This announcement contains inside information for the purpose of Article 7 of the Market Abuse Regulation (EU) No 596/2014.

FINANCIAL RESULTS
21 November 2019

ROYAL MAIL PLC
RESULTS FOR THE HALF YEAR ENDED 29 SEPTEMBER 2019

Royal Mail plc (RMG.L) today announces its results for the half year ended 29 September 2019.

Rico Back, Group Chief Executive Officer, commented: "Our profitability performance is in line with our expectations for the half year, despite considerable UK economic and political uncertainty. Group revenue was up 5.1 per cent, including our best UK revenue performance in 5 years. UK parcel revenue growth more than offset letter revenue declines. GLS revenue, up 14.1 per cent including acquisitions, underlines the strength of our international operations. We continue to expect to deliver adjusted Group operating profit of between £300-340 million (before IFRS 16) in 2019-20, in line with guidance. The business has delivered good in-year trading cash flow, supporting our new dividend policy. As a result, the Board has declared an interim dividend of 7.5 pence per share.

"The UK letter revenue performance in the first half is our best for 5 years. It will also benefit from the General Election in the second half. But, the outlook, excluding elections, for the letters business in the UK is challenging. Lower than anticipated GDP and lower GDP forecasts for 2020-21, together with business uncertainty, are expected to have an impact on addressed letter volumes. For 2019-20, we now expect addressed letter volume decline (excluding elections) to be in the 7-9 per cent range. In 2020-21, we expect letter volume decline (excluding elections) may be in the 6-8 per cent range.

"Our transformation is behind schedule. We are investing more because of the industrial relations environment, the General Election and Christmas, to underpin our Quality of Service at this key time. This is likely to impact our productivity for the remainder of the year. When combined, revenue and cost headwinds could possibly result in a break-even or loss-making position for the UK business in 2020-21. We maintain the ambitions associated with our Journey 2024 plan as set out in our full year results in May.

"People are posting fewer letters and receiving more parcels. We have to adapt to that change. The challenging financial outlook in the UK means now, more than ever before, we need to make the changes required – and accelerate them - to ensure a successful UK business. We remain committed to investing £1.8 billion in our transformation. We want to change, working with our unions, but we can only do so through an affordable resolution. We have changed many times before. We will do it again."

Group financial summary[1,2]

Reported measures (£m)	**26 weeks ended 29 September 2019**	26 weeks ended 23 September 2018	Change[3]
Revenue[4]	**5,166**	4,914	5.1%
Operating profit/(loss)	**61**	(4)	
Profit before tax	**173**	33	
Profit after tax	**153**	5	
Basic earnings per share – continuing operations (pence)	**15.3p**	0.5p	
Net debt	**(1,372)**	(470)	
Interim dividend per share (pence)	**7.5p**	8.0p	

Adjusted measures (£m)	**26 weeks ended 29 September 2019**	26 weeks ended 23 September 2018	Change[3]
Operating profit	**165**	190	(13.2.%)
Margin	***3.2%***	*3.9%*	*(70bps)*
Profit before tax	**146**	183	
Profit after tax	**111**	136	
Basic earnings per share (pence)	**11.1p**	13.6p	
In-year trading cash flow	**152**	(100)	

Business unit financial summary[1,2]

	Revenue			**Adjusted operating profit**		
(£m)	**26 weeks ended 29 September 2019**	26 weeks ended 23 September 2018	Change[3]	**26 weeks ended 29 September 2019**	26 weeks ended 23 September 2018	Change[3]
UKPIL	**3,649**	3,585	1.8%	**75**	113	(33.6%)
GLS	**1,537**	1,347	14.1%	**90**	77	16.9%
Intragroup[4]	**(20)**	(18)	11.1%	**-**	–	–
Group	**5,166**	4,914	5.1%	**165**	190	(13.2%)

Group[1,2,3]

- Group revenue up 5.1 per cent. UKPIL revenue up 1.8 per cent, our best performance for 5 years. GLS revenue up 14.1 per cent, including acquisitions.
- Reported operating profit of £61 million, up £65 million due to lower costs relating to specific items.
- Adjusted Group operating profit of £165 million, down 13.2 per cent, primarily due to a decline in UKPIL profitability.
- Adjusted Group operating profit margin down 70 basis points to 3.2 per cent, driven by UKPIL profitability, as expected.
- In-year trading cash inflow of £152 million.
- Net debt increased to £1,372 million, mainly due to adoption of IFRS 16.
- The Board has declared an interim dividend of 7.5 pence per share, in line with new dividend policy.[5]

[1] The Group adopted IFRS 16, with effect from 1 April 2019. The impact on the results for the first half of 2019-20 is a £7 million increase in operating profit, a £67 million increase in in-year trading cash flow, and a £1,065 million increase in net debt. The results for the first half of 2018-19 have not been restated for the impact of IFRS 16.

[2] 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. For further details on Adjusted Group operating profit, reported results and Alternative Performance Measures (APMs) used, see section entitled 'Presentation of results and Alternative Performance Measures'.

[3] All percentage changes reflect the movement between figures as presented, unless otherwise stated.

[4] Re-presented to reflect intragroup revenue from trading between UKPIL and GLS.

[5] On 22 May 2019, we announced that we were rebasing the dividend and changing the dividend policy. Reflective of the Board's confidence in the Group's updated strategy, strong balance sheet position and future cash generation, the Board committed to underpin an annual dividend at not less than 15.0 pence per share from 2019-20 to 2023-24. The Board would expect to pay an interim dividend each year equal to half of the annual dividend.

UKPIL[1,2,3,6]

- Parcel revenue up 5.6 per cent, more than offsetting letter revenue decline of 1.4 per cent.
- UK parcels business performing well. Volumes up 5 per cent. Domestic account (excluding Amazon) (up 7 per cent) and Tracked 24®/48® and Tracked Returns® (up 20 per cent) delivering good growth.
- Total letter revenue down 1.4 per cent, following appropriate pricing actions and benefit of European parliamentary election.
- Addressed letter volumes down 5 per cent. Excluding European parliamentary election mailings, addressed letter volumes declined by 8 per cent. This is outside our forecast range of 5-7 per cent decline for 2019-20, due to weaker GDP, GDPR and business uncertainty.
- Exceeded our regulatory Quality of Service targets for the first half. Delivered 93.3 per cent of First Class mail on the next working day; 98.8 per cent of Second Class mail within three working days.
- A 2.2 per cent improvement in productivity (full year target: over 2 per cent); hours in operation reduced by 1.7 per cent. £86 million of costs avoided.
- Total adjusted operating costs increased by 2.9 per cent; the largest contributing factor being people cost pressures (including frontline staff and managers' overall compensation) which were not fully offset by productivity gains.
- Adjusted operating profit of £75 million. Adjusted operating profit margin down 110 basis points to 2.1 per cent.

GLS[1,2,3]

- Eastern European markets delivered strong, double digit revenue growth. Three major markets (Germany, France and Italy) accounted for 54.9 per cent of revenue. North America contributed 9.8 per cent.
- Volumes up 5 per cent, or 7 per cent, including the impact of acquisitions.
- Adjusted operating profit, including acquisitions, of £90 million, up 16.9 per cent. Up 8.4 per cent, excluding the impact of acquisitions.
- Adjusted operating profit margin of 5.9 per cent, up 20 basis points compared with prior period. Broadly aligned to 6-7 per cent annual target range.
- Dicom, our Canadian business, performing in line with our expectations. Plan for GLS US progressing well. Operational synergies between Mountain Valley Express (acquired 30 September 2019) and GLS US business to provide an additional valuable strand to the plan.

Transformation

- Parcel automation machines installed in 16 Mail Centres. Around 26 per cent of parcels now automatically sorted (12 per cent during 2018-19).
- Design of technical fit out of first parcel hub in Warrington underway. Targeting go-live in 2022-23. We have identified a site for our second parcel hub in the Midlands. We are exploring options for our third (and final) hub.
- Completed "proof of concept" trials of Automated Hours Data Capture (AHDC) at four trial sites. Roll out on hold, because of the "point of principle" dispute with CWU.
- New technology (digital routing tool and PDA Outdoor Actuals) is being deployed in Delivery. Completed around 50 revisions, against a target of around 100 for the year.
- Rolled-out 1,400 parcel postboxes across UK. First major innovation to postboxes in 160 years.

Industrial relations

- Unite junior and middle managers voted in favour of a two year pay deal and bonus arrangements.
- High Court granted interim injunction against CWU's postal ballot of Royal Mail employees for industrial action.
- We want to enter into discussions with CWU without preconditions.
- Investing more, because of the industrial relations environment, the General Election and Christmas, to underpin our Quality of Service at this key time.

[6] UK letters and parcels revenue and volumes have been allocated using a new methodology which reduces our reliance on sampling by using Post Office traffic data which has been tested for accuracy. This change only impacts the allocation of revenue between stamped letters and parcels, and some international export products. Total UKPIL revenue remains unchanged.

Outlook

2019-20

- We continue to expect to deliver adjusted Group operating profit of between £300–340 million (before IFRS 16) in 2019-20.
- Continuing weak GDP and ongoing business uncertainty expected to have negative impact in second half such that addressed letter volume decline (excluding elections) now expected to be in the range 7-9 per cent for the full year.
- Letter revenue will benefit from European parliamentary and General elections as well as the letter price increases effective from January 2019.

2020-21

- Rate of addressed letter volume decline in 2020-21 dependent on level of GDP growth. The current outlook for GDP is below the level needed to support medium-term outlook of 4-6 per cent addressed letter volume decline. In addition, there is expected to be continued business uncertainty.
- As such, we expect addressed letter volume decline (excluding elections) may be in the range 6-8 per cent in 2020-21.
- In addition, current industrial relations environment is slowing rate of change in the UK operation. This is likely to impact our rate of productivity improvement. As a result, we continue to expect further margin pressure in UKPIL in 2020-21.
- These revenue and cost headwinds, when combined, could possibly result in a break-even or loss-making situation in UKPIL.
- Nevertheless, we are expecting a continued good performance from our UK parcels with volume growth above our addressable market.
- GLS is again expected to perform well, delivering adjusted operating profit margin of 6-7 per cent.

Journey 2024

- We maintain the ambitions associated with our Journey 2024 plan as set out in our full year results in May 2019.

Results presentation

A results presentation for analysts and institutional investors will be held in London at 9:30am on Thursday 21 November 2019. A simultaneous webcast will be available at www.royalmailgroup.com/results.

A trading update covering the nine months ending 23 December 2019 is expected to be issued on 6 February 2020. A conference call for analysts and institutional investors will be held on that date.

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CHIEF EXECUTIVE OFFICER'S REVIEW

Introduction

Earlier this year, we announced our five-year strategy - Journey 2024. We aim to deliver sustainable shareholder value in the medium-term and underpin the UK's Universal Service. We want to become a more parcels-led, more balanced and more diversified international business. By 2023-24, we aim to generate annual revenues of £12 billion, and deliver Group adjusted profit margins of over 5 per cent. Our objective is that 70 per cent of our revenue will come from parcels; with a growing proportion from our international propositions.

Our profitability performance is in line with our expectations for the half year, despite considerable UK economic and political uncertainty. Group revenue was up 5.1 per cent, including our best UK revenue performance in 5 years. UK parcel revenue growth more than offset letter revenue declines. GLS revenue, up 14.1 per cent including acquisitions, underlines the strength of our international operations. We continue to expect to deliver adjusted Group operating profit of between £300-340 million (before IFRS 16) in 2019-20, in line with guidance. The business has delivered good in-year trading cash flow, supporting our new dividend policy. As a result, the Board has declared an interim dividend of 7.5 pence per share.

The UK letter revenue performance in the first half is our best for 5 years. It will also benefit from the General Election in the second half. But, the outlook, excluding elections, for the letters business in the UK is challenging. Lower than anticipated GDP and lower GDP forecasts for 2020-21, together with business uncertainty, are expected to have an impact on addressed letter volumes. For 2019-20, we now expect addressed letter volume decline (excluding elections) to be in the 7-9 per cent range. In 2020-21, we expect letter volume decline (excluding elections) may be in the 6-8 per cent range.

Our transformation is behind schedule. We are investing more because of the industrial relations environment, the General Election and Christmas, to underpin our Quality of Service at this key time. This is likely to impact our productivity for the remainder of the year. When combined, revenue and cost headwinds could possibly result in a break-even or loss-making position for the UK business in 2020-21. We maintain the ambitions associated with our Journey 2024 plan as set out in our full year results in May.

People are posting fewer letters and receiving more parcels. We have to adapt to that change. The challenging financial outlook in the UK means now, more than ever before, we need to make the changes required – and accelerate them - to ensure a successful UK business. We remain committed to investing £1.8 billion in our transformation. We want to change, working with our unions, but we can only do so through an affordable resolution. We have changed many times before. We will do it again.

The pressing need for change

Breaking the cycle of decline and returning the UK operations to growth is at the heart of our strategy. Our **"Turnaround and Grow"** plan is rooted in two key realities of the UK markets we operate in and, consequently, our business model. Firstly, around a 50 per cent decline in addressed letter volumes since their 2004 peak, with further falls expected over the next five years. Secondly, continued growth in parcels, driven by online shopping. Our UK network, however, is primarily configured to quickly and efficiently deliver letters. We want to invest £1.8 billion to ensure we can more efficiently and effectively process and deliver the changing traffic mix. In short, we want to change from a UK letters company that delivers parcels, into a parcels-led, international company that also delivers letters.

We want to change, working closely and at pace with our people and our unions, in line with our existing Agreements. We have honoured our side of the 2018 Agreement. Whilst we are in the early stages of the transformation we want to make, we are not making the progress we would like in some key areas of the Agreement, like the introduction of new technology, because of a number of factors, including a lack of co-operation by CWU. New digital tools, like our electronic "clocking in, clocking out" system, are amongst the key ways that we can become even more efficient and effective. They are also the means by which we can work with the CWU to seek to fund other elements of the 2018 Agreement, e.g. the Shorter Working Week. Conversely, in other areas, like route planning technology deployment and PDA Outdoor Actuals, we are making good progress.

We want to enter into discussions with CWU, without preconditions. We want to reach resolution. Industrial action, or the threat of it, can only hurt our company, and our colleagues. That is because, in today's postal market, our customers have choices. Consumers can send a text or email when they would once have written a letter; and shippers can choose from a wide range of delivery companies, not just Royal Mail.

We know we are asking a lot of our hardworking colleagues. But we cannot stand still. Change is essential if we want to remain one of the UK's largest employers, with the best terms and conditions in our industry. Unlike many of our peers, who operate in the "gig economy", over 99 per cent of Royal Mail employees are on permanent contracts. The pay of a postman or woman (base salary only) is around 30 per cent higher than the Voluntary Living Wage. In contrast to the UK average of around 23 per cent, employee turnover for 2018-19 was 7.2 per cent.

We know we cannot deliver a high quality service unless we offer good jobs with a sense of purpose. We have made a commitment to our colleagues that – if we can successfully deliver our plan, at pace – there will be a job for everyone who can and wants to work for us. We will roll out digital tools to make Royal Mail a fairer place to work. And, we will continue to deliver the UK's Universal Service.

Our overall performance

Against the backdrop of a challenging and uncertain macroeconomic environment, our performance is in line with our expectations. Group revenue was up 5.1 per cent. Adjusted Group operating profit was £165 million[2], down 13.2 per cent, reflecting margin compression as expected. In-year trading cash inflow was £152 million[2]. This is mainly due to lower trading working capital outflow and the impact of adopting IFRS 16. The net impact of IFRS 16 on in-year trading cash flow is an increase of £67 million. The Board has declared an interim dividend of 7.5 pence per share, in line with our new dividend policy, announced in May 2019.

In the UK, growth in parcel revenue underpinned overall UKPIL revenue growth of 1.8 per cent, our best performance in 5 years. UK parcel volumes growth exceeded the expected annual rate of growth in our addressable market. Addressed letter volumes, declined by 5 per cent, or 8 per cent excluding the impact of European parliamentary elections. Productivity improved by 2.2 per cent, and we avoided £86 million of costs. Total adjusted operating costs increased by 2.9 per cent; the largest contributing factor being people cost pressures (including frontline staff and managers' overall compensation) which was not fully offset by productivity gains. GLS performed in line with our expectations, despite increasing labour costs across Europe and headwinds in certain markets. We continue to expect a GLS operating profit margin of 6-7 per cent per annum over the plan period.

"Turnaround and grow" the UK

Our five-year transformation is about returning the UK to growth, after a period of margin compression in the early years of the plan. In this, the foundation year, our focus is on productivity and operational excellence. In the second stage, we want to build our extended network and embed digital tools and harvest key benefits. In the final phase, we want to roll out and operate our extended UK network. The staging of our plan means significant investment is needed early on; while many benefits will come through later.

i. Renewed focus on productivity: operational excellence and key work tools

While letters are in structural decline for the reasons I have set out, we expect parcel volumes in our addressable market to grow by 4-5 per cent per annum. The majority of our parcels are currently processed by hand: just as they were in the Victorian era. Automation is therefore a key focus. It ensures day-to-day productivity gains and makes parcels easier and quicker to handle. We have now installed 16 automated parcel sortation machines. We have increased the number of parcels we sort automatically from 12 per cent during 2018-19, to around 26 per cent at the half year. We want to increase that to over 80 per cent through the installation of automated machines in all our Mail Centres by 2023-24, and through building 3 dedicated parcel hubs.

We want to introduce digital tools that help us to better align resource to workload. This will make us more efficient, and make the workplace a fairer place too. PDA Outdoor Actuals, alongside our digital routing tool, will materially help our managers to allocate duties more evenly and support effective revisions to reflect the changes in letter and parcel volumes. It will also help us provide even more accurate estimated delivery windows for our customers.

The data from PDA Outdoor Actuals complements other work tools, like Resource Scheduler. Aimed at helping managers resource more effectively, Resource Scheduler allocates duties based on historic and projected workload, and other workplace information. This tool is in the early stages of development. Further work is required before we can confirm "proof of concept" and move towards roll out. Automated Hours Data Capture (AHDC), on the other hand, automates what is currently a paper-based system to record the hours our people work. It provides more accurate information about who is on and off-site. This will improve colleague safety – our first priority. It will also test if we have the right resourcing on site for each shift. We have completed "proof of concept" trials of AHDC at four trial sites. Further roll out is on hold, as this is part of the "point of principle" dispute with CWU.

In Processing, we are trialling automated guided vehicles (AGVs), to replace inefficient manual movement of yorks (large trolleys used to move mail items) between work areas. Following successful deployment of an AGV system in Heathrow Worldwide Distribution Centre, we are identifying potential suppliers to deliver national deployment. In Delivery, we are looking at new methods to reduce the amount of time postmen and women spend prepping the mail indoors. This includes putting proper enablers in place, including strategic workforce planning and better workflow forecasting. We want to introduce these tools together with CWU. See the ***Industrial relations*** update.

ii. Extending our UK network

Due to the major changes in our markets – more parcels and fewer letters – and greater demand for the delivery of larger parcels and Next Day items, we want to enhance our UK network. According to data from John Lewis, night-time online shopping rose by almost a quarter in the past year[7]. Our plan is to complement our existing processing and delivery of letters and small parcels with a new element of the overall network that is better equipped to handle large parcels and Next Day items. We believe this strategy has many benefits. Firstly, it enhances the good economics underpinning the current combined delivery. In fact, we expect to deliver more small parcels in this way in the years to come. Secondly, we will be more competitive in the large parcels and Next Day items categories. This is strategically important to us at a time when the growth rate for Next Day parcels, for example, is expected to outpace the rate of increase in other delivery time categories. In short, the separate processing and delivery of larger parcels and Next Day items is expected to deliver significant benefits for Royal Mail and the Universal Service.

Over the next few years, the successful delivery of our plan is expected to change the dynamics around the respective contributions of letters and parcels. Currently, we estimate for every 1 per cent of letter volume decline, we have to grow parcel volumes by over 2 per cent to make the same contribution. By making these changes, that ratio improves significantly over the plan period. The UK parcels market is highly competitive. We need to change quickly in order to ensure that we maintain our leading position and grow in new areas.

We want to build three new, fully-automated parcel hubs to handle the Next Day and larger parcels more effectively. The design of the technical fit out for our North West parcel hub in Warrington is well-progressed. When operational, the Warrington hub will be able to process more than 600,000 parcels per day. Employees from our North West Distribution Centre have moved to the site to work on high volume parcel streams, coming from shippers in the North West. We have identified a site for our second parcel hub in the Midlands, set to be operational in 2022-23. We are exploring options for our third (and final) hub. There is no impact on our existing Mail Centre estate as a result of these changes.

iii. A major geographical presence and enhanced customer service

Alongside our parcel hubs, the network extension plan includes 7,000 separate van delivery routes for larger and Next Day parcels, routed through potentially 200-300 of our existing, larger Delivery Offices. A planned trial of van deliveries out of Swindon Delivery Office is on hold, as it has become part of the "point of principle" dispute with CWU. As we said at the time of our 2018-19 Results, we want to work closely with our unions on our strategy, detailed design and deployment, including a trial for the separate van delivery.

If we can successfully put the new parcel hubs and separate van deliveries in place by 2023-24, this will result in a major increase in delivery frequency for consumers and small and medium-sized enterprises (SMEs). Accordingly, we will introduce two deliveries a day in most parts of the country. Firstly, consumers will receive the usual letters and small parcels delivery. Secondly, there will be a delivery later that day of larger or Next Day parcels they have ordered, in many instances, less than 24 hours before.

iv. Becoming a parcels-led business; letters remain important

UKPIL parcels

UK parcel volumes increased by 5 per cent. Revenue was up 5.6 per cent, with Tracked 24/48® and Tracked Returns® performing particularly well (with volumes up 20 per cent)[6]. We are winning and retaining customers based on our high quality service. During the period, we won new business with Game and Monsoon Accessorize. Parcelforce Worldwide volumes increased by 2 per cent. Despite challenges in export, new business wins have driven good performance in its account parcels.

In October 2019, we completed the roll out of 1,400 parcel postboxes, enabling 24-hour access for customers sending or returning parcels. This is the first UK-wide network of parcel posting boxes, and the biggest change to the postbox in its 160 year history. We have enhanced the Royal Mail App to include a UK "industry first" Augmented Reality (AR) Parcel Sizer. It enables customers to work out the right postage and then pay directly via the App. Users can also

[7] The Rise of Night-time Online Shopping, John Lewis Partnership Card, September 2019

track a delivery using Alexa by saying a code name they have assigned to a mail item. Over 500,000 people are already using the App.

UKPIL letters

In the first six months of the year, addressed letter volumes were down 5 per cent. Excluding political parties' election mailings connected with the European parliamentary elections, they were down 8 per cent, due to the negative impact of GDPR in the first few months of the year and the impact of weakening GDP and ongoing business uncertainty. Total letter revenue was down 1.4 per cent, benefiting from targeted pricing actions and the European parliamentary elections[6]. This was the best performance in 5 years.

UK addressed letter volumes are in structural decline. They have fallen around 50 per cent since their 2004 peak. The rate of the decline is impacted by a number of factors. They include e-substitution, the impact of GDPR and UK GDP and business uncertainty. See Outlook for our view on 2019-20 and 2020-21 letter volume decline.

Despite the continuing structural decline in letter volumes, the UK still has a high number of letters per capita compared with many other countries. We continue to promote the value of letters. We have refreshed our product portfolio and optimised our pricing strategy, using automation in the network to capture insight and drive efficiency. Business mail makes up the majority of our addressed mail volumes (excluding International and elections) at around 60 per cent. Advertising mail is around 30 per cent. Our range of products, incentives and offers are designed to demonstrate how mail can help their businesses. One example is our new Partially Addressed product. Aimed at advertisers targeting new customers, it allows them to reach recipients without using personal data. Customers can access strictly non-personalised geo-demographic data, from fully consented individuals. Another product, Late Bookings, for unaddressed mail, enables customers to access additional postcode sectors at a significant discount.

Scaling up and growing GLS

GLS is one of the largest, ground-based deferred parcel networks in Europe. The company has a growing presence in the Western US and Canada. It is a key part of our strategic ambition to become a parcels-led, more balanced and more diversified international business, with a strong presence in the UK. Our ongoing focus on profitable revenue growth, primarily in B2B services, resulted in strong revenue growth of 14.1 per cent including acquisitions (8.9 per cent excluding acquisitions). Volumes were up 7 per cent including acquisitions, or 5 per cent excluding acquisitions, with growth in domestic and international volumes in most markets.

Including acquisitions, GLS achieved adjusted operating profit of £90 million, an increase of 16.9 per cent. Operating conditions in the majority of its markets were impacted by wage inflation and tight labour markets. To offset these cost pressures, we have increased prices, where appropriate, and focused on yield management activities. These factors contributed to an adjusted operating profit margin of 5.9 per cent – broadly in line with our forecast annual range of 6-7 per cent per annum over the life of the plan.

GLS' performance in eastern Europe has been particularly strong. Countries including Croatia, Hungary and Romania delivered double digit revenue growth. GLS Germany is the largest GLS market by revenue. Its revenue grew by 10.8 per cent, driven by higher international volumes and improved pricing.

There is a specific focus on improving performance in some of our key markets. We are experiencing ongoing challenging conditions in GLS France's domestic markets. It continues to be integral to the GLS network, by supporting exports into France, and allowing GLS to provide a comprehensive service across Europe. We are focused on improving quality to secure new customers in more profitable segments. GLS Spain revenue decreased by 6.3 per cent due to lower domestic volumes. However, losses have reduced compared with the second half of 2018-19, due to yield management activities to exit low margin customers. We are making progress integrating Redyser, which is expected to be completed by the end of the financial year.

Selective bolt-on acquisitions in key geographies form a fundamental part of GLS' 'scale up and grow' strategy. In GLS US, we are continuing with our previously announced plans to integrate GSO and Postal Express. Losses have been reduced through a combination of yield management activities and cost optimisation. We acquired Mountain Valley Express (MVE) on 30 September 2019, which offers less-than-truckload services to a broad range of customers in the Western US. This acquisition expands our presence in North America. The geographical overlap of MVE's network with our existing operations has the potential to provide cost synergies and revenue growth opportunities. In Canada, Dicom is performing in line with expectations. Revenue in the period was £82 million and operating profit was £8 million.

We are investing in GLS to provide a platform for future growth; with a number of network infrastructure improvements in plan. These include hub extensions in Denmark, Romania and Hungary, as well as a new euro hub in Germany and a new depot in Poland. New technology, including hand scanners, depot IT infrastructure upgrades and software development aim to improve our B2C offering and secure delivery cost efficiencies.

Enhancing our cross-border proposition

Cross-border trade is a key growth area for us. Group cross-border revenue was up 4.2 per cent, as the cross-border letter revenue decline of 8.3 per cent was more than offset by cross-border parcel revenue growth of 6.9 per cent. Combining the best of Royal Mail and GLS will enhance our product portfolio and enable us to benefit from cross-selling opportunities. Our cross-border initiatives to connect the Royal Mail and GLS networks are progressing well. We expect this to fuel further growth by providing added value to our customers through an enhanced product portfolio with global reach and a stronger focus on Europe, Asia and North America.

In September 2019, it was confirmed that the United States will stay within the Universal Postal Union (UPU), having previously given notice to withdraw from it by October 2019. Under the agreed solution, the US will be able to self-declare its terminal rates for post received from abroad from July 2020.

The UK's position on the reform was ultimately a decision for the UK Government. We welcome the fact that the reform maintains the global postal network. We are committed to working with the UPU and its members on a range of options to minimise any impact on our customers. It is regrettable that the reform could lead to price rises for UK consumers and small businesses sending postal items abroad. We would expect any necessary price increases to take effect as part of our regular pricing review.

Industrial relations and contingency planning

We are proud to be the best employer in the UK delivery industry. Earlier on in this section, I set out some of the ways in which we differentiate Royal Mail from its peers through the provision of high quality jobs. This is especially important when you take into account that Royal Mail employs one in every 192 working people in the UK.

i. Our managers

Royal Mail employs approximately 9,500 managers across the UK, of which approximately 6,300 are in operational functions. The contribution of all our managers is crucial to the performance of our business. We were pleased to confirm in October 2019, managers who are members of Unite/CMA, voted in favour of a pay agreement recommended to them by their union, following extended discussions with the Company. Under the agreement, managers will receive a pay increase of 2.6 per cent this year, backdated to 1 September 2019, and a pay increase of 2.7 per cent from 1 September 2020. Managers will also receive a £1,000 Annual Bonus advance in December 2019. This amount will be deducted from any final bonus individuals may receive.

ii. Honouring our Agreements with CWU

In May 2019, shortly after the announcement of our five-year plan, CWU informed the Company that it considered that we were not honouring and deploying our 2018 Agreement. While the Agreement brought us significant financial benefits - in particular, through the agreement to close the Royal Mail Pension Plan to future accrual in its previous form - an analysis of the productivity and efficiency opportunities in it found the cost of the Agreement is significant. To fund it, there needed to be a step change in the pace and focus of the initiatives it contains, and a greater focus on day-to-day operational excellence. These points are central to the delivery of the "Turnaround and Grow" plan.

We have honoured the 2018 Agreement. We awarded two pay increases (five per cent and two per cent respectively). We implemented the first hour's reduction of the Shorter Working Week, although we did not obtain all the cost saving measures to pay for it. Taking all these together, our frontline colleagues have seen base pay increase by 10 per cent in two years. We have worked closely with CWU, and continue to do so, to lobby Government to enable Collective Defined Contribution (CDC) pension schemes under UK law, for the first time in the UK.

iii. Industrial relations

On 13 November 2019, the High Court granted an interim injunction against CWU's postal ballot of Royal Mail employees for industrial action. The interim injunction means no industrial action can be taken before the completion of a lawful ballot, with a result in favour of action, and formal notification of action.

We are pleased with the High Court's decision. Trade union legislation is designed to safeguard democratic integrity by ensuring union members can vote in the privacy of their own homes, rather than in any public process. As is the case with any electoral process, it is vital our colleagues can vote without any constraint imposed on them by any other party.

We never wanted to resort to legal action. We wrote to CWU on a number of occasions, setting out the information on which our case was based. We asked CWU to confirm it would refrain from taking industrial action, due to clear evidence we provided that CWU had interfered with the ballot process. CWU declined to do so, leaving us with no alternative option.

We stand ready to engage with the CWU. We want to enter into discussions without preconditions. We will continue to pursue every avenue possible to avoid or curtail industrial action. We remain committed to reaching a resolution which is within the spirit of the 2018 Agreement, is affordable and helps secures a sustainable future for our Company and the Universal Service.

The CWU lodged an appeal against the ruling with the High Court on 20 November 2019. As you would expect, we will continue to monitor the situation carefully. We are investing more because of the industrial relations environment, the General Election, and Christmas, to underpin our Quality of Service at this key time.

iv. Parcelforce Worldwide

Royal Mail's application to the High Court did not apply to employees within Parcelforce Worldwide. They are the subject of separate ballot notices, which have resulted in two separate ballots in favour of industrial action. The first relates to honouring our Agreements with CWU. I have set out above the ways in which we are meeting our obligations.

The second relates to our proposal to transfer Parcelforce Worldwide into a new legal entity and TUPE Parcelforce Worldwide's 5,000 colleagues into the new company. The transfer aims to increase management accountability and help Parcelforce become a more agile, responsive business, while remaining part of, and retaining the backing of, the wider Group. We have made a series of commitments to CWU, Unite/CMA and colleagues about the legal separation. As a result of the transfer: i) job responsibilities would not change; ii) continuity of service would not be affected; iii) terms and conditions of employment would not change; and iv) existing agreements with our unions would not change. Employees will continue to participate in employee share plans, Company pension schemes, and other employee benefits schemes.

We do not believe there are any grounds for industrial action. We are committed to further talks on many of the issues the CWU has raised. We continue to urge Parcelforce Worldwide's people not to participate in industrial action.

Key external issues

i. Brexit

Following the agreed extension of Article 50 of the Treaty on the Functioning of the European Union until 31 January 2020, the shape of the future relationship between the UK and the EU still remains unclear. It is therefore not possible to predict with any degree of accuracy the impact the UK's departure from the EU could have on the Group. Internal procedures are in place to monitor and manage ongoing risks associated with the UK leaving the EU. Material risks are reported to and handled through a Brexit steering group. This is comprised of senior executives.

As previously disclosed, the main issues for the 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.

The impact on cross-border parcel volumes will depend on the nature of the UK's future trading relationships, and what the future EU/UK customs and VAT arrangements will be. 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. Changes in the UK's customs arrangements in the event of a no-deal Brexit are a decision for Government. We are therefore working closely with Government and other stakeholders to put in place systems to ensure the movement of cross-border parcels continues to operate effectively.

ii. Regulatory environment

We have exceeded both our First Class and Second Class mail annual regulatory Quality of Service targets for the first six months of the financial year. We delivered 93.3 per cent of First Class mail on the next working day, against a

target of 93.0 per cent. 98.8 per cent of Second Class mail was delivered within three working days, exceeding the 98.5 per cent regulatory target. Separately, we are cooperating fully with Ofcom's investigation into our 2018-19 Quality of Service. Quality of Service is a key priority for us. We are focused on delivering high levels of customer satisfaction while introducing more innovation into our services.

We confirmed in February 2019 that, due to an error on our part, our new Second Class stamp price of 61 pence was one penny above the existing regulatory safeguard cap for seven days. We apologised for this mistake as soon as we realised. We sought to put it right by donating the revenue that we expected to collect from the error – around £60,000 – to our chosen charity Action for Children, which helps young people at risk of developing mental health problems. We are cooperating fully with Ofcom's investigation into this matter.

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. Royal Mail lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. On 12 November 2019, the CAT issued its judgment, which upheld Ofcom's decision and fine. Royal Mail is considering all legal options, including whether to seek permission to appeal and to request that payment of the penalty, which would otherwise become payable, be stayed pending any appeal. In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision. Whistl's High Court claim is on hold until after the completion of the appeal process. Royal Mail believes Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

Royal Mail's current regulatory framework is scheduled to remain in place until March 2022. To check that the framework remains fit-for-purpose, Ofcom has started a review of the needs of postal users as an initial step in its wider review. This involves market research and analysis looking at the extent to which the postal market is meeting the reasonable needs of users. It plans to publish preliminary findings in Q4 2019-20. We will be engaging fully with Ofcom during its review.

Outlook

2019-20

We continue to expect to deliver adjusted Group operating profit of between £300–340 million (before IFRS 16) in 2019-20.

Addressed letter volumes (excluding elections) in the first half declined by 8 per cent due to the negative impact of GDPR in the first two months of the year, the impact of weakening GDP and ongoing business uncertainty. In the second half, continuing weak GDP and ongoing business uncertainty are expected to have a negative impact such that we now expect addressed letter volume decline (excluding elections) to be in the range 7-9 per cent for the full year. Letter revenue will benefit from the European parliamentary and General elections as well as the letter price increases effective from January 2019.

2020-21

The rate of addressed letter volume decline in 2020-21 will be dependent on the level of GDP growth. The current outlook for GDP is below the level needed to support the medium-term outlook of 4-6 per cent addressed letter volume decline. In addition, there is expected to be continued business uncertainty. As such, we expect that addressed letter volume decline (excluding elections) may be in the range 6-8 per cent in 2020-21.

Changes to terminal dues rates, including the rates we pay to the US postal service to deliver mail which come into effect from July 2020, are expected to add costs to our international letters and parcels business which may not be fully mitigated by pricing actions.

In addition, the current industrial relations environment is slowing our rate of change in the UK operation. This is likely to impact our rate of productivity improvement. As a result, we continue to expect further margin pressure in UKPIL in 2020-21.

These revenue and cost headwinds, when combined, could possibly result in a break-even or loss-making situation in UKPIL.

Nevertheless, we are expecting a continued good performance from our UK parcels with volume growth above our addressable market and GLS is again expected to perform well, delivering adjusted operating profit margin of 6-7 per cent.

It is essential that we find an affordable resolution to the currently ongoing industrial relations dispute. We are doing everything we can to secure the success of our plan for the UK business. We will again seek to leverage value from price increases where we believe the service offering justifies a change.

We will continue to honour our Agreements and will act in the interests of all our stakeholders to make sure we secure a successful and sustainable future for the UK business. Alongside our plans for growth in parcels, improved efficiency and cost reduction will be key to our success.

Journey 2024
We maintain the ambitions associated with our Journey 2024 plan as set out in our full year results in May 2019.

Rico Back
Group Chief Executive Officer
21 November 2019

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with International Financial Reporting Standards (IFRS) and are set out in the sections entitled 'Presentation of results and Alternative Performance Measures' (APMs) and 'Condensed consolidated financial statements'.

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

The APMs we use are explained in the section entitled 'Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

Group, UKPIL and GLS reporting periods

The Group and UKPIL results are for the 26 week period to 29 September 2019. The GLS financial period is the six months to 30 September 2019.

Changes in disclosures and metrics used in external reporting

We have made changes to our financial and non-financial disclosures and metrics used in external reporting. This is to improve transparency, accuracy, and understanding, and to eliminate 'underlying' movements. All numbers presented in this Financial Review are on the new basis. A summary of the changes is set out below:

1. UK letters and parcels revenue and volumes have been allocated using a new methodology which reduces our reliance on sampling by using Post Office traffic data which has been tested for accuracy. This change only impacts the allocation of revenue between stamped letters and parcels, and some international export products. Total UKPIL revenue remains unchanged;
2. Transformation costs are now incorporated within their relevant operating cost categories within UKPIL operating costs;
3. Intragroup revenue and cost reflecting trading between UKPIL and GLS, principally due to Parcelforce Worldwide operating as GLS's partner in the UK, are now eliminated from the Group results upon consolidation, and
4. Comparisons with prior periods are no longer presented on an 'underlying basis'. From the 2019-20 financial year onwards, no underlying adjustments in respect of working days, foreign exchange movements, acquisitions or any one-off items will be made to the prior period. Any factors having a material impact on period on period comparisons are highlighted in the narrative to the results.

The tables on the following page reconcile the 2018-19 adjusted results presented in this Financial Review to the half year 2018-19 adjusted results published previously.

Re-presented UKPIL results half year 2018-19

UKPIL (£m)	Adjusted 26 weeks ended 23 September 2018 as previously published	Transformation costs	UK letters and parcels revenue	Re-presented[8] adjusted 26 weeks ended 23 September 2018
Revenue				
Letters	1,895	-	56	1,951
Parcels	1,690	-	(56)	1,634
Total revenue	3,585	-	-	3,585
Operating costs				
People costs	(2,387)	(29)	-	(2,416)
People costs	(2,387)	(19)	-	(2,406)
Voluntary redundancy costs		(10)	-	(10)
Non-people costs	(1,033)	(23)	-	(1,056)
Distribution and conveyance costs	(369)	-	-	(369)
Infrastructure costs	(361)	-	-	(361)
Other operating costs	(303)	(23)	-	(326)
Total operating costs	(3,420)	(52)	-	(3,472)
Adjusted operating profit before transformation costs	165	-	-	
Transformation costs	(52)	52	-	
Adjusted operating profit	113	-	-	113

Re-presented Group results half year 2018-19

Group (£m)	Adjusted 26 weeks ended 23 September 2018 as previously published	Transformation costs	Intragroup adjustment	Re-presented[8] adjusted 26 weeks ended 23 September 2018
Revenue	4,932	-	(18)	4,914
Operating costs				
People costs	(2,705)	(29)	-	(2,734)
People costs	(2,705)	(19)	-	(2,724)
Voluntary redundancy costs		(10)	-	(10)
Non-people costs	(1,985)	(23)	18	(1,990)
Distribution and conveyance costs	(1,210)	-	18	(1,192)
Infrastructure costs	(439)	-	-	(439)
Other operating costs	(336)	(23)	-	(359)
Total operating costs	(4,690)	(52)	18	(4,724)
Adjusted operating profit before transformation costs	242	-	-	
Transformation costs	(52)	52	-	
Adjusted operating profit	190	-	-	190

[8] 2018-19 half year results have been re-presented as described in the section entitled 'Changes in disclosures and metrics used in external reporting'

Re-presented in-year trading cash flow half year 2018-19

In-year trading cashflow (£m)	26 weeks ended 23 September 2018 as previously published	Transformation costs	Voluntary redundancy charge to cash difference[9]	Re-presented[8] 26 weeks ended 23 September 2018
Adjusted EBITDA	409	(52)	-	357
Trading working capital movements	(272)	-	5	(267)
Share-based awards (LTIP and DSBP) charge adjustment	4	-	-	4
Total investment	(184)	52	(5)	(137)
Income tax paid	(49)	-	-	(49)
Research and development expenditure credit	2	-	-	2
Net finance costs paid	(10)	-	-	(10)
In-year trading cashflow	**(100)**	**-**	**-**	**(100)**

Impact of IFRS 16

The Group adopted IFRS 16, which replaced IAS 17, with effect from 1 April 2019. The results for the first half of 2018-19 have not been restated for the impact of IFRS 16.

IFRS 16 has a material impact on the Group as it requires the recognition of assets and liabilities for the majority of leases. Operating lease costs previously recognised in operating costs are replaced by a depreciation charge on the assets and finance costs on the liabilities. The total cash outflow for lease payments does not change. However, the payments related to the principal liabilities are now presented as cash outflows from financing activities, as opposed to the previous treatment as cash outflows from operating activities. The impact of IFRS 16 on the 2019-20 half year results is set out below:

Impact on operating costs (£m)	UKPIL	GLS	Group
Decrease in distribution and conveyance costs (operating lease costs)	(7)	(5)	(12)
Increase in infrastructure costs	2	3	5
Property (operating lease costs)	(44)	(23)	(67)
Depreciation charge	46	26	72
Net decrease in operating costs	**(5)**	**(2)**	**(7)**
Net increase in operating profit	**5**	**2**	**7**

Impact on in-year trading cash flow (£m)	Group
Net increase in operating profit	7
Depreciation and amortisation	72
Net increase in EBITDA	79
Net finance costs paid	(12)
Net increase in in-year trading cash flow	**67**

We stated in the full year 2018-19 Financial Review that we would continue to implement and refine procedures and processes to apply the requirements of IFRS 16, and that there could be some changes to the adoption impact that we outlined.

Our experience in deploying IFRS 16 during the first half of 2019-20 has caused us to revise our approach. We now expect the benefit to operating profit to be £10-20 million in 2019-20, lower than our estimate earlier in the year. This guidance could be impacted by any material new lease agreements that are entered into in the second half.

[9] The voluntary redundancy charge to cash difference represents the timing difference between when the voluntary redundancy charge is expensed to the income statement and when the cash payment is made.

UK PARCELS, INTERNATIONAL & LETTERS (UKPIL)

Reported results

Summary results (£m)	Reported 26 weeks ended 29 September 2019	Re-presented[8] reported 26 weeks ended 23 September 2018
Revenue	**3,649**	3,585
Operating costs	**(3,617)**	(3,506)
Operating profit before specific items	**32**	79
Operating specific items	**(57)**	(82)
Operating loss	**(25)**	(3)
Operating loss margin	***(0.7%)***	*(0.1%)*

The detailed reported results for UKPIL are set out in the paragraph entitled 'Segmental reported results'. Reported revenue was £64 million higher than the prior period. Operating profit before specific items decreased to £32 million. Operating specific items were £57 million, which largely comprised a provision for a regulatory fine of £50 million and associated interest from Ofcom and the Employee Free Shares Charge. The prior period included the accounting consequences of the purchase of a further buy-in insurance policy for the Royal Mail Senior Executives Pension Plan (RMSEPP), which resulted in a charge of £64 million, and the Employee Free Shares charge of £17 million. UKPIL generated an operating loss of £25 million for the period, compared with a £3 million loss in the prior period.

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'.

Summary trading results (£m)	Adjusted 26 weeks ended 29 September 2019	Re-presented[8] adjusted 26 weeks ended 23 September 2018	Change[10]
Letters	**1,923**	1,951	(1.4%)
Parcels	**1,726**	1,634	5.6%
Revenue	**3,649**	3,585	1.8%
Operating costs	**(3,574)**	(3,472)	2.9%
Operating profit	**75**	113	(33.6%)
Operating profit margin	***2.1%***	*3.2%*	*(110bps)*
Letters volumes (m)			
Addressed letters	**4,912**	5,171	(5%)
Addressed letters (excluding political parties' election mailings)			*(8%)*
Unaddressed letters	**1,244**	1,381	(10%)
Total letters	**6,156**	6,552	(6%)
Parcels volumes (m)			
Royal Mail	**564**	535	5%
Parcelforce Worldwide	**49**	48	2%
Total	**613**	583	5%

Total revenue was up 1.8 per cent with parcel revenue up 5.6 per cent, more than offsetting letter revenue decline of 1.4 per cent.

Total parcel volumes increased by 5 per cent. Royal Mail domestic account parcels volumes, excluding Amazon, were up 7 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 20 per cent. Our Latest

[10] Comparisons with a prior period are no longer presented on an underlying basis. All percentage changes represent the movement between the results as presented. Any factors having a material impact on period on period comparisons are highlighted in the narrative to the results

Acceptance Times (LATs) offering for our Tracked 24® product, as well as a focus on faster growing sectors and customers, is supporting this growth. We also saw continued strong volume growth in letterboxable parcels from Amazon.

Our international cross-border offering accounted for just under one percentage point of the parcel volume and revenue growth in the period, moderating as expected. Our performance has been negatively impacted by Brexit uncertainty, but we have put in place mitigating actions by creating other channels into Europe. We saw lower import volumes outside our cross-border offering due to adverse foreign exchange movements. Contract export volumes have improved, benefitting from a significant new customer win. Parcelforce Worldwide volumes increased by 2 per cent, in line with prior period.

Total parcel revenue increased by 5.6 per cent reflecting volume growth and targeted pricing actions.

Total letter volume decline was 6 per cent. Excluding political parties' election mailings, addressed letter volumes were down 8 per cent. Letter volumes were impacted by ongoing structural decline, GDP weakness and lapping the impact of General Data Protection Regulation (GDPR) in May last year. Excluding the impact of GDPR, addressed letter volume decline (excluding political parties' election mailings) would have been around 1 percentage point lower than reported.

Low average unit revenue (AUR) unaddressed letter volumes were down 10 per cent due to high levels of uncertainty in the current advertising market, driven by continued business uncertainty.

Total letter revenue decreased by 1.4 per cent, benefitting from European parliamentary election mailings and the introduction of targeted price rises. Advertising letters revenue of £306 million (now comprising only addressed and unaddressed advertising letters products) was down 8.8 per cent reflecting the impact of GDPR and business uncertainty.

Adjusted operating costs

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Re-presented[8] adjusted 26 weeks ended 23 September 2018	Change[10]
People costs	**(2,495)**	(2,416)	3.3%
People costs	**(2,489)**	(2,406)	3.4%
Voluntary redundancy costs	**(6)**	(10)	(40.0%)
Non-people costs	**(1,079)**	(1,056)	2.2%
Distribution and conveyance costs	**(390)**	(369)	5.7%
Infrastructure costs	**(381)**	(361)	5.5%
Other operating costs	**(308)**	(326)	(5.5%)
Total	**(3,574)**	(3,472)	2.9%

Total adjusted operating costs increased by 2.9 per cent. As a result of adopting IFRS 16, there was a reduction in operating lease costs of £51 million and an increase in the depreciation charge of £46 million. Overall, there was a net reduction of £5 million in operating costs. Excluding this impact, adjusted operating costs increased by 3.1 per cent. The largest contributing factor was people costs pressures (including frontline staff and managers' overall compensation) which were not fully offset by productivity gains.

Adjusted people costs were 3.3 per cent higher, primarily due to the frontline staff and managers' overall compensation and the cost of only partially absorbing the one hour reduction of the working week introduced in October 2018. Transformation costs of £29 million are included in people costs, comprising £23 million of project costs and £6 million of voluntary redundancy costs.

We saw a 2.2 per cent improvement in productivity in the first half. We achieved a 1.7 per cent reduction in core network hours. There was a net reduction of around 515 full-time equivalent employees (FTE)[11] to around 146,633 compared with March 2019 as we decreased variable hours. Workload was 0.5 per cent higher driven by an increase in parcel volumes and political parties' election mailings.

[11] 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 year. The current year FTE is calculated on a 38 hour week basis

Non-people costs increased by 2.2 per cent, reflecting the impact of CPI and costs associated with parcels growth. Excluding the positive impact from adopting IFRS 16, non-people costs were 2.7 per cent higher.

Distribution and conveyance costs increased by 5.7 per cent. This was largely driven by higher terminal dues and fuel costs partially offset by lower vehicle maintenance costs. Terminal dues were £18 million higher driven by higher export volumes, contracted rate rises and adverse foreign exchange rate movements. Total diesel and jet costs were £77 million (H1 2018-19: £69 million), and we continue to expect around £170 million for the full year.

Infrastructure costs increased by 5.5 per cent. Depreciation and amortisation costs were £55 million higher, driven by an additional charge of £46 million as a result of adopting IFRS 16 and a £9 million expected increase because of accelerated depreciation relating to letter sorting machinery. IT costs were also £6 million higher in the period.

Other operating costs decreased by 5.5 per cent. This was largely due to the impact of the UKPIL cost programme which includes savings on supplier contract renegotiations and lower discretionary spend. Transformation project costs of £20 million are also included in other operating costs.

Total transformation costs were £49 million in the period (H1 2018-19: £52 million), mainly relating to operations data projects to support future productivity improvements and investment to upgrade our IT and parcel systems.

The UKPIL cost programme delivered £86 million costs avoided in the first half, comprising people costs of £57 million and non-people costs of £29 million. This was largely driven by a reduction in core network hours including the partial absorption of the one hour reduction of the working week, management headcount reduction arising from the organisational structure review at the end of 2018-19, and a linehaul review and supplier contract renegotiations.

Adjusted operating profit

Adjusted operating profit of £75 million includes a £5 million positive impact from the adoption of IFRS 16. Adjusted operating profit margin was 2.1 per cent, down 110 basis points compared with the first half of 2018-19.

GENERAL LOGISTICS SYSTEMS (GLS)

Reported results

Summary trading results (£m)	**Reported 6 months 30 September 2019**	Reported 6 months 30 September 2018
Revenue	**1,537**	1,347
Operating costs	**(1,447)**	(1,270)
Operating profit before specific items	**90**	77
Operating specific items	**(4)**	(78)
Operating profit/(loss)	**86**	(1)
Operating profit margin including specific items	***5.6%***	-

The detailed reported results are set out in the paragraph entitled 'Segmental reported results'. GLS reported revenue grew by £190 million. Operating profit before specific items increased by £13 million. Operating specific items represented a net charge of £4 million, largely due to the amortisation of intangible assets related to acquisitions, offset by a £5 million provision release that is no longer required. The prior period included a charge of £68 million for the impairment of the Golden State Overnight (GSO) and Postal Express businesses in the US. GLS operating profit was £86 million compared with a £1 million loss in the prior period.

Both the reported and the adjusted results in the first half of 2019-20 include six months' of contribution from the acquisition of Dicom. The prior period only includes one month's contribution.

Adjusted results

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

Summary trading results (£m)	**Adjusted 6 months 30 September 2019**	Adjusted 6 months 30 September 2018	Change[10]
Revenue	**1,537**	1,347	14.1%
Operating costs	**(1,447)**	(1,270)	13.9%
Operating profit	**90**	77	16.9%
Operating profit margin	***5.9%***	*5.7%*	*20bps*
(€m)			
Revenue	**1,730**	1,524	13.5%
Operating costs	**(1,629)**	(1,437)	13.4%
Operating profit	**101**	87	16.1%
Volumes (m)	**321**	301	7%

Volumes were up 7 per cent. Excluding acquisitions, volumes were up 5 per cent. Volume growth moderated compared with the prior period reflecting the competitive environment and yield management activities. We saw growth in both domestic and international volumes in most markets.

In the period, the impact of foreign exchange movements increased both revenue and operating costs by £7 million. Consequently, there was no material foreign exchange impact on adjusted operating profit in Sterling terms.

Revenue increased by 14.1 per cent. Excluding acquisitions, revenue was up 8.9 per cent driven by a combination of higher volumes, targeted price increases and customer mix effects. Revenue growth was achieved in the majority of markets. The three major markets (Germany, Italy and France) accounted for 54.9 per cent of total GLS revenue (FY 2018-19: 57.0 percent), with the North America markets contributing 9.8 per cent.

Adjusted operating costs (£m)	**Adjusted 6 months 30 September 2019**	Adjusted 6 months 30 September 2018	Change[10]
People costs	**(353)**	(318)	11.0%
Non-people costs	**(1,094)**	(952)	14.9%
Distribution and conveyance costs	**(959)**	(841)	14.0%
Infrastructure costs	**(96)**	(78)	23.1%
Other operating costs	**(39)**	(33)	18.2%
Total	**(1,447)**	(1,270)	13.9%

Total adjusted operating costs increased by 13.9 per cent, or 9.0 per cent excluding acquisitions.

As a result of adopting IFRS 16, there was a reduction in operating lease costs of £28 million and an increase in the depreciation charge of £26 million, resulting in a net reduction of £2 million in operating costs.

People costs increased by 11.0 per cent, or 5.6 per cent excluding acquisitions. This was due to wage inflation in most markets and higher semi-variable costs linked to volume growth.

Non-people costs increased by 14.9 per cent, or 10.1 per cent excluding acquisitions. Distribution and conveyance costs increased by 14.0 per cent, driven by volume growth and higher subcontractor rates resulting from tight labour markets. Infrastructure costs increased by 23.1 per cent. Higher property-related costs such as rent and rates, repairs and maintenance and utilities, together with increased IT costs were the principal drivers of the increase. Other operating costs increased by 18.2 per cent, primarily driven by compensation and other costs.

Adjusted operating profit

Adjusted operating profit of £90 million includes a £2 million positive impact from the adoption of IFRS 16.

Adjusted operating profit margin of 5.9 per cent was 20 basis points higher than the prior period, largely due to the acquisition of Dicom which has a higher margin than the Group average.

Germany

GLS Germany remains the largest GLS market by revenue. Revenue grew by 10.8 per cent, driven by higher international volumes and improved pricing. The German logistics market remains highly competitive, with other operators adding capacity to their networks, including Amazon rolling out its own delivery service. Operating profit margin was broadly similar to the prior period due to ongoing cost pressures.

Italy

GLS Italy revenue grew by 6.6 per cent. Weak Italian GDP growth, Amazon expanding its own delivery network, and the competitive environment have impacted growth.

France

In GLS France revenue growth slowed to 2.1 per cent due to weak domestic volumes. Operating losses in the period were €11 million, the same as in the prior period.

Improvement plans in France are focused on improving quality to secure new customers in more profitable segments. Despite the challenges in the domestic market, GLS France continues to be integral to the GLS network by supporting exports from other markets into France, and allowing GLS to provide a comprehensive service across Europe.

Spain

GLS Spain revenue declined by 6.3 per cent. Yield management activities to exit low margin customers have impacted growth. Losses in the first half of 2019-20 have reduced compared with the second half of 2018-19. The integration of Redyser is expected to be completed by the end of the financial year.

North America

Our US West Coast operations have been renamed GLS US. The GLS US business plan, initiated last year, is progressing well with losses reduced to $4 million compared with $8 million in the prior period. This is being driven by a combination of yield management activities and cost optimisation measures.

Through our recent acquisition of Mountain Valley Express (MVE) on 30 September 2019, we have secured capability to offer less-than-truckload (LTL) services in the states of California, Arizona and Nevada. LTL services are provided successfully by our Dicom business in Canada. We plan to augment our product offering in the US with a similar LTL capability. Operational synergies between MVE and the existing GLS US businesses are expected to provide an additional strand to the GLS US business plan.

Dicom's performance has been in line with our expectations. Revenue in the period was £82 million and operating profit was £8 million. We are investing in the business to provide a platform for future growth. Canada represents an attractive market and also provides geographic diversification for the Group.

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. In particular, there was good volume and revenue growth in Denmark and Belgium. In Denmark, higher B2C volumes supported by investment in Parcel Shops is facilitating the 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 FOR THE HALF YEAR TO 29 SEPTEMBER 2019

Reported results

Summary trading results (£m)	**Reported 26 weeks ended 29 September 2019**	Re-presented[8] reported 26 weeks ended 23 September 2018
Revenue	**5,166**	4,914
Operating costs	**(5,044)**	(4,758)
Operating profit before specific items	**122**	156
Operating specific items	**(61)**	(160)
Operating profit / (loss)	**61**	(4)
Non-operating specific items	**88**	5
Net finance costs	**(19)**	(7)
Net pension interest (non-operating specific item)	**43**	39
Profit before tax	**173**	33
Earnings per share (basic)	**15.3p**	0.5p

Group revenue increased by £252 million. This was largely due to higher parcel revenue in GLS and UKPIL which more than offset the decline in UKPIL letters revenue. Group operating profit before specific items decreased by £34 million. This was primarily due to higher operating costs. Operating specific items of £61 million largely comprised a provision for a regulatory fine of £50 million and associated interest from Ofcom and the Employee Free Shares Charge. The prior period included a £68 million impairment relating to the GSO and Postal Express businesses in GLS and a £64 million charge relating to the purchase of a further buy-in insurance policy for the RMSEPP. The Employee Free Shares charge was also £13 million lower than the prior period. Non-operating specific items of £88 million largely relate to the sale of Plots B and D and Plot C of Nine Elms in the period.

Profit before tax increased to £173 million, of which UKPIL accounted for £95 million (H1 2018-19: £37 million) with GLS accounting for £78 million (H1 2018-19: loss before tax of £4 million). Basic earnings per share increased to 15.3 pence. A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results'.

Adjusted results

Group revenue

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Re-presented[8] adjusted 26 weeks ended 23 September 2018	Change[10]
UKPIL	**3,649**	3,585	1.8%
GLS	**1,537**	1,347	14.1%
Intragroup revenue	**(20)**	(18)	11.1%
Total	**5,166**	4,914	5.1%

Intragroup revenue represents revenue from trading between UKPIL and GLS principally due to Parcelforce Worldwide operating as GLS's partner in the UK. The prior period has been re-presented to show intragroup revenue of £18 million separately.

Parcel growth in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue, resulted in Group revenue growth of 5.1 per cent. Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 62.8 per cent (H1 2018-19: 60.3 per cent). The main factors impacting revenue are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Re-presented[8] adjusted 26 weeks ended 23 September 2018	Change[10]
People costs	**(2,848)**	(2,734)	4.2%
People costs	**(2,842)**	(2,724)	4.3%
Voluntary redundancy costs	**(6)**	(10)	(40.0%)
Non-people costs	**(2,153)**	(1,990)	8.2%
Distribution and conveyance costs	**(1,329)**	(1,192)	11.5%
Infrastructure costs	**(477)**	(439)	8.7%
Other operating costs	**(347)**	(359)	(3.3%)
Total	**(5,001)**	(4,724)	5.9%

Group operating costs increased by 5.9 per cent. As a result of adopting IFRS 16, there was a reduction in operating lease costs of £79 million and an increase in the depreciation charge of £72 million. Overall, there was a net reduction of £7 million in operating costs. Excluding this impact, adjusted operating costs increased by 6.0 per cent. The increase in Group operating costs was largely due to an increase in people costs as people cost pressures (including frontline staff and managers' overall compensation) in the UK were not fully offset by productivity gains. Distribution and conveyance costs were also higher due to the impact of CPI, higher parcel volumes and the acquisition of Dicom. 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)'.

Distribution and conveyance costs include £20 million (H1 2018-19: £18 million) of intragroup costs from the trading between UKPIL and GLS principally due to Parcelforce Worldwide operating as GLS's partner in the UK.

Group operating profit

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Adjusted 26 weeks ended 23 September 2018
UKPIL	**75**	113
GLS	**90**	77
Total	**165**	190
Operating profit margin	**3.2%**	3.9%

Group operating profit margin was down 70 basis points, driven by the lower level of profitability in UKPIL.

Specific items and pension charge to cash difference adjustment

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Adjusted 26 weeks ended 23 September 2018
Pension charge to cash difference adjustment (within people costs)	**(43)**	(34)
Operating specific items		
Regulatory fine	**(51)**	-
Impairment relating to GSO and Postal Express businesses	**-**	(68)
Accounting impact of RMSEPP buy-in settlement	**-**	(64)
Employee Free Shares charge	**(4)**	(17)
Amortisation of acquired intangible assets	**(10)**	(10)
Legacy/other income/(costs)	**4**	(1)
Potential industrial diseases claim cost	**(1)**	(1)
Other	**5**	-
Total operating specific items	**(61)**	(160)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**88**	5
Net pension interest	**43**	39
Total non-operating specific items	**131**	44
Total specific items and pensions adjustment before tax	**27**	(150)
Total tax credit on specific items and pensions adjustment	**15**	19

The difference between the pension charge and cash cost (pension charge to cash difference adjustment) largely comprises the difference between the IAS 19 income statement pension charge rate of 19.6 per cent for the Defined Benefit Cash Balance Scheme (DBCBS) from 1 April 2019 and the actual cash payments agreed with the Trustee of 15.6 per cent.

The pension charge to cash difference adjustment was £43 million in the period, £9 million higher than in the first half of 2018-19. This was largely due to an increase in the pension charge rate for the DBCBS from 18.9 per cent in 2018-19, to 19.6 per cent in 2019-20. The pension charge to cash difference adjustment is expected to be around £85 million for the full year.

In light of the Competition Appeal Tribunal judgment of 12 November 2019, a provision has been made in the interim accounts for a fine of £50 million and associated interest. Please see the "Principal Risks and Uncertainties" section for further details.

Operating specific items also include the Employee Free Shares charge of £4 million (H1 2018-19: £17 million). This was lower than in the prior period because of the vesting of the SIP 2015 scheme in the prior year. The full year charge for Employee Free Shares is expected to be around £5 million and not material thereafter. Amortisation of acquired intangible assets of £10 million (H1 2018-19 £10 million) largely relates to acquisitions in GLS.

Legacy credits of £4 million in the period were due to the release of a £5 million historic provision that is no longer required, partially offset by a £1 million charge in relation to the industrial diseases provision (H1 2018-19 £1 million charge).

Operating specific items in the prior period included a £68 million impairment of the goodwill and assets related to the acquisition of the GSO and Postal Express businesses by GLS and a £64 million charge in relation to the purchase of a further buy-in insurance policy for the RMSEPP.

Non-operating specific items include the net pension interest credit of £43 million (H1 2018-19: £39 million), which was higher than the prior period due to the higher pension surplus position at 31 March 2019 compared with 25 March 2018. The pension interest credit for the full year is expected to be £86 million.

The profit on disposal of property, plant and equipment of £88 million (H1 2018-19: £5 million) largely relates to the completion of the sale of Plots B and D and Plot C of Nine Elms. The proceeds from the sale of Plots B and D were received in June 2019 and Plot C in July 2019.

The tax credit on specific items related largely to deferred tax movements in relation to certain specific items.

Net finance costs

Reported net finance costs of £19 million (H1 2018-19: £7 million) largely comprised interest on the €500 million bond of £6 million (H1 2018-19: £6 million) and interest on leases capitalised under IFRS 16 of £12 million (H1 2018-19: £nil). The revolving credit facility was amended in September 2019 and its maturity date extended to September 2024 with options to extend for a further two years.

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	443	443	2024
Revolving credit facility	LIBOR+0.475%	925	–	2024
Total		1,368	443	

The blended interest rate on gross debt, including leases for 2019-20, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for in equity.

On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25 per cent and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent.

Taxation

	26 weeks ended 29 September 2019			26 weeks ended 23 September 2018		
(£m)	**UKPIL**	**GLS**	**Group**	UKPIL	GLS	Group
Reported						
Profit/(loss) before tax	**95**	**78**	**173**	37	(4)	33
Tax credit / (charge)	**2**	**(22)**	**(20)**	(10)	(18)	(28)
Adjusted						
Profit before tax	**64**	**82**	**146**	109	74	183
Tax charge	**(12)**	**(23)**	**(35)**	(21)	(26)	(47)
Effective tax rate	**18.8%**	**28.0%**	**24.0%**	19.3%	35.1%	25.7%

The UK adjusted effective tax rate of 18.8 per cent (H1 2018-19: 19.3 per cent) is broadly in line with the prior period and the UK statutory rate of 19.0 per cent. The effect of a lower credit for technology claims is offset by a one-off deferred tax credit in respect of non-trading tax losses.

The GLS adjusted effective tax rate of 28.0 per cent (H1 2018-19: 35.1 per cent) was lower than the prior period. The higher prior period effective rate was due to the impact of derecognising brought forward deferred tax assets in the US. The rate continues to be increased by ongoing losses in the US and France for which deferred tax assets are not recognised.

The Group reported tax charge is £20 million on a reported profit of £173 million. This gives a low effective tax rate compared with the adjusted effective tax rate and arises mainly due to there being no tax charge on profits on property disposals due to reinvestment relief and non-taxable net pension interest income. The impact of these items on the effective tax rate is partially offset by the Regulatory fine which is not tax deductible.

We currently estimate an adjusted effective tax rate of 24.0 to 25.0 per cent on Group adjusted profits for the full year.

Adjusted earnings per share (EPS)

Adjusted basic EPS was 11.1 pence compared with 13.6 pence in the prior period reflecting the trading performance of the Group.

In-year trading cash flow

(£m)	**26 weeks ended 29 September 2019**	Re-presented[8] 26 weeks ended 23 September 2018
Adjusted operating profit	**165**	190
Depreciation and amortisation	**252**	167
Adjusted EBITDA	**417**	357
Trading working capital movements	**(105)**	(267)
Share-based awards (LTIP and DSBP) charge adjustment	**3**	4
Gross capital expenditure	**(113)**	(137)
Net finance costs paid	**(24)**	(10)
Research and development expenditure credit	**3**	2
Income tax paid	**(29)**	(49)
In-year trading cash flow	**152**	(100)

In-year trading cash inflow was £152 million, compared with an outflow of £100 million in the prior period. This was mainly due to lower trading working capital outflow and the impact of adopting IFRS 16.

Under IFRS 16, operating lease costs previously recognised in operating costs are replaced by a depreciation charge on the assets and finance charge on the liabilities. As a result of adopting IFRS 16, adjusted operating profit increased by £7 million. The depreciation charge also increased by £72 million, resulting in a £79 million increase in adjusted EBITDA. Net finance costs increased by £12 million, reflecting the finance charge on liabilities. The net impact of IFRS 16 on in-year trading cash flow is an increase of £67 million. The £67 million outflow appears in 'Payment of capital element of obligations under lease contracts' in the consolidated statement of cash flows. As such, there is no impact on overall cash flow from IFRS 16.

Trading working capital movements in the first half normally include the payment of the annual bonus and the impact of the timing of terminal dues settlements. Trading working capital outflow of £105 million was £162 million lower than the prior period. There was no bonus payment for managers in the first half of 2019-20 as we missed our threshold profitability level for 2018-19. The first half of 2018-19 also included the £101 million payment in relation to the 2017-18 frontline pay award.

Income tax paid decreased by £20 million largely because there was no tax relief in 2018-19 on payments made to the pension escrow. Net finance costs largely comprised interest on the €500 million bond and interest on leases capitalised under IFRS 16.

Gross capital expenditure

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Adjusted 26 weeks ended 23 September 2018
Growth capital expenditure	**(83)**	(88)
Replacement capital expenditure	**(30)**	(49)
Total	**(113)**	(137)

Total gross capital expenditure of £113 million, of which GLS spend was £40 million, was £24 million lower. This was largely due to the timing of vehicle purchases. We continue to invest in strategic projects in UKPIL and GLS, including expanding the GLS network, IT systems and activities supporting data projects.

Net debt

A reconciliation of net debt is set out below.

(£m)	**Adjusted 26 weeks ended 29 September 2019**	Adjusted 26 weeks ended 23 September 2018
Net (debt)/cash brought forward at 31 March 2019 and 25 March 2018	**(300)**	14
Capitalisation of leases under IFRS 16	**(1,062)**	-
Free cash flow	**245**	(308)
In-year trading cash flow	**152**	(100)
Other working capital movements	**(9)**	(6)
Cash cost of operating specific items	**(1)**	(3)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**5**	9
Acquisition of business interests	**(1)**	(214)
Cash flows relating to London Development Portfolio	**99**	6
Purchase of own shares	**(3)**	(10)
Employee exercise of SAYE options	**-**	5
New lease obligation under IFRS 16 (non-cash)	**(62)**	-
Foreign currency exchange impact	**(21)**	(9)
Dividends paid to equity holders of the parent Company	**(169)**	(162)
Net (debt) carried forward	**(1,372)**	(470)

Movements in GLS client cash are included within other working capital. The amount held at the half year was £29 million (H1 2018-19: £28 million). The cash cost of operating specific items was an outflow of £1 million mainly due to National Insurance contributions on the SIP 2014 and 2015 Employee Free Share sales and industrial disease settlements.

Proceeds from disposal of property (excluding the London Development Portfolio), plant and equipment of £5 million relate to the sale of part of Basildon Delivery Office, vehicle disposals and other small property disposals.

Cash inflow relating to the London Development Portfolio was £99 million. Infrastructure and enabling works costs of £24 million on the Nine Elms and Mount Pleasant sites were offset by £123 million of receipts in relation to the Nine Elms plots.

Acquisition of business interests in the year related to deferred consideration on prior year acquisitions. The acquisition of business interests in the prior period related to the acquisition of Dicom by GLS.

Purchase of own shares relates to the Company purchasing its own shares to meet Long Term Incentive Plan (LTIP) requirements.

Pensions

Details of each of the plans operated by Royal Mail are set out below.

Defined Benefit Cash Balance Scheme (DBCBS)

An IAS 19 deficit of £151 million is shown on the balance sheet in respect of the DBCBS. 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 19.6 per cent (£184 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 (4.4 per cent) is greater than the assumed discount rate (1.6 per cent).

The Company has made contributions at 15.6 per cent (£146 million) of DBCBS pensionable pay in respect of the scheme. Members contribute 6 per cent (including Pension Salary Exchange).

The IAS 19 pension service charge to cash difference adjustment for 2019-20 is expected to be around £85 million, an increase from the prior year. This is largely as a result of the increased pension charge rate of 19.6 per cent, versus the prior year rate of 18.9 per cent.

Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, current and future RMDCP members in the standard section contribute at the highest contribution tier (employee: 6.0 per cent; employer: 10.0 per cent) unless they opt to contribute at a lower level. The contribution rate for members not in the standard section is employee: 5.0 per cent; employer: 3.0 per cent.

Royal Mail Pension Plan (RMPP)

The pre withholding tax accounting surplus of the RMPP at 29 September 2019 was £4,286 million, comprising assets of £11,911 million and liabilities of £7,625 million. The pre withholding tax accounting surplus has increased by £590 million in the period, as the decrease in the real 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 156 per cent on an accounting basis. After the withholding tax adjustment, the accounting surplus of the RMPP was £2,786 million at 29 September 2019. 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.

The triennial valuation of RMPP at 31 March 2018 was agreed on 19 July 2019. Based on this set of assumptions rolled forwards, the RMPP actuarial surplus on a Technical Provisions basis at 30 September 2019 was estimated to be around £189 million.

The RMPP closed in March 2018 to future accrual in its previous form and the Company makes no regular service contributions in respect of those liabilities.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Following the purchase of an additional buy-in policy of insurance in the prior year, substantially all the liabilities of this scheme are now covered by insurance policies. These significantly reduce the potential risk to the Company in respect of this scheme.

These insurance policies are considered assets of the RMSEPP and do not confer any rights to individual members. Based on the rolled forward assumptions used for the 31 March 2018 triennial valuation, the RMSEPP actuarial surplus at 30 September 2019 was estimated to be £10 million (31 March 2019: £10 million). The RMSEPP closed in December 2012 to future accrual. The Company makes no regular service contributions.

In accordance with the new Schedule of Contributions agreed as part of the 2018 triennial valuation, around £500,000 a year is to be paid for the period 1 April 2018 to 31 March 2025 in respect of death-in-service lump sum benefits and administration expenses.

The Trustees are considering the approach to be taken to address the issue of unequal Guaranteed Minimum Pensions (GMPs) in respect of the RMSEPP scheme but estimate that the cost of this will not be material.

Cash pension costs for 2019-20

The Company expects to contribute around £290 million in the 2019-20 financial year in respect of DBCBS, RMPP, and RMSEPP with employees expected to contribute around £110 million. The Company also expects to contribute around £105 million into the defined contribution plans in the Group. Total employer contributions in respect of all pension schemes will therefore be around £400 million for the year.

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

On 15 October 2019, the Government laid the Pension Schemes Bill in Parliament. The Bill would have enabled Collective Defined Contribution (CDC) pension schemes for the first time under UK law. However, following the announcement of a General Election on 12 December 2019, the Bill will make no further progress under the current Parliament.

We welcome the cross-party support CDC pension schemes have received to date. We look to the new Government to legislate to bring them into UK law at the earliest opportunity. We will continue to work with CWU and other stakeholders to make CDC a reality for Royal Mail and its people.

Based on current expectations, the CDC scheme 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 6 per cent. The total annual cost of the proposed scheme to Royal Mail is expected to be broadly similar to the current costs.

Property

We invested a total of £24 million in the first half of the year 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 2019-20 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

We received £101 million cash proceeds on formal completion of the sale of Plots B and D on Nine Elms in the first half of the 2019-20 financial year. We have committed to reinvesting around £30 million for infrastructure works associated with these plots. Further investment will be required for the remaining plots when sold.

We have also received £22 million cash proceeds on formal completion of the sale of Plot C at the Nine Elms site to Galliard Homes.

Dividends

The final dividend of 17.0 pence per share in respect of the 2018-19 financial year was paid on 4 September 2019, following shareholder approval.

As previously stated, our new dividend policy reflects the additional investment required to turnaround and grow our UK business. The Board has declared an interim dividend of 7.5 pence per ordinary share payable on 15 January 2020 to shareholders on the register at the close of business on 6 December 2019. The ex-dividend date is 5 December 2019. The Board expects to recommend a full year dividend of 15.0 pence per share for 2019-20, in line with new dividend policy.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMs)

The Group uses certain Alternative Performance Measures (APMs) in its financial reporting that are not defined under International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information. These APMs are not a substitute, or superior to, any IFRS measures of performance. They are used 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.

A full list of APMs used are set out in the section entitled 'Alternative Performance Measures (APMs)'.

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 31 March 2019 was £1,256 million compared with cumulative 53 week adjusted profit after tax of £2,048 million. Annual reported profit after tax showed a range of £175 million to £328 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'.

Presentation of results

Consolidated reported and adjusted results

The following table reconciles the consolidated reported results, prepared in accordance with IFRS, to the consolidated 26 week adjusted results.

						Re-presented[8]
			26 weeks ended 29 September 2019			26 weeks ended 23 September 2018
(£m)	**Reported**	**Specific items and pension adjustment[12]**	**Adjusted**	Reported	Specific items and pension adjustment[12]	Adjusted
Revenue	**5,166**	**-**	**5,166**	4,914	-	4,914
Operating costs	**(5,044)**	**(43)**	**(5,001)**	(4,758)	(34)	(4,724)
People costs	**(2,891)**	**(43)**	**(2,848)**	(2,768)	(34)	(2,734)
People costs	**(2,885)**	**(43)**	**(2,842)**	(2,758)	(34)	(2,724)
Voluntary redundancy	**(6)**	**-**	**(6)**	(10)	-	(10)
Non-people costs	**(2,153)**	**-**	**(2,153)**	(1,990)	-	(1,990)
Distribution and conveyance costs	**(1,329)**	**-**	**(1,329)**	(1,192)	-	(1,192)
Infrastructure costs	**(477)**	**-**	**(477)**	(439)	-	(439)
Other operating costs	**(347)**	**-**	**(347)**	(359)	-	(359)
Operating profit before specific items	**122**	**(43)**	**165**	156	(34)	190
Operating specific items:						
Impairment of assets relating to GSO and Postal Express businesses	**-**	**-**	**-**	(68)	(68)	-
Accounting impact of RMSEPP buy-in settlement	**-**	**-**	**-**	(64)	(64)	-
Regulatory fine	**(51)**	**(51)**	**-**	-	-	-
Employee Free Shares charge	**(4)**	**(4)**	**-**	(17)	(17)	-
Legacy/other income/(costs)	**4**	**4**	**-**	(1)	(1)	-
Amortisation of intangible assets in acquisitions	**(10)**	**(10)**	**-**	(10)	(10)	-
Operating profit / (loss)	**61**	**(104)**	**165**	(4)	(194)	190
Non-operating specific items:						
Profit on disposal of property, plant and equipment	**88**	**88**	**-**	5	5	-
Earnings before interest and tax	**149**	**(16)**	**165**	1	(189)	190
Finance costs	**(23)**	**-**	**(23)**	(10)	-	(10)
Finance income	**4**	**-**	**4**	3	-	3
Net pension interest (non-operating specific item)	**43**	**43**	**-**	39	39	-
Profit before tax	**173**	**27**	**146**	33	(150)	183
Tax (charge)/credit	**(20)**	**15**	**(35)**	(28)	19	(47)
Profit for the period	**153**	**42**	**111**	5	(131)	136
Earnings per share						
Basic	**15.3p**	**4.2p**	**11.1p**	0.5p	(13.1p)	13.6p
Diluted	**15.3p**	**4.2p**	**11.1p**	0.5p	(13.1p)	13.6p

[12] Details of specific items in the pension adjustment can be found under 'Specific items and pension charge to cash difference adjustment' in the Group Results section.

Segmental reported results

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

								Re-presented[8]
			26 weeks ended 29 September 2019					26 weeks ended 23 September 2018
(£m)	**UKPIL (UK operations)**	**GLS (Non-UK operations)**	**Intragroup Eliminations**	**Group**	UKPIL (UK operations)	GLS (Non-UK operations)	Intragroup Eliminations	Group
Revenue	**3,649**	**1,537**	**(20)**	**5,166**	3,585	1,347	(18)	4,914
People costs	**(2,538)**	**(353)**	**-**	**(2,891)**	(2,450)	(318)	-	(2,768)
Non-people costs	**(1,079)**	**(1,094)**	**20**	**(2,153)**	(1,056)	(952)	18	(1,990)
Operating profit before specific items	**32**	**90**	**-**	**122**	79	77	-	156
Operating specific items[12]	**(57)**	**(4)**	**-**	**(61)**	(82)	(78)	-	(160)
Operating (loss)/profit	**(25)**	**86**	**-**	**61**	(3)	(1)	-	(4)
Non-operating specific items[12]	**88**	**-**	**-**	**88**	5	–	-	5
Earnings before interest and tax	**63**	**86**	**-**	**149**	2	(1)	-	1
Net finance costs	**(11)**	**(8)**	**-**	**(19)**	(4)	(3)	-	(7)
Net pension interest (non-operating specific)	**43**	**-**	**-**	**43**	39	–	-	39
Profit/(loss) before tax	**95**	**78**	**-**	**173**	37	(4)	-	33
Tax credit/(charge)	**2**	**(22)**	**-**	**(20)**	(10)	(18)	-	(28)
Profit/(loss) for the period	**97**	**56**	**-**	**153**	27	(22)	-	5

ALTERNATIVE PERFORMANCE MEASURES (APMs)

This section lists the definitions of the various APMs disclosed throughout the Annual Report and Accounts and Financial Review. They are used by Management, who consider them to be an important means of comparing performance year-on-year and are key measures used within the business for assessing Business performance.

Adjusted operating profit
This measure is based on reported operating profit 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, and operating specific items are provided below.

Adjusted operating profit margin
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' as a proportion of revenue in percentage terms.

Earnings before interest, tax, depreciation and amortisation (EBITDA)
Reported EBITDA is reported operating profit before specific items with depreciation and amortisation and share of associate company profits added back.

Adjusted EBITDA is reported EBITDA before specific items 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 to reported operating profit before specific items.

(£m)	**26 weeks ended 29 September 2019**	26 weeks ended 23 September 2018
Reported operating profit before specific items	**122**	156
Depreciation and amortisation	**252**	167
Reported EBITDA	**374**	323
Pension charge to cash difference adjustment	**43**	34
Adjusted EBITDA	**417**	357

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, temporary resource, pensions and social security costs. People costs relating to projects and voluntary redundancy costs are also included.

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. Non-people costs relating to projects are included. Other operating costs exclude operating specific items.

Pension charge to cash difference adjustment
This adjustment represents the difference between the IAS 19 income statement pension charge rate of 19.6 per cent for the DBCBS from the 1 April 2019 and the actual cash payments agreed with the Trustee of 15.6 per cent. Management believes this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

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

Regulatory fine
In light of the Competition Appeal Tribunal judgment of 12 November 2019, a provision has been made in the interim accounts for a fine of £50 million and associated interest. Please see the "Principal Risks and Uncertainties" section for further details.

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 2014, 2015, 2016 and Matching Shares Scheme) with no direct cash impact on the Group.

Accounting impact of RMSEPP buy-in settlement
These costs relate to the purchase of buy-in insurance policies 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. These are accounting adjustments in relation to the write off of the closing surplus as a result of the purchase of the policy and have no cash impact to 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/income
These costs/income relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision), restructuring costs, or historic provisions not utilised.

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 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.

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 29 September 2019**	Reported 26 weeks ended 23 September 2018
Net cash inflow from operating activities	**279**	38
Adjustment for:		
Other working capital movements	**9**	6
Cash cost of operating specific items	**1**	3
Purchase of property, plant and equipment	**(78)**	(79)
Purchase of intangible assets (software)	**(35)**	(58)
Net finance costs paid	**(24)**	(10)
In-year trading cash flow	**152**	(100)

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.

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 29 September 2019**	At 23 September 2018
Loans/bonds	**(443)**	(562)
Leases	**(1,171)**	(146)
Cash and cash equivalents	**222**	218
Pension escrow (RMSEPP)	**20**	20
Net debt	**(1,372)**	(470)

Net debt excludes £189 million (2018-19: £186 million) related to the RMPP pension scheme of the total £209 million (2018-19: £206 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.

PRINCIPAL RISKS AND UNCERTAINTIES

Except for the following 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 64 to 72 of the Royal Mail plc Annual Report and Financial Statements 2018-19 (www.royalmailgroup.com/media/10924/royal_mail_ar19_190918.pdf):

- Industrial action
- Efficiency
- Economic and political environment
- Competition Act Investigation

Industrial Action

The absence of major industrial action is a key assumption underpinning the 'Turnaround and Grow' plan in the UK. Widespread industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing loss of customers and revenue for the Group. It may also cause Royal Mail to fail to meet Quality of Service targets prescribed by Ofcom, which may lead to enforcement action.

On 15 October 2019, the Communication Workers Union (CWU), announced that, of the CWU members in Royal Mail who voted, 97.1 per cent were in favour of taking industrial action. It has also announced that, in two separate ballots for CWU members in Parcelforce Worldwide, outcomes of 95 per cent and 94.7 per cent in favour of industrial action were returned. As a result, there is a significant increase in the risk of industrial action taking place.

Following the conclusion of the external mediation process, Royal Mail made an application to the High Court for an interim order to injunct CWU with respect to potential irregularities in the Royal Mail ballot for industrial action. The application was upheld, concluding that the ballot was unlawful and the results are therefore null and void. The CWU lodged an appeal against the ruling with the High Court on 20 November 2019.

Whilst the risk of industrial action affecting the Christmas peak period and UK General Election remains low, we continue with our planning to mitigate the impact of industrial action through ongoing operational contingency planning.

Efficiency

There is an increased risk we will not be able to deliver our transformation programme and meet our required cost avoidance and productivity improvement targets during the life of the plan due to the threat of industrial action.

Economic and political environment

Historically, there has been a correlation between economic conditions and the level of letter and B2B parcel volumes. Low rates of economic growth could impact our ability to maintain and grow revenue, either by reducing volumes or encouraging customers to adopt cheaper products for sending letters and parcels. The UK voted to leave the European Union (EU) in 2016. The shape of the future relationship between the UK and the EU remains unclear. The Labour Party's 2017 manifesto included a pledge to bring a number of private companies, including Royal Mail, back into public ownership.

The EU has announced that it will permit an extension to the Brexit deadline until 31 January 2020, but will also allow the UK to leave before this date if the Withdrawal Agreement is passed through parliament sooner. The business remains on track to mitigate the operational impacts of a no deal Brexit through extensive planning. We continue to be well placed to manage the impact of changes to customs processing.

It has been announced that a UK General Election will take place on 12 December 2019. We continue to monitor the development of Labour Party policy on nationalisation closely.

Competition Act Investigation

On 12 November 2019, the Competition Appeal Tribunal (CAT) upheld Ofcom's decision to fine Royal Mail £50 million for breaching competition law following a complaint brought about by TNT Post UK (now Whistl). Whistl had also filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision on 12 October 2018. Whistl's claim is on hold until after the completion of the appeals process. Royal Mail believe Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

In light of the CAT's judgment, a provision has been made in the results for the half year 2019-20 for the fine and associated interest. Royal Mail is considering all legal options, including whether to seek permission to appeal and to request that payment of the penalty, which would otherwise become payable, be stayed pending any appeal.

The following risks remain unchanged from those disclosed in the 2018-19 Annual Report and Financial Statements:

- Pensions arrangements
- Customer expectations and Royal Mail's responsiveness to market changes
- Growing in new areas
- Absence of a sustainability framework to sustain the USO
- Strategic workforce planning
- Health, Safety and Wellbeing
- Major breach of information security, data protection regulation and / or cyber
- Talent and capability
- Environment and sustainability

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

IFRS 16 'Leases' (IFRS 16) was adopted by the Group on 1 April 2019. The comparative period figures in these condensed consolidated financial statements have not been restated and accordingly, the results for the 26 weeks ended 29 September 2019 are on an IFRS 16 basis, and the results for the 26 weeks ended 23 September 2018 are on an IAS 17 basis. Note 8 provides more details on the impact of IFRS 16.

Condensed consolidated income statement

	Notes	**Reported 26 weeks ended 29 September 2019 £m**	Re-presented[1] reported 26 weeks ended 23 September 2018 £m
Continuing operations			
Revenue	2,3	**5,166**	4,914
Operating costs[1,2]		**(5,044)**	(4,758)
People costs		(2,891)	(2,768)
Distribution and conveyance costs		(1,329)	(1,192)
Infrastructure costs		(477)	(439)
Other operating costs		(347)	(359)
Operating profit before specific items[2]		**122**	156
Operating specific items[2]			
Regulatory fine	9	**(51)**	-
RMSEPP buy-in settlement	7	**-**	(64)
Employee Free Shares charge		**(4)**	(17)
Impairment/legacy/other income/(costs)		**4**	(69)
Amortisation of intangible assets in acquisitions		**(10)**	(10)
Operating profit /(loss)		**61**	(4)
Non-operating specific item[2] - profit on disposal of property, plant and equipment		**88**	5
Profit before interest and tax		**149**	1
Finance costs		**(23)**	(10)
Finance income		**4**	3
Net pension interest (non-operating specific item[2])	7	**43**	39
Profit before tax		**173**	33
Tax charge	4	**(20)**	(28)
Profit for the period		**153**	5
Earnings per share	5		
Basic		**15.3p**	0.5p
Diluted		**15.3p**	0.5p

[1] Operating costs include £49 million (2018-19: £52 million) costs reported previously as 'Transformation costs'. Transformation costs are now incorporated within their relevant operating cost categories, which better reflects the ongoing costs of the business. The comparative period costs have therefore been re-presented, along with revenue which has been adjusted for the intragroup trading between UKPIL and GLS. Operating costs are also stated before the Regulatory fine, RMSEPP buy-in settlement, Employee Free Shares charge, impairment/legacy/other income/(costs) and amortisation of intangible assets in acquisitions.

[2] For further details on Alternative Performance Measures (APMs) used, see the section of the Financial Review entitled 'Presentation of Results and Alternative Performance Measures'.

Condensed consolidated statement of comprehensive income

	Notes	**Reported 26 weeks ended 29 September 2019 £m**	Reported 26 weeks ended 23 September 2018 £m
Profit for the period		**153**	5
Other comprehensive income/(expense) for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**312**	(73)
Withholding tax adjustment relating to defined benefit surplus	7	(206)	53
Remeasurement gains/(losses) of the defined benefit surplus in RMPP and RMSEPP	7	550	(127)
Remeasurement (losses)/gains of the defined benefit deficit in DBCBS	7	(39)	1
Deferred tax		7	-
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**18**	6
Exchange differences on translation of foreign operations (GLS)		33	19
Net loss on hedge of a net investment (€500 million bond)		(13)	(12)
Net loss on hedge of a net investment (Euro-denominated lease payables)		(2)	(2)
Tax on above items		-	1
Designated cash flow hedges		**(4)**	17
(Losses)/gains on cash flow hedges deferred into equity		(2)	30
Gains on cash flow hedges released from equity to income		(3)	(9)
Tax on above items		1	(4)
Total other comprehensive income/(expense) for the period		**326**	(50)
Total comprehensive income/(expense) for the period		**479**	(45)

Condensed consolidated balance sheet

	Notes	**Reported At 29 September 2019 £m**	Reported At 31 March 2019 £m
Non-current assets			
Property, plant and equipment	8	**3,088**	2,066
Goodwill		**394**	380
Intangible assets		**609**	631
Investments in associates and joint venture		**5**	5
Financial assets			
Pension escrow investments		**209**	207
Derivatives		**2**	4
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	7	**2,792**	2,408
Other receivables		**13**	12
Deferred tax assets	4	**82**	64
		7,194	5,777
Assets held for sale		**5**	36
Current assets			
Inventories		**28**	27
Trade and other receivables	8	**1,283**	1,310
Income tax receivable		**5**	7
Financial assets			
Derivatives		**8**	8
Cash and cash equivalents		**222**	236
		1,546	1,588
Total assets		**8,745**	7,401
Current liabilities			
Trade and other payables	8	**(1,743)**	(1,883)
Financial liabilities			
Lease liabilities	8	**(167)**	(37)
Derivatives		**(3)**	(3)
Income tax payable		**(13)**	(8)
Provisions	8,9	**(103)**	(58)
		(2,029)	(1,989)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		**(443)**	(431)
Lease liabilities	8	**(1,004)**	(88)
Derivatives		**(5)**	(2)
DBCBS retirement benefit deficit	7	**(151)**	(72)
Provisions	8,9	**(111)**	(104)
Other payables	8	**(10)**	(41)
Deferred tax liabilities		**(55)**	(55)
		(1,779)	(793)
Total liabilities		**(3,808)**	(2,782)
Net assets		**4,937**	4,619
Equity			
Share capital		**10**	10
Retained earnings	8	**4,880**	4,576
Other reserves		**47**	33
Total equity		**4,937**	4,619

Condensed consolidated statement of changes in equity

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 25 March 2018	10	4,381	36	9	4,436
Profit for the period	-	5	-	-	5
Other comprehensive (expense)/income for the period	-	(73)	6	17	(50)
Total comprehensive (expense)/income for the period	-	(68)	6	17	(45)
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the parent Company	-	(162)	-	-	(162)
Share-based payments					
Employee Free Shares issue	-	16	-	-	16
Long-Term Incentive Plan (LTIP)	-	2	-	-	2
Deferred Share Bonus Plan (DSBP)	-	2	-	-	2
Employee exercise of SAYE options	-	5	-	-	5
Purchase of own shares[1]	-	(10)	-	-	(10)
Settlement of LTIP 2015	-	(3)	-	-	(3)
Reported at 23 September 2018	10	4,163	42	26	4,241
Profit for the period	-	170	-	-	170
Other comprehensive income/(expense) for the period	-	312	(15)	(20)	277
Total comprehensive income/(expense) for the period	-	482	(15)	(20)	447
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the parent Company	-	(80)	-	-	(80)
Reversal of put options for non-controlling interests	-	2	-	-	2
Share-based payments					
Employee Free Shares issue	-	7	-	-	7
Long-Term Incentive Plan (LTIP)	-	2	-	-	2
Deferred Share Bonus Plan (DSBP)	-	1	-	-	1
Deferred tax on share-based payments	-	(1)	-	-	(1)
Reported at 31 March 2019	10	4,576	27	6	4,619
IFRS 16 transition adjustment	-	1	-	-	1
Reported at 1 April 2019 on transition to IFRS 16	**10**	**4,577**	**27**	**6**	**4,620**
Profit for the period	**-**	**153**	**-**	**-**	**153**
Other comprehensive income/(expense) for the period	**-**	**312**	**18**	**(4)**	**326**
Total comprehensive income/(expense) for the period	**-**	**465**	**18**	**(4)**	**479**
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the parent Company	**-**	**(169)**	**-**	**-**	**(169)**
Share-based payments					
Employee Free Shares issue	**-**	**7**	**-**	**-**	**7**
Long-Term Incentive Plan (LTIP)	**-**	**1**	**-**	**-**	**1**
Deferred Share Bonus Plan (DSBP)	**-**	**2**	**-**	**-**	**2**
Purchase of own shares[1]	**-**	**(3)**	**-**	**-**	**(3)**
Reported at 29 September 2019	**10**	**4,880**	**45**	**2**	**4,937**

[1] Purchases in respect of employee share schemes.

Condensed consolidated statement of cash flows

	Notes	**Reported 26 weeks ended 29 September 2019 £m**	Re-presented[1] reported 26 weeks ended 23 September 2018 £m
Cash flow from operating activities			
Profit before tax		**173**	33
Adjustment for:			
Net pension interest	7	**(43)**	(39)
Net finance costs		**19**	7
Profit on disposal of property, plant and equipment		**(88)**	(5)
Regulatory fine		**51**	-
RMSEPP buy-in settlement	7	**-**	64
Impairment/legacy/other (income)/costs		**(4)**	69
Amortisation of intangible assets in acquisitions		**10**	10
Employee Free Shares charge		**4**	17
Operating profit before specific items[2]		**122**	156
Adjustment for:			
Depreciation and amortisation		**252**	167
EBITDA[2]		**374**	323
Working capital movements		**(114)**	(273)
Increase in inventories		(1)	(3)
Decrease/(increase) in receivables		19	(63)
Decrease in payables		(123)	(210)
Net decrease in derivative assets		-	3
Decrease in provisions (non-specific items)		(9)	-
Pension charge to cash difference adjustment	7	**43**	34
Share-based awards (LTIP and DSBP) charge		**3**	4
Cash cost of operating specific items		**(1)**	(3)
Cash inflow from operations		**305**	85
Income tax paid		**(29)**	(49)
Research and development expenditure credit		**3**	2
Net cash inflow from operating activities		**279**	38
Cash flow from investing activities			
Finance income received		**4**	3
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**5**	9
London Development Portfolio net proceeds (non-operating specific item)		**99**	6
Purchase of property, plant and equipment		**(78)**	(79)
Acquisition of business interests, net of cash acquired		**-**	(210)
Purchase of intangible assets (software)		**(35)**	(58)
Payment of deferred consideration in respect of prior years' acquisitions		**(1)**	(4)
Net cash outflow from investing activities		**(6)**	(333)
Net cash inflow/(outflow) before financing activities		**273**	(295)
Cash flow from financing activities			
Finance costs paid		**(28)**	(13)
Purchase of own shares		**(3)**	(10)
Employee exercise of SAYE options		**-**	5
Payment of capital element of obligations under lease contracts		**(92)**	(33)
Cash received on sale and leasebacks		**2**	8
Drawdown of loan facility		**-**	115
Repayment of loans and borrowings		**(1)**	(2)
Dividends paid to equity holders of the parent Company	6	**(169)**	(162)
Net cash outflow from financing activities		**(291)**	(92)
Net decrease in cash and cash equivalents		**(18)**	(387)
Effect of foreign currency exchange rates on cash and cash equivalents		**4**	5
Cash and cash equivalents at the beginning of the period		**236**	600
Cash and cash equivalents at the end of the period		**222**	218

[1] Transformation costs are no longer presented as a separate line item and are included in 'operating profit before specific items'. The transformation costs to cash difference is now presented in working capital. The comparative period cash flows have therefore been re-presented on this basis.

[2] For further details on Alternative Performance Measures (APMs) used, see the section of the Financial Review entitled 'Presentation of Results and Alternative Performance Measures'.

Notes to the condensed consolidated financial statements

1. Basis of preparation

The comparative figures for the 53 weeks ended 31 March 2019 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 53 weeks ended 31 March 2019, 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. 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.

The condensed consolidated income statement and condensed consolidated statement of cash flows have been re-presented for the comparative period. This is to reflect the Group's decision to no longer report transformation costs as a separate line item, including them within their relevant operating costs categories. Revenue has also been re-presented in line with the 2018-19 Annual Report, to reflect the intragroup trading eliminations between UKPIL and GLS, as a result of Parcelforce Worldwide operating as GLS's partner in the UK.

Accounting standards and interpretations adopted in 2019-20

IFRS 16 'Leases'

The Group has adopted IFRS 16 with effect from 1 April 2019. Under IFRS 16, all lease contracts, with limited exceptions, are recognised on the balance sheet as right-of-use assets, representing the right to use the underlying assets, and lease liabilities, representing an obligation to make lease payments. The principal asset classes impacted by this change are property and motor vehicles previously held under operating leases.

The Group has applied IFRS 16 using the modified retrospective approach for all leases previously classed as operating leases under IAS 17. The modified retrospective approach allows a combination of the following two approaches when measuring the carrying value of right of use assets on a lease by lease basis:

(i) as if the standard had been applied since the lease commencement date; and/or
(ii) at an amount equal to the lease liability at the date of adoption.

At the time of the Group's annual results announcement in May 2019, Management intended to adopt a mixture of approaches (i) and (ii) on a lease by lease basis. Subsequent experiences in deploying IFRS 16 during the first half of 2019-20 have resulted in a revision to this approach and the approach outlined in (ii) above has been adopted for these leases.

Under this revised approach, it is now anticipated that adopting IFRS 16 will result in an increase in 'operating profit before specific items' of between £10 million and £20 million for 2019-20, rather than the range of £35 million to £45 million that was previously expected.

The £1 million adjustment to equity relates to the irrecoverable VAT element of lease prepayments and lease incentives at the transition date.

1. Basis of preparation (continued)

In view of the above, the comparative period information has not been restated and has been presented, as previously reported, under IAS 17. Details of the impact of transition on the financial statements is given below.

Previously the Group determined at contract inception whether a contract contained a lease under IFRIC 4. Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Under IAS 17, leases were classed as either operating or finance leases based on whether the lease transferred substantially all the risks and rewards of ownership, with only those leases identified as finance leases being brought onto the balance sheet. Under IFRS 16, the Group recognises a right of use asset and a lease liability at the lease commencement date for the majority of leases.

The right of use asset is measured initially at cost and is subsequently adjusted for any accumulated depreciation, impairment losses or certain remeasurements of the lease liability.

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate 'incremental borrowing rate' (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. The lease liability may also be remeasured where there are changes in future lease payments or changes in the assessment of future extension or termination options.

Whilst the majority of leased assets will be brought onto the balance sheet, the Group has elected to apply the exemption from recognising leases for low value assets in line with existing Group policy, or short-term leases (with a lease term of under 12 months) on the balance sheet. The Group continues to recognise lease expenses for these assets on a straight-line basis in the income statement over the lease term.

Where possible, the Group allocates the consideration in each contract between any lease and non-lease components, however, where this is not possible the Group has elected to apply the practical expedient of including all of the contract costs in the calculation of the lease asset and liability recognised as a single lease component.

For assets previously classed as finance leases, the carrying values of the right of use assets and lease liabilities held as at 31 March 2019 under IAS 17 have been determined to be equal to the carrying value brought forward at 1 April 2019 under IFRS 16. The Group has also adopted the practical expedient to grandfather the accounting treatment of the assets and liabilities relating to these leases, to still include the irrecoverable VAT element (which is excluded for all new leases).

Application of IFRS 16 by the Group has no impact on lessor accounting for leases previously classed as finance leases.

At transition, for leases classed as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted using a calculated IBR as at 1 April 2019.

Right-of-use assets at transition are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or rent incentives.

In adopting IFRS 16 the following practical expedients have been applied at transition to leases previously classed as operating leases under IAS 17:

- only apply IFRS 16 to those contracts that were previously identified as leases under IAS 17 and IFRIC 4;
- apply a single discount rate to portfolios of leases with similar characteristics;
- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months and to continue to recognise these lease costs through the income statement as they are incurred;
- rely on an assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right of use assets created. Where this is the case the carrying amount of the assets is adjusted by the onerous lease provision; and
- exclude initial direct costs from the measurement of the right of use asset.

1. Basis of preparation (continued)

The Group has lease break options in place for a majority of its property lease agreements. These options provide the Group with greater flexibility in managing the UK estate. These break options have historically not been exercised due to ongoing operational requirements. Management have therefore made the decision that the reasonably certain length of the lease is the full lease term, assuming the break option will not be exercised.

Further details of the impact of IFRS 16 on the financial statements are disclosed in note 8.

IFRIC 23 'Uncertain Tax Positions' (IFRIC 23)

The Group has adopted IFRC 23 with effect from 1 April 2019. IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' where there is uncertainty over income tax treatments. Controls and procedures are in place in the Group to monitor the tax treatments assuming a 100 per cent detection risk by the relevant tax authorities, although the impact of this new guidance 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.

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 2018-19, except for the exclusion of the Dicom Canada business acquisition; the GLS US goodwill impairment; and the RMSEPP pension settlement. An update to the previously disclosed contingent liabilities accounting judgement and the new disclosure in respect of lease accounting under IFRS 16 are detailed below.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations, 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.

Provisions – Ofcom fine (disclosed as a contingent liability in the 2018-19 Annual Report)

Management considered Ofcom's decision following its investigation into whether Royal Mail had breached competition law, the subsequent imposition of a fine and the Competition Appeal Tribunal judgment to reject Royal Mail's appeal of Ofcom's decision and fine. Following this assessment, which included legal review, both internal and external to the Group, Management's view is that it is probable that Royal Mail will be required to pay the fine and, accordingly, a liability has been recognised in these financial statements.

IFRS 16 – Incremental borrowing rates (IBR)

Under IFRS 16, lease liabilities are initially recognised at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease or, where this is not readily determinable, an appropriate IBR. In practice, the rate inherent in the lease is not readily determinable for the majority of leases previously classed as operating leases under IAS 17 and so an IBR is used. These leases primarily relate to property and motor vehicles. In addition, an IBR has also been applied when calculating the opening transition lease liability balances.

The IBR is the rate of interest that a lessee would have to pay to borrow, over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The methodology used to obtain these rates and how they are applied to assets with different lease terms, is an area of significant judgement.

1. Basis of preparation (continued)

In considering the appropriate IBR to apply the Group has applied a three-step approach. This approach begins with an appropriate risk-free base rate; adjusts this rate to reflect the cost of company specific unsecured borrowing; and, finally, considers the need to adjust the rate determined to reflect the underlying leased asset acting as collateral.

From the evidence obtained, Management have concluded that for the UKPIL business, lenders do not make adjustments to the borrowing rates offered on lending based upon the underlying asset to be obtained. The key factors in the borrowing rates available to UKPIL are judged to be the current credit rating of the Group (BBB) and the length of the borrowing term required.

On the basis of the work performed, UKPIL has treated assets being held for a similar length of time as having a similarly calculated IBR, with assets being grouped according to lease length, both at transition and in the future. By grouping assets in this way, a rate card has been produced, to be updated periodically, which can be applied to all future leases requiring an IBR. UKPIL have based IBR rates on UK BBB corporate bond yields, adjusted to reflect the different payment profile between a bond and a lease.

The GLS business has followed a similar methodology and grouping by lease length to that used in UKPIL. However, instead of basing the yields on corporate bond yield curves, which are not readily obtainable for all GLS currencies, a sovereign bond yield curve for the relevant country has been used as the starting point and an appropriate margin applied to this based upon consideration of consolidated GLS quantitative and qualitative information.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application is three per cent in UKPIL and two per cent in GLS. Sensitivity analysis performed as part of the IFRS 16 implementation work, identified that a movement of 100 bps in the incremental borrowing rate would lead to a movement in lease liabilities recognised of around four per cent.

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 29 September 2019.

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 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 specific items (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis e.g. 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.

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.

2. Segment information (continued)

26 weeks ended 29 September 2019	Adjusted				Specific items and pension adjustment[1]	Reported
Continuing operations	**UKPIL (UK operations) £m**	**GLS (Non-UK operations) £m**	**Eliminations[2] £m**	**Group £m**	**£m**	**Group £m**
Revenue	**3,649**	**1,537**	**(20)**	**5,166**	**-**	**5,166**
People costs	**(2,495)**	**(353)**	**-**	**(2,848)**	**(43)**	**(2,891)**
Non-people costs	**(1,079)**	**(1,094)**	**20**	**(2,153)**	**-**	**(2,153)**
Operating profit before specific items	**75**	**90**	**-**	**165**	**(43)**	**122**
Operating specific items						
Regulatory fine	**-**	**-**	**-**	**-**	**(51)**	**(51)**
Employee Free Shares charge	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Legacy/other income	**-**	**-**	**-**	**-**	**4**	**4**
Amortisation of intangible assets in acquisitions	**-**	**-**	**-**	**-**	**(10)**	**(10)**
Operating profit	**75**	**90**	**-**	**165**	**(104)**	**61**
Non-operating specific item - profit on disposal of property, plant and equipment	**-**	**-**	**-**	**-**	**88**	**88**
Profit before interest and tax	**75**	**90**	**-**	**165**	**(16)**	**149**
Finance costs	**(20)**	**(3)**	**-**	**(23)**	**-**	**(23)**
Finance income	**3**	**1**	**-**	**4**	**-**	**4**
Inter-segment interest	**6**	**(6)**	**-**	**-**	**-**	**-**
Net pension interest (non-operating specific item)	**-**	**-**	**-**	**-**	**43**	**43**
Profit before tax	**64**	**82**	**-**	**146**	**27**	**173**

[1] A £74 million credit for specific items and a £43 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £4 million charge for specific items relates to GLS.
[2] Eliminations relate to intragroup revenue from trading between UKPIL and GLS. This is due to Parcelforce Worldwide operating as GLS's partner in the UK.

Re-presented[3] 26 weeks ended 23 September 2018	Adjusted				Specific items and pension adjustment[4]	Reported
Continuing operations	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[2] £m	Group £m	£m	Group £m
Revenue	3,585	1,347	(18)	4,914	-	4,914
People costs	(2,416)	(318)	-	(2,734)	(34)	(2,768)
Non-people costs	(1,056)	(952)	18	(1,990)	-	(1,990)
Operating profit before specific items	113	77	-	190	(34)	156
Operating specific items						
RMSEPP buy-in settlement	-	-	-	-	(64)	(64)
Employee Free Shares charge	-	-	-	-	(17)	(17)
Impairment/legacy/ other costs	-	-	-	-	(69)	(69)
Amortisation of intangible assets in acquisitions	-	-	-	-	(10)	(10)
Operating profit	113	77	-	190	(194)	(4)
Non-operating specific item - profit on disposal of property, plant and equipment	-	-	-	-	5	5
Profit 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

[3] The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details) and the elimination of intragroup revenue (see footnote 2 above).
[4] 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.

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 ended 29 September 2019	**UKPIL £m**	**GLS £m**	**Intragroup revenue[1] £m**	**Group £m**
Letters and other revenue	**1,617**	**-**	**-**	**1,617**
Advertising Letters	**306**	**-**	**-**	**306**
Parcels	**1,726**	**1,537**	**(20)**	**3,243**
Total	**3,649**	**1,537**	**(20)**	**5,166**

Re-presented[2] 26 weeks ended 23 September 2018	UKPIL £m	GLS £m	Intragroup revenue[1] £m	Group £m
Letters and other revenue	1,615	-	-	1,615
Advertising Letters	336	-	-	336
Parcels	1,634	1,347	(18)	2,963
Total	3,585	1,347	(18)	4,914

[1] Eliminations relate to intragroup revenue from trading between UKPIL and GLS. This is due to Parcelforce Worldwide being GLS' partner in the UK.

[2] The comparative period revenues have been re-presented as a result of the move to a new revenue allocation methodology which reduces reliance on sampling by using Post Office traffic data. This change only impacts the allocation of revenue between stamped letters and parcels, and some international export products. Advertising and business letters (including metered products), account parcels, and Parcelforce Worldwide revenues and volumes are not affected by this change. Total UKPIL revenue remains unchanged, but the allocation between letters and parcels revenue changes as a result of using Post Office traffic data rather than an estimate based on sampling.

4. Taxation

The Group reported tax charge is £20 million on a reported profit before tax of £173 million. This gives a low effective tax rate compared with the UK statutory rate which arises mainly due to there being no tax charge on profits on property disposals due to reinvestment relief and non-taxable 'net pension interest' income. Other contributing factors include deferred tax asset recognition in the UK on losses and other timing differences which were previously unrecognised. The impact of these items on the effective tax rate is partially offset by the Regulatory fine which is not tax deductible and losses in GLS France and GLS US for which no deferred tax asset is recognised.

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

5. Earnings per share

	26 weeks ended 29 September 2019			26 weeks ended 23 September 2018		
	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)	**153**	**42**	**111**	5	(131)	136
Weighted average number of shares issued (million)	**999**	**n/a**	**999**	1,000	n/a	1,000
Basic earnings per share (pence)	**15.3**	**n/a**	**11.1**	0.5	n/a	13.6
Diluted earnings per share (pence)	**15.3**	**n/a**	**11.1**	0.5	n/a	13.6

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

The diluted earnings per share for the 26 weeks ended 29 September 2019 is based on a weighted average number of shares of 999,572,008 (H1 2018-19: 1,003,327,899) to take account of the potential issue of 601,714 ordinary shares resulting from the Deferred Share Bonus Plan (DSBP) for certain senior management. Management have historically elected to settle this scheme using shares purchased from the market.

The 1,029,706 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

Dividends on ordinary shares	**26 weeks ended 29 September 2019 Pence per share**	26 weeks ended 23 September 2018 Pence per share	**26 weeks ended 29 September 2019 £m**	26 weeks ended 23 September 2018 £m
Final dividends paid	**17.0**	16.3	**169**	162
Total dividends paid	**17.0**	16.3	**169**	162

The final dividend of 17.0 pence per share was paid on 4 September 2019 to shareholders whose names appeared on the register of members on 25 July 2019.

7. Retirement benefit plans

Summary pension information

	26 weeks ended 29 September 2019 £m	26 weeks ended 23 September 2018 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(189)**	(187)
UK defined contribution plan	**(47)**	(39)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(88)**	(85)
Total UK ongoing pension service costs	**(324)**	(311)
GLS defined contribution type plan costs	**(4)**	(4)
Total Group ongoing pension service costs	**(328)**	(315)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions[3]	**(146)**	(154)
Defined contribution plans' employer contributions	**(51)**	(43)
UK defined benefit and defined contribution plans' PSE employer contributions	**(88)**	(85)
Total Group cash flows relating to ongoing pension service costs	**(285)**	(282)
RMSEPP deficit correction payments	**-**	(1)
Pension related accruals (timing difference)	**-**	2
Pension charge to cash difference adjustment	**(43)**	(34)

[1] These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 19.6 per cent for the DBCBS (2018-19: 41.0 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 £5 million (H1 2018-19: £2 million) and the DBCBS of £1 million (H1 2018-19: £2 million) continue to be included within the Group's ongoing UK pension service costs.

[2] Eligible employees who are enrolled into PSE opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay.

[3] The employer contribution cash flow rate forms part of the payroll expense and is paid in respect of the DBCBS (15.6 per cent) (2018-19: RMPP (17.1 per cent to 31 March 2018) and the DBCBS (15.6 per cent from 1 April 2018). This includes payments into RMPP pension escrow investments. The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS.

7. Retirement benefit plans (continued)

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

The plans' assets and liabilities are shown below.

	DBCBS Accounting (IAS 19)		DBCBS Actuarial funding		RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding	
	At 29 September 2019 £m	At 31 March 2019 £m	**At 30 September 2019 £m**	At 31 March 2019 £m	**At 29 September 2019 £m**	At 31 March 2019 £m	**At 30 September 2019 £m**	At 31 March 2019 £m
Fair value of plans' assets[4,5]	**626**	402	**622**	402	**12,286**	10,803	**12,292**	10,877
Present value of plans' liabilities	**(777)**	(474)	**(607)**	(393)	**(7,990)**	(7,097)	**(12,093)**	(10,818)
(Deficit)/surplus in plans (pre withholding tax payable)[6]	**(151)**	(72)	**15**	9	**4,296**	3,706	**199**	59
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,504)**	(1,298)	**n/a**	n/a
(Deficit)/surplus in plans[7]	**(151)**	(72)	**15**	9	**2,792**	2,408	**199**	59

[4] 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.
[5] An agreement has been made with the Pension trustee to ringfence certain RMPP employer contributions in an escrow arrangement. These contributions are not considered to be Plan assets as the Trustee does not have any control over the assets.
[6] Any reference to a withholding tax adjustment relates to withholding tax payable on the distribution of a pension surplus.
[7] On an actuarial funding basis, the excess of DBCBS assets over liabilities is as a result of the risk reserve.

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 At 29 September 2019	**RMPP and RMSEPP At 29 September 2019**	DBCBS At 31 March 2019	RMPP and RMSEPP At 31 March 2019
Retail Price Index (RPI)	**3.2%**	**3.0%**	3.2%	3.2%
Consumer Price Index (CPI)	**2.4%**	**2.2%**	2.2%	2.2%
Discount rate				
– nominal	**1.6%**	**1.8%**	2.2%	2.4%
– real (nominal less RPI)[8]	**(1.6)%**	**(1.2)%**	(1.0)%	(0.8)%
Constructive obligation for increases	**4.4%**	**-**	4.2%	-

[8] The real discount rate used reflects the average duration of the RMPP of around 27 years and the DBCBS of 11½ years.

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 £m**	**Potential increase in RMPP liabilities £m**
Additional one year of life expectancy	**-**	**315**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	**10**	**205**
Decrease in discount rate of 0.1% p.a.	**10**	**205**
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	**10**	**40**
Increase in constructive obligation of 0.1% p.a.	**10**	**-**

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.

7. Retirement benefit plans (continued)

Movement in RMPP and RMSEPP assets, liabilities and net position

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

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	At 29 September 2019 £m	At 31 March 2019 £m	**At 29 September 2019 £m**	At 31 March 2019 £m	**At 29 September 2019 £m**	At 31 March 2019 £m
Retirement benefit surplus (pre withholding tax payable) at 1 April 2019 and 26 March 2018	**10,803**	10,361	**(7,097)**	(7,038)	**3,706**	3,323
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	**(5)**	(8)	**-**	(5)	**(5)**	(13)
RMSEPP buy-in settlement - operating specific item	**-**	(64)	**-**	**-**	**-**	(64)
Pension interest income/(cost)[9]	**129**	247	**(84)**	(168)	**45**	79
Total included in profit before tax	**124**	175	**(84)**	(173)	**40**	2
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**-**	-	**(877)**	(197)	**(877)**	(197)
Demographic assumptions	**-**	-	**-**	169	**-**	169
Experience assumptions	**-**	-	**28**	67	**28**	67
Return on plans' assets (excluding interest income)	**1,399**	344	**-**	-	**1,399**	344
Total remeasurement gains/(losses) of the defined benefit surplus	**1,399**	344	**(849)**	39	**550**	383
Other						
Employer contributions[10]	**-**	3	**-**	-	**-**	3
Benefits paid	**(40)**	(78)	**40**	78	**-**	-
Movement in pension-related accruals	**-**	(2)	**-**	(3)	**-**	(5)
Total other movements	**(40)**	(77)	**40**	75	**-**	(2)
Retirement benefit surplus (pre withholding tax payable) at 29 September 2019 and 31 March 2019	**12,286**	10,803	**(7,990)**	(7,097)	**4,296**	3,706
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,504)**	(1,298)
Retirement benefit surplus (net of withholding tax payable) at 29 September 2019 and 31 March 2019	**n/a**	n/a	**n/a**	n/a	**2,792**	2,408

[9] Pension interest income results from applying the plans' discount rate at 31 March 2019 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 31 March 2019 to the plans' liabilities at that date.

[10] Excludes payments into pension escrow investments of £nil (2018-19: £7m).

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 are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	At 29 September 2019 £m	At 31 March 2019 £m	**At 29 September 2019 £m**	At 31 March 2019 £m	**At 29 September 2019 £m**	At 31 March 2019 £m
Retirement benefit deficit at 1 April 2019 and 26 March 2018	**402**	-	**(474)**	-	**(72)**	-
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	**(1)**	(2)	**(234)**	(465)	**(235)**	(467)
Pension interest income/(cost) [11]	**6**	-	**(8)**	-	**(2)**	-
Total included in profit before tax	**5**	(2)	**(242)**	(465)	**(237)**	(467)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**-**	-	**(70)**	(16)	**(70)**	(16)
Experience assumptions	**-**	-	**2**	-	**2**	-
Return on plan assets	**29**	8	**-**	-	**29**	8
Total remeasurement gains/(losses) of the defined benefit deficit	**29**	8	**(68)**	(16)	**(39)**	(8)
Other						
Employer contributions[12]	**197**	403	**-**	-	**197**	403
Employee contributions	**2**	4	**(2)**	(4)	**-**	-
Benefits paid	**(9)**	(11)	**9**	11	**-**	-
Total other movements	**190**	396	**7**	7	**197**	403
Retirement benefit deficit at 29 September 2019 and 31 March 2019	**626**	402	**(777)**	(474)	**(151)**	(72)

[11] Pension interest income results from applying the plans' discount rate at 31 March 2019 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 31 March 2019 to the plans' liabilities at that date.
[12] Includes PSE contributions of £54 million (2018-19: £110 million).

8. Leases

The adoption of IFRS 16 significantly impacts the Group balance sheet at the 1 April 2019 transition date, 'Right of Use' (ROU) assets have been recognised as 'Property, plant and equipment' along with associated 'Lease liabilities'. Certain prepayment, onerous lease provision and rent incentive balances have also been impacted. The following table shows the detailed line by line impact on the balance sheet:

	Reported at 31 March 2019 £m	IFRS 16 impact £m	**Reported at 1 April 2019 £m**
Non-current assets			
Property, plant and equipment	2,066	1,045	**3,111**
Deferred tax assets	64	-	**64**
Other non-current assets	3,647	-	**3,647**
	5,777	1,045	**6,822**
Assets held for sale	36	-	**36**
Current assets			
Trade and other receivables	1,310	(20)	**1,290**
Other current assets	278	-	**278**
	1,588	(20)	**1,568**
Total assets	7,401	1,025	**8,426**
Current liabilities			
Trade and other payables	(1,883)	4	**(1,879)**
Lease liabilities	(37)	(118)	**(155)**
Provisions	(58)	1	**(57)**
Other current liabilities	(11)	-	**(11)**
	(1,989)	(113)	**(2,102)**
Non-current liabilities			
Lease liabilities	(88)	(944)	**(1,032)**
Deferred tax liabilities	(55)	-	**(55)**
Provisions	(104)	1	**(103)**
Other non-current liabilities	(546)	32	**(514)**
	(793)	(911)	**(1,704)**
Total liabilities	(2,782)	(1,024)	**(3,806)**
Net assets	4,619	1	**4,620**
Equity			
Retained earnings	4,576	1	**4,577**
Other equity	43	-	**43**
Total equity	4,619	1	**4,620**

Reconciliation of operating lease commitments to the equivalent IFRS 16 lease liabilities at 31 March 2019

	£m
Undiscounted operating lease future minimum lease payments at 31 March 2019	(1,327)
Irrecoverable VAT included in future minimum lease payments at 31 March 2019	88
Impact of discounting	182
Short-term/low-value leases	18
Other reconciling items (net)	(23)
IAS 17 operating lease liabilities at 31 March 2019 in scope for IFRS 16	(1,062)

Impact of IFRS 16 on financial statements in the period

At 29 September 2019 the Group has right of use assets of £1,043 million and associated lease liabilities of £1,065 million in relation to leases which were previously classed as operating leases and held off balance sheet.

Under IFRS 16 the Group recognises depreciation and interest charges on leases which have been brought onto the balance sheet, as opposed to rental costs which were previously treated as operating costs in the income statement. For the 26 weeks ended 29 September 2019 the Group recognised £72 million depreciation and £12 million interest in relation to leases which were previously classed as operating leases.

9. Provisions

	Specific items £m	Other £m	Total £m
At 31 March 2019	(100)	(62)	(162)
IFRS 16 opening adjustments	-	2	2
At 1 April 2019	(100)	(60)	(160)
Arising during the year:			
Charged in operating specific items	(52)	–	(52)
Released in operating specific items	8	-	8
Charged in other operating costs	-	(21)	(21)
Released in other operating costs	–	2	2
Amounts reclassified in the period	-	(19)	(19)
Utilised in the period	1	28	29
Unwinding of discount – industrial diseases claims	(1)	–	(1)
At 29 September 2019	**(144)**	**(70)**	**(214)**
Disclosed as:			
Current	(57)	(46)	(103)
Non-current	(87)	(24)	(111)
At 29 September 2019	**(144)**	**(70)**	**(214)**
Disclosed as:			
Current	(9)	(49)	(58)
Non-current	(91)	(13)	(104)
At 31 March 2019	(100)	(62)	(162)

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 launched an appeal with the Competition Appeal Tribunal (CAT). On 12 November 2019, the CAT issued its judgment, which upheld Ofcom's decision. Royal Mail is considering all legal options, including whether to seek permission to appeal and to request that payment of the penalty, which would otherwise become payable, be stayed pending any appeal. In light of the CAT judgment, a provision has been made for £51 million, charged to operating specific items, representing the fine and associated interest.

£19 million has been reclassified to other provisions during the period (previously presented within accruals) in respect of GLS liabilities, mainly in respect of employee benefits and litigation claims. Other provisions also include transformation costs provisions, previously presented separately.

10. Contingent liabilities

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position. Whistl's High Court claim is on hold until after the completion of any further appeal process. Royal Mail believe Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

11. Events after the reporting period

Acquisition of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions (MVFS)

On 30 September 2019 General Logistics Systems North America Inc., a subsidiary of General Logistics Systems (GLS) acquired 100 per cent of the shares of MVE and MVFS, leading overnight and second day freight service providers based in California. The consideration was $18.5 million cash (approximately £16.4 million) with a further $4.5 million (approximately £4 million) deferred consideration subject to the future performance.

No fair value disclosure has been made in these financial statements as the acquisition balance sheet is still being compiled under the terms of the purchase agreement.

Issue of €550 million 1.250 per cent bond

On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25 per cent and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent.

Competition Appeal Tribunal (CAT) judgment

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. Royal Mail lodged an appeal with the CAT on 12 October 2018 to have both Ofcom's decision and fine overturned. On 12 November 2019, the CAT issued its judgment, which upheld Ofcom's decision and fine. Management's view is that it is probable that Royal Mail will be required to pay the fine and, accordingly, a liability has been recognised in these financial statements. Royal Mail is considering all legal options, including whether to seek permission to appeal and to request that payment of the penalty, which would otherwise become payable, be stayed pending any appeal. In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision. Whistl's High Court claim is on hold until after the completion of the appeal process. Royal Mail believe Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

Ofcom Statement of Objections

In May 2018, Royal Mail made a leniency application in relation to an anti-competitive market sharing agreement between Parcelforce Worldwide (PFW) and its reseller The Sale Group (TSG). Ofcom issued a Statement of Objections on 19 September 2019 together with a public announcement that revealed PFW has been granted immunity from fines and that TSG has settled the case and accepted a fine of £40,000. This was confirmed by Ofcom on 14 November, 2019 when it updated its bulletin webpage to indicate that it had issued its final decision and closed the case.

Interim dividend

The Board has declared an interim dividend of 7.5 pence per ordinary share (H1 2018-19: 8.0 pence per share). The dividend amounts to £75 million (H1 2018-19: £80 million) and will be paid on 15 January 2020 to shareholders on the register at the close of business on 6 December 2019. The ex-dividend date is 5 December 2019.

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

We confirm that to the best of our 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 Group 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 2018-19 with the exception of the following Board changes:

Les Owen	Stepped down	22 May 2019
Orna Ni-Chionna	Stepped down	18 July 2019
Maria da Cunha	Appointed	22 May 2019
Michael Findlay	Appointed	22 May 2019
Sarah Hogg	Appointed	01 October 2019
Lynne Peacock	Appointed	01 November 2019

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
20 November 2019

Stuart Simpson
Chief Finance and Operations Officer
20 November 2019

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 29 September 2019 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 29 September 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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
20 November 2019

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain 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.