided in the APMs section of the Financial Review.

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

Condensed consolidated statement of comprehensive income

	Notes	Reported 26 weeks ended 23 September 2018 £m	Reported 26 weeks ended 24 September 2017 £m
Profit for the period		5	168
Other comprehensive (expense)/income for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		(73)	(822)
IFRIC 14 adjustment relating to defined benefit surplus	7	53	(1,119)
Remeasurement losses of the defined benefit plans	7	(126)	(178)
Deferred tax	4	-	475
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		6	(1)
Exchange differences on translation of foreign operations (GLS)		19	9
Net loss on hedge of a net investment (€500 million bond)		(12)	(9)
Net loss on hedge of a net investment (Euro-denominated finance lease payables)		(2)	(1)
Tax on above items		1	-
Designated cash flow hedges		17	(2)
Gains/(losses) on cash flow hedges deferred into equity		30	(2)
Gains on cash flow hedges released from equity to income		(9)	-
Tax on above items		(4)	-
Total other comprehensive expense for the period		(50)	(825)
Total comprehensive expense for the period		(45)	(657)
Total comprehensive expense for the period attributable to:			
Equity holders of the parent Company		(45)	(656)
Non-controlling interests		-	(1)

Condensed consolidated balance sheet

	Notes	Reported At 23 September 2018 £m	Reported At 25 March 2018 £m
Non-current assets			
Property, plant and equipment		2,032	2,016
Goodwill	8	407	324
Intangible assets		699	608
Investments in associates		5	5
Financial assets			
Pension escrow investments		206	198
Derivatives		13	5
RMPP/RMSEPP retirement benefit surplus – net of IFRIC 14 adjustment	7	2,055	2,163
Other receivables		14	13
Deferred tax assets		62	72
		5,493	5,404
Assets held for sale		34	50
Current assets			
Inventories		28	25
Trade and other receivables		1,250	1,160
Income tax receivable		7	3
Financial assets			
Derivatives		21	15
Cash and cash equivalents		218	600
		1,524	1,803
Total assets		7,051	7,257
Current liabilities			
Trade and other payables		(1,774)	(1,927)
Financial liabilities			
Interest-bearing loans and borrowings		(115)	(1)
Obligations under finance leases		(45)	(59)
Derivatives		(3)	(3)
Income tax payable		(18)	(33)
Provisions		(51)	(59)
		(2,006)	(2,082)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		(447)	(436)
Obligations under finance leases		(101)	(110)
Derivatives		-	(4)
DBCBS retirement benefit deficit	7	(32)	-
Provisions		(111)	(103)
Other payables		(44)	(41)
Deferred tax liabilities	4	(69)	(45)
		(804)	(739)
Total liabilities		(2,810)	(2,821)
Net assets		4,241	4,436
Equity			
Share capital		10	10
Retained earnings		4,163	4,381
Other reserves		68	45
Equity attributable to parent Company		4,241	4,436
Non-controlling interests		-	-
Total equity		4,241	4,436

Condensed consolidated statement of changes in equity

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Equity holders of the parent £m	Non-controlling interests £m	Total equity £m
Reported at 26 March 2017	10	4,940	40	7	4,997	1	4,998
Profit for the period	-	169	-	-	169	(1)	168
Other comprehensive expense for the period	-	(822)	(1)	(2)	(825)	-	(825)
Total comprehensive expense for the period	-	(653)	(1)	(2)	(656)	(1)	(657)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	-	(154)	-	-	(154)	-	(154)
Share-based payments							
Employee Free Shares issue ¹	-	17	-	-	17	-	17
Save As You Earn (SAYE) scheme	-	1	-	-	1	-	1
Long-Term Incentive Plan (LTIP) ²	-	(2)	-	-	(2)	-	(2)
Deferred Share Bonus Plan (DSBP)	-	2	-	-	2	-	2
Settlement of LTIP 2014	-	(3)	-	-	(3)	-	(3)
Reported at 24 September 2017	10	4,148	39	5	4,202	-	4,202
Profit for the period	-	90	-	-	90	-	90
Other comprehensive income/(expense) for the period	-	164	(3)	4	165	-	165
Total comprehensive income/(expense) for the period	-	254	(3)	4	255	-	255
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	-	(77)	-	-	(77)	-	(77)
Share-based payments							
Employee Free Shares issue ¹	-	18	-	-	18	-	18
Long-Term Incentive Plan (LTIP) ²	-	5	-	-	5	-	5
Employee exercise of SAYE options	-	28	-	-	28	-	28
Deferred tax on share-based payments	-	5	-	-	5	-	5
Reported at 25 March 2018	10	4,381	36	9	4,436	-	4,436
Profit for the period	-	5	-	-	5	-	5
Other comprehensive (expense)/income for the period	-	(73)	6	17	(50)	-	(50)
Total comprehensive (expense)/income for the period	-	(68)	6	17	(45)	-	(45)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	-	(162)	-	-	(162)	-	(162)
Share-based payments							
Employee Free Shares issue ¹	-	16	-	-	16	-	16
Long-Term Incentive Plan (LTIP) ²	-	2	-	-	2	-	2
Deferred Share Bonus Plan (DSBP)	-	2	-	-	2	-	2
Employee exercise of SAYE options	-	5	-	-	5	-	5
Purchase of own shares ³	-	(10)	-	-	(10)	-	(10)
Settlement of LTIP 2015	-	(3)	-	-	(3)	-	(3)
Reported at 23 September 2018	10	4,163	42	26	4,241	-	4,241

¹ Excludes £1 million charge (at 24 September 2017: £1 million charge; at 25 March 2018: £3 million credit) National Insurance, recognised in the income statement, included in provisions on the balance sheet.

² Excludes £1 million (at 24 September 2017: £nil million; at 25 March 2018: £1 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

³ Purchases in respect of employee share schemes.

Condensed consolidated statement of cash flows

	Notes	Reported 26 weeks ended 23 September 2018 £m	Reported 26 weeks ended 24 September 2017 £m
Cash flow from operating activities			
Profit before tax		33	77
Adjustment for:			
Net pension interest	7	(39)	(46)
Net finance costs		7	10
Profit on disposal of property, plant and equipment		(5)	(44)
RMSEPP buy-in settlement	7	64	-
Impairment/legacy/other costs		69	3
Amortisation of intangible assets in acquisitions		10	8
Employee Free Shares charge		17	18
Transformation costs		52	63
Operating profit before transformation costs¹		208	89
Adjustment for:			
Depreciation and amortisation		167	166
EBITDA before transformation costs¹		375	255
Working capital movements		(278)	(149)
Increase in inventories		(3)	(4)
Increase in receivables		(63)	(25)
Decrease in payables		(210)	(103)
Net decrease/(increase) in derivative assets		3	(6)
Decrease in provisions (non-specific items)		(5)	(11)
Pension charge to cash difference adjustment	7	34	234
Share-based awards (SAYE, LTIP and DSBP) charge adjustment		4	1
Cash cost of transformation operating expenditure ²		(47)	(59)
Cash cost of operating specific items		(3)	(8)
Cash inflow from operations		85	274
Income tax paid		(49)	(27)
Research and development expenditure credit		2	3
Net cash inflow from operating activities		38	250
Cash flow from investing activities			
Finance income received		3	1
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		9	29
London Development Portfolio net proceeds/(costs) (non-operating specific item)		6	(4)
Purchase of property, plant and equipment ²		(79)	(69)
Acquisition of business interests, net of cash acquired		(210)	(7)
Purchase of intangible assets (software) ²		(58)	(70)
Payment of deferred consideration in respect of prior years' acquisitions		(4)	(1)
Net cash outflow from investing activities		(333)	(121)
Net cash (outflow)/inflow before financing activities		(295)	129
Cash flow from financing activities			
Finance costs paid		(13)	(14)
Purchase of own shares		(10)	-
Employee exercise of SAYE options		5	-
Payment of capital element of obligations under finance lease contracts		(33)	(21)
Cash received on sale and leasebacks		8	17
Drawdown of loan facility		115	-
Repayment of loans and borrowings		(2)	(31)
Dividends paid to equity holders of the parent Company	6	(162)	(154)
Net cash outflow from financing activities		(92)	(203)
Net decrease in cash and cash equivalents		(387)	(74)
Effect of foreign currency exchange rates on cash and cash equivalents		5	4
Cash and cash equivalents at the beginning of the period		600	299
Cash and cash equivalents at the end of the period		218	229

¹ See APMs section within the Financial Review 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 condensed consolidated financial statements

1. Basis of preparation

The comparative figures for the year ended 25 March 2018 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, this condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 25 March 2018, except for any changes detailed below.

Presentation of results and accounting policies

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

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

Accounting standards adopted in 2018-19

IFRS 15 'Revenue from Contracts with Customers'

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

IFRS 2 (Amended) 'Classification and Measurement of Share-based Payment Transactions'

IFRS 4 (Amended) 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'

IAS 40 (Amended) 'Transfers of Investment Property'

Annual Improvements 2014-2016

The modified retrospective transition method has been adopted for IFRS 15, although the introduction of this standard does not have a material impact on the financial performance or position of the Group. It has, however, resulted in additional revenue disclosure requirements for interim financial reporting which have been met through the introduction of a new Revenue Note. The adoption of the other standards above does not have a material impact on the financial performance or position of the Group.

Other accounting standards

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

IFRS 16 'Leases'

The project to implement this accounting standard in Royal Mail with effect from 1 April 2019 continues to progress, including the recent acquisition of specialist accounting software which will provide the calculations and disclosures required by IFRS 16.

Key sources of estimation uncertainty and critical accounting judgements

The preparation of the condensed consolidated financial statements 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 significant judgements and estimates applied by the Group in these condensed consolidated financial statements are consistent with those applied in the Annual Report and Financial Statements 2017-18 except as explained below.

Accounting estimates

The following estimates are those at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1. Basis of preparation (continued)

Business Acquisition - Dicom Canada

Identifiable assets acquired and liabilities and contingent liabilities assumed in business acquisitions are measured initially at their fair values at the acquisition date. The fair value of an asset or liability represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. An independent valuer was used to assist in the valuation of the Dicom Canada acquisition.

In determining the fair value of the intangible assets acquired, risk-adjusted future cash flows discounted using discount rates specific to the asset are generally used. In determining cash flows, a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows have been used.

- customer relationships were measured using estimates of future cash flows and expected customer retention rates.
- brands were measured by estimating the savings realised by owning or holding the right to use the brand name (as opposed to paying a royalty fee to a third party). This includes an estimate of the projected revenues attributable to the brand, potential royalty rates and the estimated life of the brand to a third party.
- internally developed software acquired was measured using a lost profit approach, taking into account additional software licencing costs, the replacement cost of recreating the existing technology platforms and foregone profits during a hypothetical rebuild phase.
- other tangible assets and liabilities were measured by estimating the current cost to purchase or replace the assets, taking into account available market data for the sale or transfer of such assets.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. The Group has one year from the acquisition date to re-measure the fair values of the acquired assets and liabilities and the resulting goodwill if new information is obtained relating to conditions that existed at the acquisition date.

Acquisition related costs are expensed as incurred. Details of the Dicom Canada acquisition during the period are disclosed in Note 9.

Goodwill impairment - GLS US businesses cash generating unit (CGU)

In assessing whether there has been any impairment of goodwill, Management determines whether the goodwill carrying value is higher than the recoverable amount of the underlying CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value-in-use. In the case of goodwill allocated to the GLS US businesses CGU, the realisable value is estimated using five year forecast cash flows. Details of the impairment review of the CGU and the relevant estimates and assumptions are included in Note 8.

Constructive obligation - Defined Benefit Cash Balance Scheme (DBCBS)

In accounting for the DBCBS pension scheme Management must apply judgement in determining whether a constructive obligation exists in relation to annual pension benefit increases in the absence of a legal obligation. Any such constructive obligation must be included in the calculation of the fair value of the DBCBS defined benefit liability. From an assessment of announcements and internal communications made to members of the scheme to date, Management is of the view that scheme members would have a reasonable expectation of returns of CPI plus two per cent. Further details are available in Note 7, including sensitivities around measures involving CPI.

Accounting judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that Management have made in applying the Group's significant accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Contingent liabilities - Ofcom fine

Management have considered Ofcom's decision following its investigation into whether Royal Mail had breached competition law, and the subsequent imposition of a fine, and they are confident that no liability should be recognised in these financial statements. Further details are provided in Note 10.

Pension settlement - Royal Mail Senior Executives Pension Plan (RMSEPP) buy-in

During the period the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members of the RMSEPP. Alongside previous insurance policies purchased, this means that substantially all the liabilities of the scheme are now covered by insurance policies. The new policy also includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees. From an assessment of the nature of the policies in place, Management have applied judgement to conclude that the purchase of this additional insurance policy should be treated as a settlement under IAS 19.

1. Basis of preparation (continued)

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the 26 weeks ended 23 September 2018.

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 Executive Board and the Royal Mail plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

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

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

Seasonality

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

26 weeks ended 23 September 2018	Adjusted		Group £m	Specific items and pension adjustment ¹ £m	Reported Group £m
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m			
Continuing operations					
Revenue	3,585	1,347	4,932	-	4,932
People costs	(2,387)	(318)	(2,705)	(34)	(2,739)
Non-people costs	(1,033)	(952)	(1,985)	-	(1,985)
Operating profit before transformation costs	165	77	242	(34)	208
Transformation costs	(52)	-	(52)	-	(52)
Operating profit after transformation costs	113	77	190	(34)	156
Operating specific items					
RMSEPP buy-in settlement	-	-	-	(64)	(64)
Employee Free Shares charge	-	-	-	(17)	(17)
Impairment/legacy costs	-	-	-	(69)	(69)
Amortisation of intangible assets in acquisitions	-	-	-	(10)	(10)
Operating profit/(loss)	113	77	190	(194)	(4)
Profit on disposal of property, plant and equipment (non-operating specific item)	-	-	-	5	5
Earnings before interest and tax	113	77	190	(189)	1
Finance costs	(10)	-	(10)	-	(10)
Finance income	2	1	3	-	3
Inter-segment interest	4	(4)	-	-	-
Net pension interest (non-operating specific item)	-	-	-	39	39
Profit before tax	109	74	183	(150)	33

¹ A £38 million charge for specific items and a £34 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £78 million charge for specific items relates to GLS, of which £68 million relates to the impairment of the GLS US businesses.

2. Segment information (continued)

26 weeks ended 24 September 2017	Adjusted		Group £m	Specific items and pension adjustment ²	Reported Group £m
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m		£m	
Continuing operations					
Revenue	3,624	1,205	4,829	-	4,829
People costs	(2,362)	(293)	(2,655)	(234)	(2,889)
Non-people costs	(1,029)	(822)	(1,851)	-	(1,851)
Operating profit before transformation costs	233	90	323	(234)	89
Transformation costs	(63)	-	(63)	-	(63)
Operating profit after transformation costs	170	90	260	(234)	26
Operating specific items					
Employee Free Shares charge	-	-	-	(18)	(18)
Legacy/other costs	-	-	-	(3)	(3)
Amortisation of intangible assets in acquisitions	-	-	-	(8)	(8)
Operating profit/(loss)	170	90	260	(263)	(3)
Profit on disposal of property, plant and equipment (non-operating specific item)	-	-	-	44	44
Earnings before interest and tax	170	90	260	(219)	41
Finance costs	(10)	(1)	(11)	-	(11)
Finance income	-	1	1	-	1
Inter-segment interest	2	(2)	-	-	-
Net pension interest (non-operating specific item)	-	-	-	46	46
Profit before tax	162	88	250	(173)	77

² A £68 million credit for specific items and a £234 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £7 million charge for specific items relates to GLS.

3. Revenue

This disclosure provides a disaggregation of Group revenue by type. Revenue recognised is net of Value Added Tax and principally relates to the rendering of services derived from contracts with customers.

26 weeks 2018	UKPIL £m	GLS £m	Group £m
Letters and other revenue	1,399	-	1,399
Marketing mail	496	-	496
Parcels	1,690	1,347	3,037
Total	3,585	1,347	4,932

4. Taxation

The Group reported tax charge is £28 million on a reported profit of £33 million. This gives a high effective tax rate which arises mainly due to the impairment of goodwill in respect of the GLS US businesses (for which there is no tax credit) and the associated derecognition of deferred tax assets in respect of tax losses in the GLS US businesses. Other contributing factors include the RMSEPP buy-in cost (for which there is no tax credit) and losses in GLS France and the GLS US businesses (for which no deferred tax asset is recognised). The impact of these items on the effective tax rate is partially mitigated by the net pension interest income on which there is no tax charge.

Details of the adjusted tax charge and effective tax rate are provided in the Financial Review.

5. Earnings per share

	26 weeks ended 23 September 2018			26 weeks ended 24 September 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 from continuing operations (£ million)	5	(131)	136	169	(30)	199
Weighted average number of shares issued (million)	1,000	n/a	1,000	991	n/a	991
Basic earnings per share (pence)	0.5	n/a	13.6	17.1	n/a	20.1
Diluted earnings per share (pence)	0.5	n/a	13.6	17.0	n/a	20.0

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

The diluted earnings per share for the 26 weeks ended 23 September 2018 is based on a weighted average number of shares of 1,003,327,899 (H1 2017-18: 993,020,938) to take account of the potential issue of 2,957,905 ordinary shares resulting from the Long-Term Incentive Plans (LTIP) for certain senior management, 438,557 ordinary shares resulting from the Deferred Share Bonus Plan (DSBP) for certain senior management and 1,768 ordinary shares resulting from the Save As You Earn (SAYE) scheme. Management have historically elected to settle these schemes using shares purchased from the market.

The 70,331 mainly LTIP 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.

6. Dividends

	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017	26 weeks ended 23 September 2018	26 weeks ended 24 September 2017
Dividends on ordinary shares	Pence per share	Pence per share	£m	£m
Final dividends paid	16.3	15.6	162	154
Total dividends paid	16.3	15.6	162	154

The final dividend of 16.3p per share was paid on 31 August 2018 to shareholders whose names appeared on the register of members on 26 July 2018.

7. Retirement benefit plans

Summary pension information

	26 weeks ended 23 September 2018 £m	26 weeks ended 24 September 2017 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs) ¹	(187)	(405)
UK defined contribution plan	(39)	(28)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions	(85)	(77)
Total UK ongoing pension service costs	(311)	(510)
GLS defined contribution type plan costs	(4)	(3)
Total Group ongoing pension service costs	(315)	(513)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions ²	(154)	(164)
Defined contribution plans' employer contributions	(43)	(31)
UK defined benefit and defined contribution plans' PSE employer contributions	(85)	(77)
Total Group cash flows relating to ongoing pension service costs	(282)	(272)
RMSEPP deficit correction payments	(1)	(5)
Pension related accruals (timing difference)	2	(2)
Pension charge to cash difference adjustment	(34)	(234)

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 41.0 per cent (2017-18: 41.1 per cent) for the RMPP until 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018) of the increase in the defined benefit obligation due to members earning one more half year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the RMPP of £2 million (H1 2017-18: £3 million) and the DBCBS of £2 million (H1 2017-18: £nil) continue to be included within the Group's ongoing UK pension service costs.

² The employer contribution cash flow rate forms part of the payroll expense and is paid in respect of the RMPP (17.1 per cent to 31 March 2018, and the prior period) and the DBCBS (15.6 per cent from 1 April 2018). This includes payments into RMPP pension escrow investments. The contribution rate for RMPP is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS.

Defined Benefit Cash Balance (DBCBS)

DBCBS service costs and contributions from 1 April 2018 are shown in the table above. The DBCBS is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. One week of Royal Mail Pension Plan (RMPP)³ service costs and contributions up to when the scheme closed on 31 March 2018 are also included in the above. Improvements to the Royal Mail Defined Contribution Plan (RMDCP) were made in the first half. Further details can be found in the Financial Review.

Royal Mail Senior Executives Pension Plan (RMSEPP)

On 21 September 2018, the RMSEPP Trustees purchased a further buy-in insurance policy in respect of all remaining pensioners and deferred members. This insurance policy, alongside the previous insurance policy purchased in April 2016, means that substantially all the liabilities of the scheme are now covered by insurance policies. After consideration of the facts outlined above, Management have concluded that the purchase of this further insurance policy should be treated as a settlement. The difference between the IAS 19 surplus before and after the transaction has resulted in £64 million being charged to the income statement as an operating specific item. This insurance policy includes provisions for the possible issue of individual policies in respect of individual members at the future discretion of the RMSEPP Trustees.

As with the previous insurance policy purchased in April 2016, this policy 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 remaining pensioners and deferred members) and the fair value is deemed to be the present value of the related obligation. The total value⁴ of the buy-in annuity policies in place is £332 million (March 2018: £148 million) and is included as a pension asset and a pension liability at 23 September 2018.

³ Any references to RMPP relate to the scheme's defined benefit pension liabilities built up to 31 March 2018. Members built up DBCBS benefits from 1 April 2018.

⁴ In accordance with IAS 19.

7. Retirement benefit plans (continued)

Accounting and actuarial surplus/(deficit) position (RMPP, RMSEPP and DBCBS)

The plans' assets and liabilities are shown below.

	DBCBS		RMPP and RMSEPP		RMPP and RMSEPP	
	Accounting	Actuarial funding	Accounting		Actuarial funding	
	(IAS 19)		(IAS 19)			
	At 23	At 30	At 23	At	At 30	At
	September	September	September	25 March	September	31 March
	2018	2018	2018	2018	2018	2018
	£m	£m	£m	£m	£m	£m
Fair value of plans' assets ⁵	197	197	9,884	10,361	9,927	10,461
Present value of plans' liabilities	(229)	(197)	(6,722)	(7,038)	(9,905)	(10,318)
(Deficit)/surplus in plans (pre IFRIC 14 adjustment)	(32)	-	3,162	3,323	22	143
IFRIC 14 adjustment	n/a	n/a	(1,107)	(1,160)	n/a	n/a
(Deficit)/surplus in plans	(32)	-	2,055	2,163	22	143

⁵ The difference between accounting and actuarial funding asset fair values arises from the different period end dates used for the valuation of the assets under each method.

The Directors do not believe that the surplus in RMPP on an accounting basis will result in a surplus on an actuarial funding basis. However, the Directors are required to account for the plans based on the Company's 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 in the RMPP and RMSEPP, 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, since this date, any surplus is no longer assumed to be recoverable as a reduction to future employer contributions. Therefore, at 23 September 2018 the surplus is assumed to be available as a refund. This surplus is presented net of an IFRIC 14 adjustment of £1,103 million (at 25 March 2018: £1,134 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 23 September 2018 of £10 million (pre IFRIC 14) (at 25 March 2018: £73 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 an IFRIC 14 adjustment of £4 million (at 25 March 2018: £26 million) on the balance sheet which represents the taxation that would be withheld on the surplus amount.

The High Court has recently ruled that pension schemes have to address the issue of unequal Guaranteed Minimum Pensions (GMPs). From Royal Mail's perspective, the transfer of RMPP's historic pension liabilities to Government in 2012 included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will not be material. This is still subject to further legal clarification on exact equalisation requirements, and also to the actual equalisation approach adopted.

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

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

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

	DBCBS	RMPP and RMSEPP	At 25 March
	At 23 September	At 23 September	2018
	2018	2018	
Retail Price Index (RPI)	3.2%	3.2%	3.1%
Consumer Price Index (CPI)	2.2%	2.2%	2.1%
Discount rate			
– nominal	2.6%	2.7%	2.4%
– real (nominal less RPI) ⁶	(0.6)%	(0.5)%	(0.7)%
Constructive obligation for increases	4.2%	-	-

⁶ The real discount rate used reflects the average duration of the RMPP of around 30 years and the DBCBS of 11½ years.

7. Retirement benefit plans (continued)

Sensitivity analysis for RMPP and DBCBS liabilities

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

Key assumption change	Potential increase in DBCBS liabilities	Potential increase in RMPP liabilities
	£m	£m
Additional one year of life expectancy	-	240
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	3	170
Decrease in discount rate of 0.1% p.a.	3	170
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	3	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 period. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

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 23 September 2018	At 25 March 2018	At 23 September 2018	At 25 March 2018	At 23 September 2018	At 25 March 2018
	£m	£m	£m	£m	£m	£m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 26 March 2018 and 27 March 2017	10,361	9,847	(7,038)	(5,992)	3,323	3,855
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	(2)	(7)	(6)	(899)	(8)	(906)
RMSEPP buy-in settlement - operating specific item	(64)	-	-	-	(64)	-
Pension interest income/(cost) ⁷	123	251	(84)	(160)	39	91
Total included in profit before tax	57	244	(90)	(1,059)	(33)	(815)
Amounts included in other comprehensive income - remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	-	-	370	(53)	370	(53)
Experience assumptions	-	-	-	1	-	1
Return on plans' assets (excluding interest income)	(497)	62	-	-	(497)	62
Total remeasurement gains/(losses) of the defined benefit surplus	(497)	62	370	(52)	(127)	10
Other						
Employer contributions ⁸	3	272	-	-	3	272
Employee contributions	-	5	-	(5)	-	-
Benefits paid	(38)	(70)	38	70	-	-
Curtailement costs	-	-	-	(3)	-	(3)
Movement in pension-related accruals	(2)	1	(2)	3	(4)	4
Total other movements	(37)	208	36	65	(1)	273
Retirement benefit surplus (pre IFRIC 14 adjustment) at 23 September 2018 and 25 March 2018	9,884	10,361	(6,722)	(7,038)	3,162	3,323
IFRIC 14 adjustment	-	-	-	-	(1,107)	(1,160)
Retirement benefit surplus (net of IFRIC 14 adjustment) at 23 September 2018 and 25 March 2018	9,884	10,361	(6,722)	(7,038)	2,055	2,163

⁷ Pension interest income results from applying the plans' discount rate at 25 March 2018 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 25 March 2018 to the plans' liabilities at that date.

⁸ Excludes payments into pension escrow investments of £7 million (2017-18: £178 million).

7. Retirement benefit plans (continued)

Movement in DBCBS 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 deficit since the start of the scheme on 1 April 2018 are analysed as follows:

	Defined benefit asset	Defined benefit liability	Net defined benefit deficit
	At 23 September 2018 £m	At 23 September 2018 £m	At 23 September 2018 £m
Retirement benefit at 26 March 2018	-	-	-
Amounts included in the income statement			
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	(2)	(230)	(232)
Total included in profit before tax	(2)	(230)	(232)
Amounts included in other comprehensive income - remeasurement gains/(losses)			
Actuarial gain/(loss) arising from:			
Financial assumptions	-	2	2
Experience assumptions	-	(1)	(1)
Total remeasurement gains of the defined benefit deficit	-	1	1
Other			
Employer contributions	199	-	199
Employee contributions	2	(2)	-
Benefits paid	(2)	2	-
Total other movements	199	-	199
Retirement benefit deficit at 23 September 2018	197	(229)	(32)

8. Goodwill

	2018-19 £m	2017-18 £m
Cost		
At 26 March 2018 and 27 March 2017	715	703
Exchange rate movements	21	1
Acquisition of businesses	123	11
At 23 September 2018 and 25 March 2018	859	715
Impairment		
At 26 March 2018 and 27 March 2017	391	387
Exchange rate movements	12	4
Impairment	49	-
At 23 September 2018 and 25 March 2018	452	391
Net book value:		
At 23 September 2018 and 25 March 2018	407	324
At 25 March 2018 and 26 March 2017	324	316

GLS' US businesses (cash generating unit – CGU) comprise Golden State Overnight Delivery Services Inc. (GSO) and Postal Express Inc. These businesses are in the process of being integrated to create an interstate overnight parcel delivery service with full US west coast coverage, with the aim of realising operational synergies and commercial benefits. While progress is being made against plans, the combined impact of local cost pressures, refocussing the customer base, transitioning to the new business model and ongoing integration costs means that the expected synergies and benefits will now take longer to be realised. The combined businesses were loss-making in the period, with operating losses of around \$8 million (approximately £6 million) in the first half.

Management have performed an impairment review of the assets comprising the CGU and, as a result, the goodwill in these businesses, amounting to £49 million, has been fully impaired, along with other assets with a carrying value of £19 million.

Further details are provided in the Financial Review.

9. Acquisition of business

On 3 September 2018, the Group announced it had acquired Dicom Canada for total consideration of £212 million. This acquisition was funded through a mix of cash and the temporary drawdown of the Group's revolving credit facility. In view of the close proximity of the acquisition date to the half year end reporting date, the fair valuation exercise is still continuing and accordingly, the fair values of the identifiable assets and liabilities recognised as at the date of acquisition, as detailed below, are still provisional.

	26 weeks ended 23 September 2018
	£m
Tangible assets acquired	17
Intangible assets recognised on acquisition	102
Trade and other receivables	19
Cash and cash equivalents	2
Goodwill recognised on acquisition	123
Total assets acquired	263
Trade and other payables	(20)
Tax liabilities	(31)
Net assets acquired	212
Cash paid during the period	212
Deferred consideration	-
Total consideration	212

The fair value of trade debtors is equal to the gross contractual amounts receivable. An initial review of trade debtors has not indicated any recoverability issues.

The intangible assets recognised relate to customer lists, software and brands. The goodwill of £123 million arising on this acquisition (GLS Candada CGU) is indicative of the acquired business knowledge of products and markets, and future efficiencies that are expected through changes in the operations.

Revenue generated from this entity since the date of acquisition is £12 million and the profit is £1 million. If this acquisition had taken place at the beginning of the financial year, revenue generated would have been £68 million and the profit would have been £6 million.

10. Contingent liabilities

On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million.

The Group robustly defended its conduct in written and oral representations made to Ofcom during the investigation and continues to maintain that it has not infringed competition law. It lodged an appeal with the Competition Appeal Tribunal on 12 October 2018 to have both Ofcom's decision and fine overturned. No fine is payable until after the completion of the appeal process.

11. Events after the reporting period

Interim dividend

The Board has declared an interim dividend of 8.0 pence per ordinary share (H1 2017-18: 7.7 pence per share). The dividend amounts to £80 million (H1 2017-18: £77 million) and will be paid on 16 January 2019 to shareholders on the register at the close of business on 7 December 2018. The ex-dividend date is 6 December 2018.

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

The Directors confirm that to the best of their knowledge:

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

The Directors of Royal Mail plc are as listed in the Royal Mail plc Annual Report and Financial Statements 2017-18 with the exception of Paul Murray and Moya Greene who both stepped down from the Board on 19 July 2018. Peter Long stepped down from the Board on 19 September 2018. As announced on 7 November 2018, Sue Whalley has stepped down from the Board with immediate effect. A list of current Directors is maintained on our corporate website www.royalmailgroup.com.

By order of the Board

Rico Back
Group Chief Executive Officer
14 November 2018

Stuart Simpson
Chief Finance Officer
14 November 2018

INDEPENDENT REVIEW REPORT TO ROYAL MAIL PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 23 September 2018 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated balance sheet, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 23 September 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”).

Scope of review

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

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

Directors’ responsibilities

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

Our responsibility

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

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

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

Richard Pinckard
for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

14 November 2018

FORWARD-LOOKING STATEMENTS

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

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

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