Financial and operating performance highlights

Group financial highlights

Adjusted[1] results (£m)	52 weeks ended 27 March 2016	52 weeks ended 29 March 2015	Underlying change[2]
Revenue	**9,251**	9,328	1%
Operating profit before transformation costs	**742**	740	5%
Operating profit after transformation costs	**551**	595	(2%)
Margin	***6.0%***	*6.4%*	*(10 bps)*
Profit before tax	**538**	569	
Earnings per share (pence)	**41.3p**	42.8p	
Reported[3] results (£m)			
Operating profit before transformation costs	**485**	611	
Operating profit after transformation costs	**294**	466	
Profit before tax	**267**	400	
Earnings per share (pence)	**21.5p**	32.5p	
In-year trading cash flow	**254**	315	
Net debt	**(224)**	(275)	
Full year proposed dividend per share (pence)	**22.1p**	21.0p	5%

Business units

	Revenue			Adjusted operating profit before transformation costs	
(£m)	52 weeks ended 27 March 2016	52 weeks ended 29 March 2015	Underlying change	52 weeks ended 27 March 2016	52 weeks ended 29 March 2015
UKPIL	**7,666**	7,757	(1%)	**608**	615
GLS	**1,580**	1,557	9%	**117**	115
Other	**5**	14	n/m	**17**	10
Group	**9,251**	9,328	1%	**742**	740

Group financial performance

- Revenue was up one per cent, with growth in GLS offsetting the decline in UKPIL revenue.
- Adjusted operating profit before transformation costs was £742 million, up five per cent.
- Adjusted operating profit margin after transformation costs was down 10 basis points as a result of increased transformation costs due to our cost avoidance and efficiency programme.
- In-year trading cash flow of £254 million reflects increased investment in growth capital expenditure.
- Our strategic focus on costs resulted in a one per cent reduction in underlying UKPIL operating costs before transformation costs.
- Net debt reduced to £224 million due to free cash flow, offset by dividend payments.
- The Board is recommending a final dividend of 15.1 pence per ordinary share giving a total dividend of 22.1 pence per share for 2015-16, up five per cent.

Business performance

- UKPIL revenue was down one per cent. A one per cent increase in parcel revenue was offset by a two per cent decline in total letter revenue.
- UKPIL parcel volumes were up three per cent, driven by continued growth in import parcels, new contract wins in account parcels and a strong performance in Parcelforce Worldwide. However, revenue reflected a weaker mix due to declines in high average unit revenue (AUR) parcels.
- Addressed letter volumes[4] declined by three per cent, better than our forecast range, largely due to the return of direct delivery volumes.
- UKPIL collections, processing and delivery productivity improved by 2.4 per cent, within our target range of a 2.0-3.0 per cent improvement per annum.
- We have seen a net reduction in the number of UKPIL employees of around 3,500 this year.
- We narrowly missed the 93.0 per cent regulatory First Class mail target, with 92.5 per cent of this mail delivered the next working day (see page 10). We exceeded our regulatory Quality of Service target of 98.5 per cent for Second Class mail.
- GLS continued to perform strongly. Volumes were up 10 per cent. Revenue was up nine per cent, with growth in almost all markets.

Outlook

- Outlook for UK letter and parcel market trends remains unchanged.
- UKPIL cost avoidance programme on track and we expect to avoid a similar level of costs in 2016-17 as the prior year.
- We continue to seek opportunities to drive efficiency, with transformation costs currently expected to be around £160 million in 2016-17.
- Rate of revenue growth in GLS expected to slow in 2016-17.
- We expect total net investment spend to be within £550-600 million per annum in the medium-term.
- We remain focused on in-year trading cash flow, which underpins our commitment to a progressive dividend policy.

1 All adjusted results are a non-International Financial Reporting Standards (IFRS) measure and exclude specific items. The commentary in this report, unless specified otherwise, focuses on the operating results on an adjusted basis. This is consistent with the way that financial performance is measured by Management and reported to the Board and assists in providing a meaningful analysis of the results of the Group

2 All movements are on an underlying basis unless otherwise stated. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and exclude elections in letter volumes

3 Prepared in accordance with IFRS

4 Excluding election mailings