Journey 2024

Growing. Efficient. Diversified.

22 May 2019

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Agenda

Strategy and Outlook, 2018-19 Results		
09:30	Presentation Commences	
09:35	Video – Our History	
	Strategy Overview and 2018-19 Results Summary	 **Rico Back** Group CEO
10:00	2018-19 Results and Financial Outlook	 **Stuart Simpson** Group CFO and COO
10:30	Q&A	
11:05	*Break*	

UK Commercial		
11:20	Video – Letters	
	Letters	 **Stephen Agar** MD Letters
11:40	Parcels	 **Nick Landon** Chief Customer Officer
11:55	Q&A	
12:15	*Lunch*	

UK Operations		
12:55	Operations	 **Stuart Simpson** Group CFO and COO  **Achim Dünnwald** Chief Strategy and Transformation Officer
13:15	People	 **Sally Ashford** Chief HR Officer
13:30	Q&A	
13:50	*Break*	

GLS and Cross-border		
14:05	Video – GLS	
	GLS	 **James Rietkerk** GLS CEO
14:45	Cross-border	 **Saadi Al-Soudani** Group International MD
15:00	Q&A	

Summary		
15:20	Video – Our Future	
	Closing Remarks	 **Rico Back** Group CEO
15:30	*Close*	

Welcome

Keith Williams
Chair

Video

Our History

Strategy Overview and 2018-19 Results Summary

Rico Back
Group CEO

Royal Mail will change

Vision and strategic priorities

2023-24 vision

Growing.

c.£12bn revenue

(2-3% CAGR over next 5 years)

Efficient.

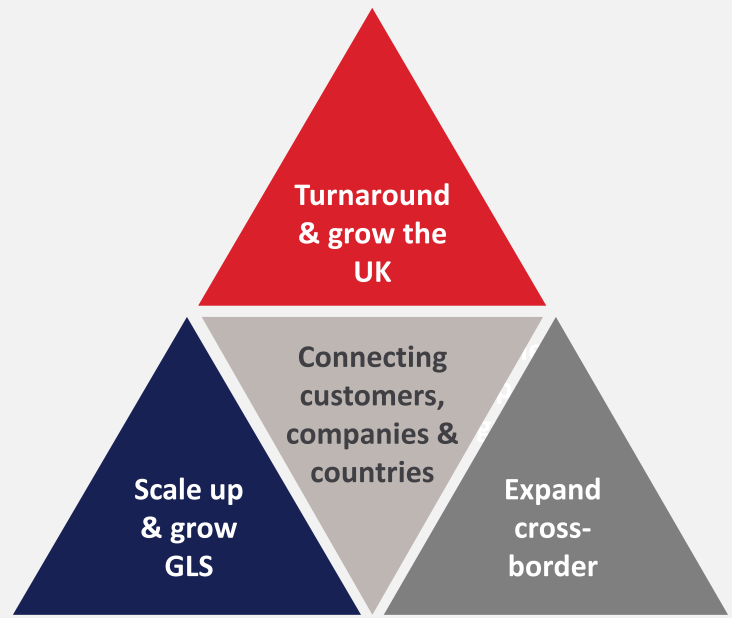
>5% operating profit margin

Diversified.

>70% revenue from Parcels

>40% generated outside UK

Strategic priorities



Strong foundations

Royal Mail overview

	UKPIL			GLS	
Business	**Domestic letters**	**Domestic parcels**	**International**	**Cross-border**	**Domestic**
2018-19 Revenue[1,2]	£3.8bn	£2.7bn	£1.1bn	£0.5bn	£2.4bn
Highlights	Basis for high quality network	Largest player, gaining market share	Biggest UK gateway	One of the largest ground based parcel networks in Europe and expanding in North America 44 countries	
	Joint delivery network Over 30m delivery points 6 days a week service c.60k routes				

[1] UKPIL based on new methodology and on 52 week basis. [2] Before elimination of intra group revenue

Becoming a parcels-led business

Key trends mainly in our favour

E-substitution

Changing the way we communicate…

E-commerce

…bringing retail to the home…

Global trade

…opening up new avenues for commerce

UKPIL letter volume: 4-6% p.a. decline[1]

UKPIL parcels revenue: >5% CAGR

GLS revenue: >6% CAGR (c.€4.5bn in 2023-24)

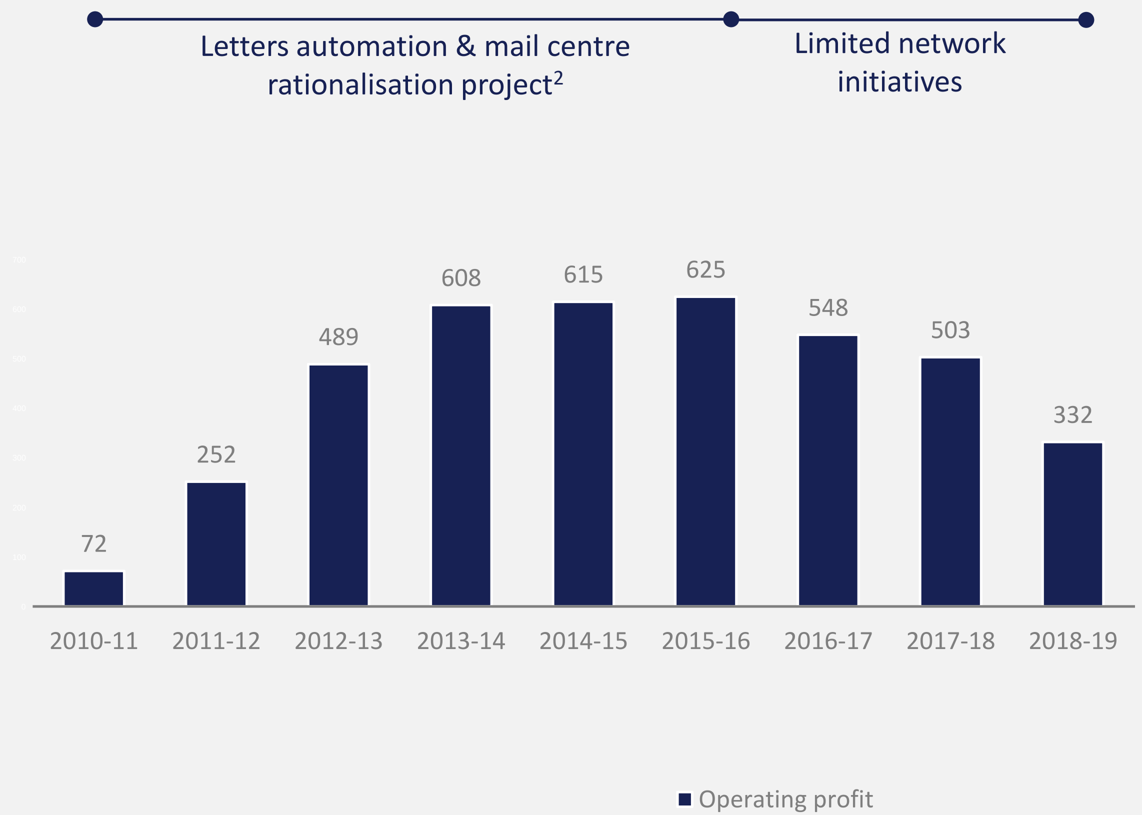
Royal Mail Group revenue CAGR 2-3% to 2023-24

[1] Addressed letters excluding elections, medium-term outlook

Strategic priorities: turnaround and grow the UK

Our biggest challenge is UK cost and productivity

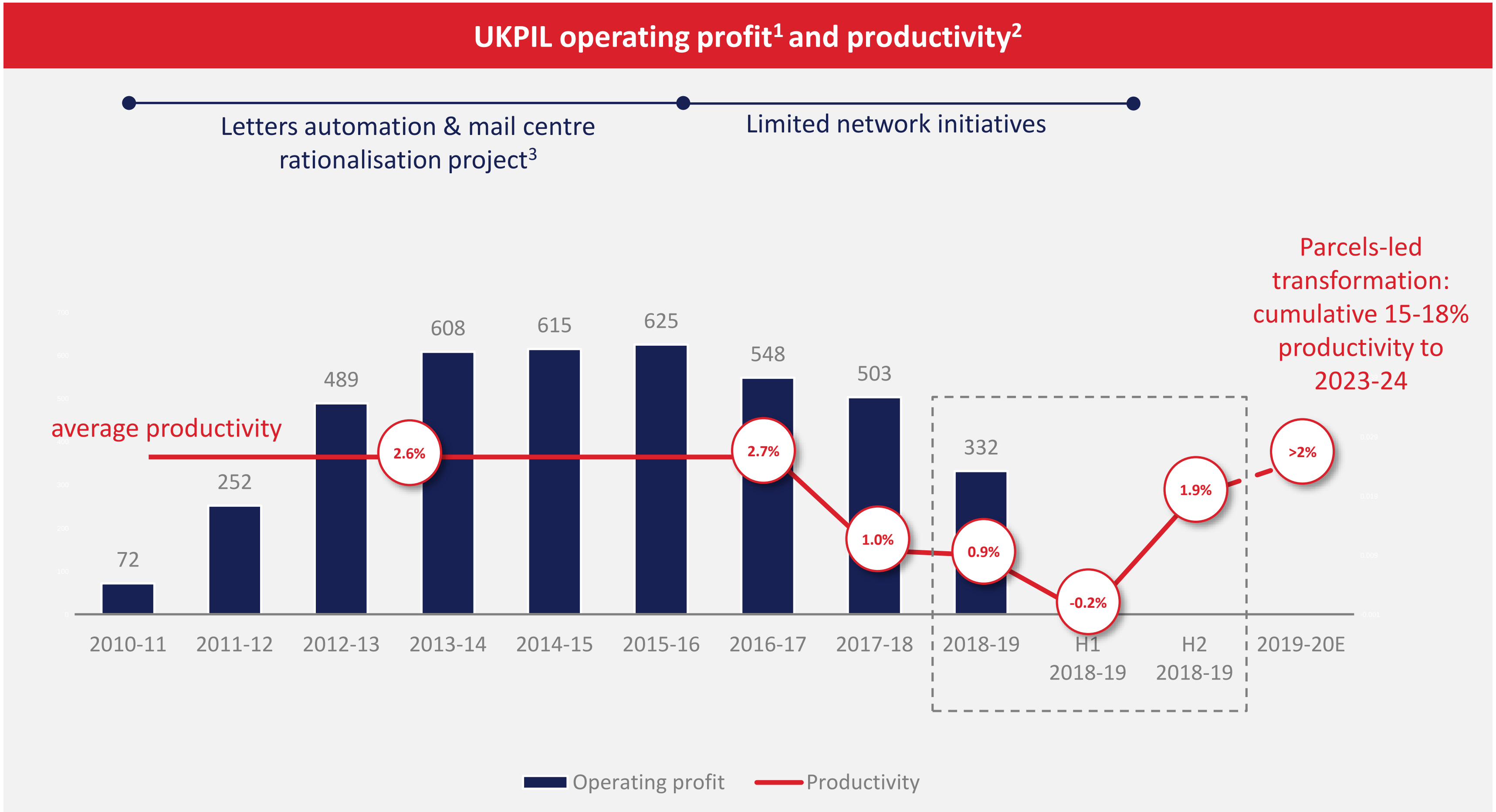
UKPIL operating profit[1]



[1] Before transformation costs. [2] Letters automation and mail centre rationalisation delivered to 2015-16 with the exception of closure of Ipswich mail centre during 2017-18

Strategic priorities: turnaround and grow the UK

Our biggest challenge is UK cost and productivity



[1] Before transformation costs. [2] Productivity is Delivery, Processing and Logistics activity only. It excludes Parcelforce Worldwide. [3] Letters automation and mail centre rationalisation delivered to 2015-16 with the exception of closure of Ipswich mail centre during 2017-18

Strategic priorities: turnaround and grow the UK

Royal Mail network being redesigned for parcels

Journey 2024

Growing. Efficient. Diversified.

2018-19	Network design	2023-24E
12%	Parcel automation	>80%
10	Small parcel sorting machines	40
0	Parcel Hubs	3
c.60,000	Combined routes	c.50,000
0[1]	Dedicated parcel routes	c.7,000

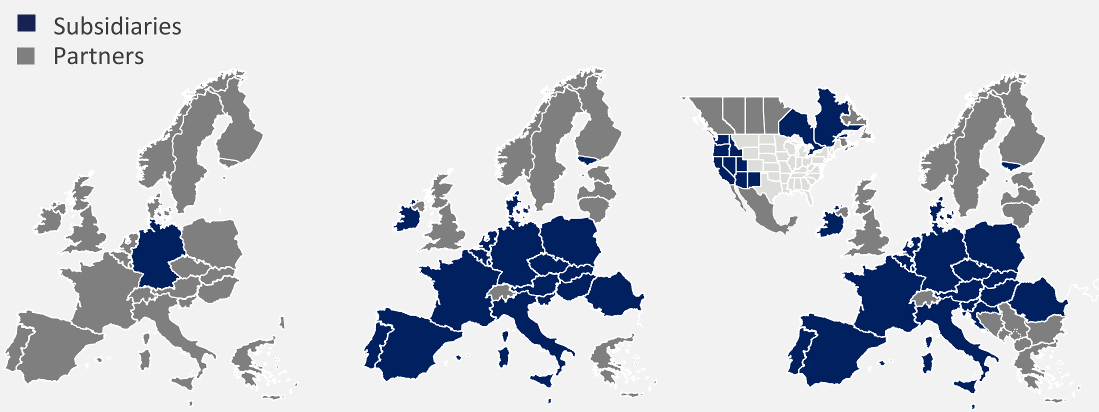
[1] While we do operate dedicated parcel van deliveries selectively, especially during peak periods, these are not full-time routes

Strategic priorities: scale up and grow GLS

Building on 20-year track record of growth

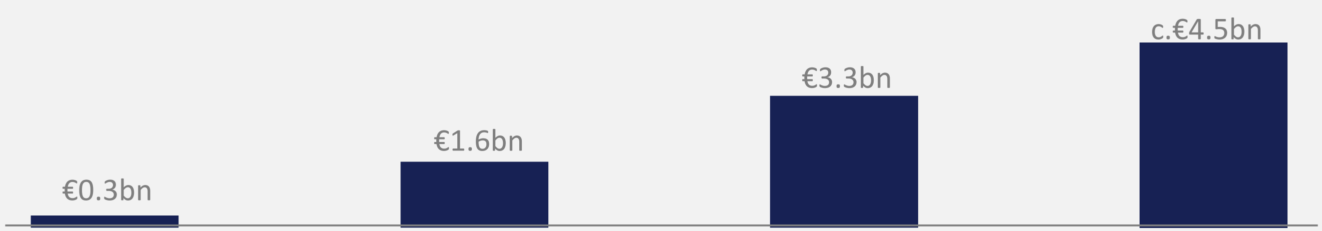
FY	1998-99	2007-08	2018-19	2023-24E

Geographic footprint



Organic growth supplemented by selected M&A

Revenue

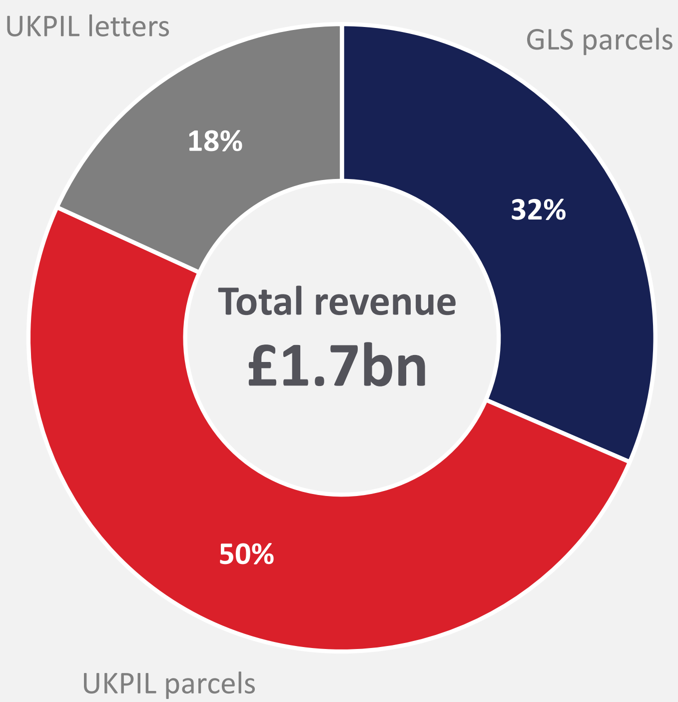


GLS will continue to drive profitable growth for Royal Mail Group

Strategic priorities: expand cross-border

Combining the best of Royal Mail and GLS

Royal Mail Group 2018-19 cross-border revenue by product



Highlights

- Global cross-border parcels market valued in excess of $60bn[1]
- Growing strongly driven by e-commerce
- Clear opportunities by combining best of Royal Mail and GLS
- Low investment requirements

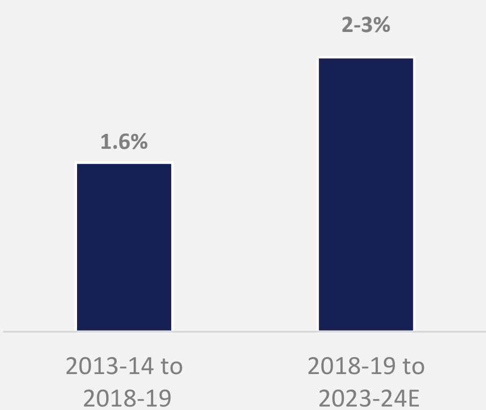
[1] UPU, Research on Postal Markets, 2016

Investing to change and grow

Our 5-year ambition

Growing

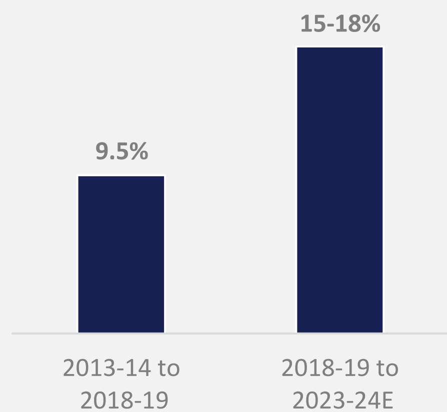
Group revenue CAGR[1]



- UKPIL returns to top line growth

Efficient

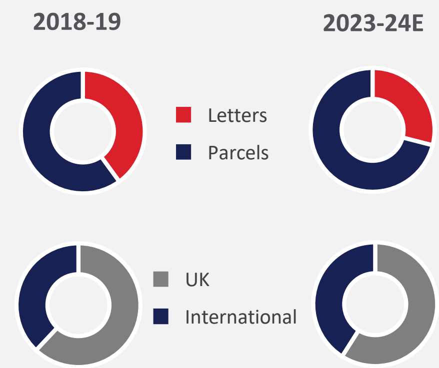
5-year cumulative UKPIL productivity change



- Group operating profit margin[2] growing to
  - >4% by 2021-22
  - >5% by 2023-24

Diversified

Group revenue



- Reduced exposure to letters

[1] On constant currency basis, excluding impact of any acquisitions. [2] After transformation costs

Investing to change and grow

Financial policy

Investment

- Incremental cumulative capital expenditure of £400-500m to 2023-24
- Peak spend in 2020-21 to 2022-23

Balance sheet

- Maintain low leverage given high operational gearing

Dividend

- 15p underpin
- May be supplemented by additional payouts in years with substantial excess cashflow

Ready to deliver

Today's speakers

Rico Back
Group CEO

Achim Dünnwald
Chief Strategy and Transformation Officer

Stuart Simpson
Group CFO and COO

Sally Ashford
Chief HR Officer

Stephen Agar
MD Letters

James Rietkerk
GLS CEO

Nick Landon
Chief Customer Officer

Saadi Al-Soudani
Group International MD

Strategy overview summary

1	**Royal Mail will change**	• Growing. c.£12bn revenue and growing at 2-3% CAGR over 5 years • Efficient. >5% operating margin • Diversified. >70% parcels revenue, >40% international revenue
2	**Strong foundations**	• Biggest UK network • Strong international capability
3	**Becoming a parcel-led business**	• E-commerce and global trade fuelling parcels growth • Structural decline in letters
4	**Strategic priorities**	• Turnaround and grow the UK • Scale up and grow GLS • Expand cross-border
5	**Investing to change and grow**	• £400-500m of cumulative incremental capex over 5 years • Dividend: 15p underpin may be supplemented by additional payouts in years with substantial excess cashflow
6	**Ready to deliver**	• Royal Mail and our brands are built on our people • Management team to execute

2018-19 Results

Stuart Simpson
Group CFO and COO

2018-19 Financial summary

£m	Adjusted 2018-19 53 weeks	Adjusted 2018-19 52 weeks	Adjusted 2017-18 52 weeks	Underlying change
Revenue	10,581	**10,444**	10,172	**2%**
Operating profit before transformation costs	544	**509**	694	**(26%)**
Transformation costs	(133)	**(133)**	(113)	
Operating profit after transformation costs	411	**376**	581	**(34%)**
Margin	*3.9%*	***3.6%***	*5.7%*	***(200bps)***
Earnings per share (basic)	**30.5p**	-	45.5p	
In-year trading cash flow	**117**	-	545	
In-year trading cash flow adjusted for timing differences[1]	***282***	-	*444*	
Net (debt)/cash	**(300)**	-	14	
Recommended full year dividend per share	**25.0p**	-	24.0p	**4%**

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days in UKPIL and acquisitions in GLS. [1] Adjusted for timing differences from 2017-18 frontline pay award (£101m), extra monthly payroll (£47m) and extra VAT payment (£17m)

UKPIL results (52 weeks)

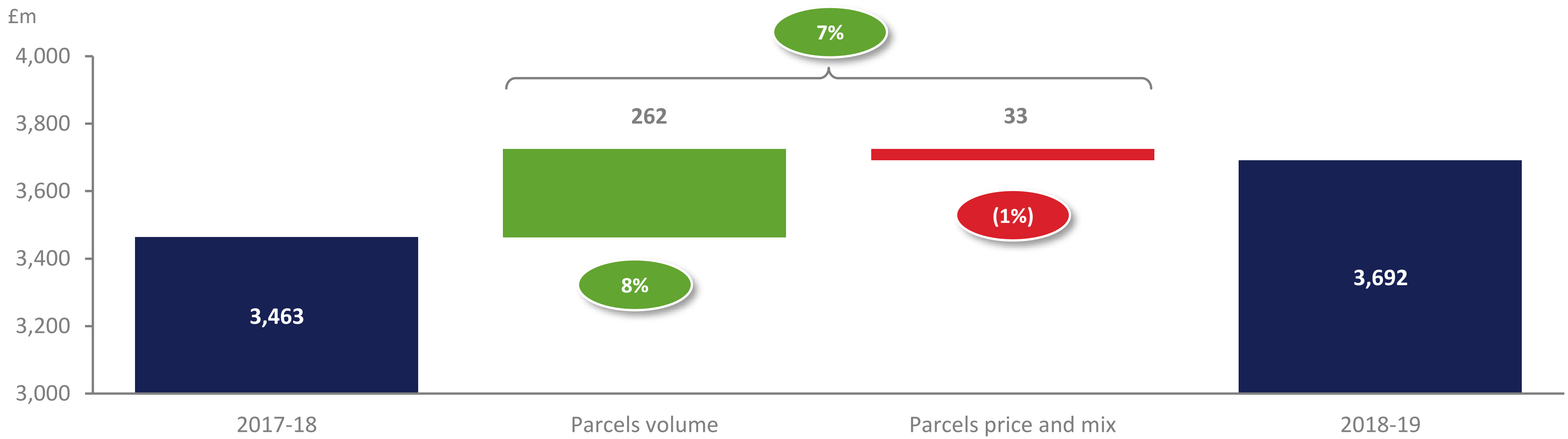
£m	Adjusted 2018-19 52 weeks	Adjusted 2017-18 52 weeks	Underlying change
Revenue	**7,595**	7,615	**Flat**
Operating costs	**(7,263)**	(7,112)	**2%**
Operating profit before transformation costs	**332**	503	**(32%)**
Transformation costs	**(133)**	(113)	
Operating profit after transformation costs	**199**	390	**(48%)**
Margin	***2.6%***	*5.1%*	***(240bps)***

£m	2018-19	2017-18
Voluntary redundancy	**(46)**	(44)
Project costs	**(87)**	(69)
Total transformation costs	**(133)**	(113)

- Voluntary redundancy costs lower than expected due to lower levels of efficiencies
- Project costs higher driven by operations data projects to support future productivity improvements, IT upgrade, parcel projects and pension transformation costs

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days in UKPIL

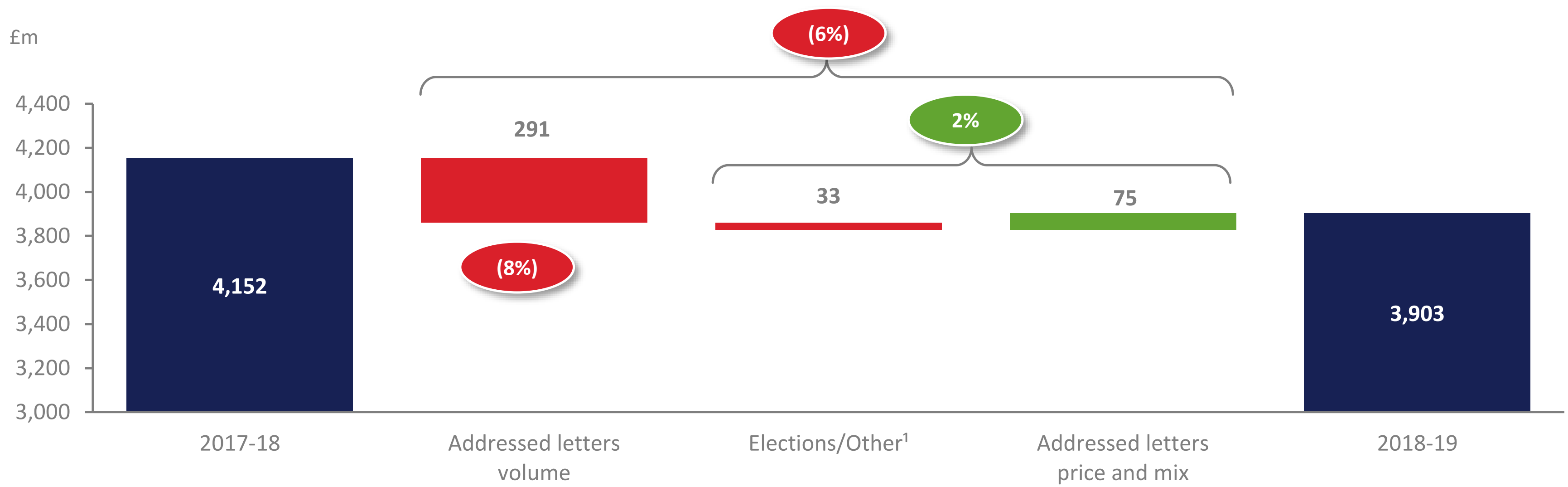
UKPIL parcel revenue (52 weeks)



- Parcel volume up 8%; revenue up 7%
- Domestic account volumes (ex. Amazon) up 8%
  - won new customers and gained more traffic from existing customers
- Royal Mail Tracked 24®/48® and Tracked Returns® volumes 272m, up 24%
  - won new volumes having extended LATs for Tracked 24® product
  - growth supported by propositions targeting fast growing sectors and new features including estimated delivery times
- Strong growth in Amazon volumes
- International traffic
  - benefited from Asia – Europe/UK cross-border initiative
  - higher import volumes (excluding cross border)
  - contract export volumes lower due to competitive market
- Parcelforce volumes up 1% vs 2% in prior year
  - largely due to customer exiting online retail market

Note: Underlying change is calculated after adjusting for working days, which is not material.

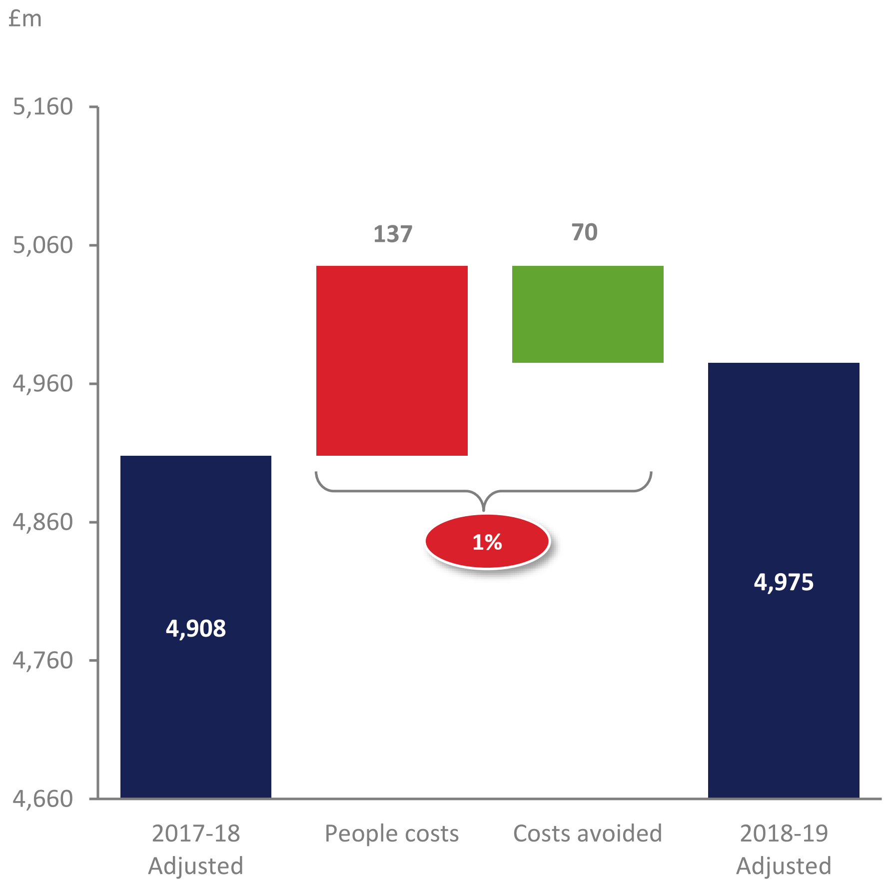
UKPIL letter revenue (52 weeks)



- Addressed letter volume decline of 8%
  - GDPR accounted for c.2pp of decline
  - decline expected to be 5-7% in 2019-20
  - maintain medium-term outlook of 4-6% annual decline
- Total letter revenue down 6% including impact of business mail price rises
  - elections impact not material in full year
- Marketing mail[2] revenue down 10% at £994m
  - impacted by GDPR
- Unaddressed volumes down 7%
  - lapping strong growth last year

Note: Underlying change is calculated after adjusting for working days, which is not material. Excludes political parties' election mailings in letter volumes. [1] Other includes unaddressed advertising mail, philatelic and other non-volume related items [2] Includes addressed and unaddressed advertising mail, data, redirections and AMU

UKPIL people costs (52 weeks)



People costs up 1%

- Impact of:
  - frontline and manager pay awards
  - high level of sickness-related absences and adverse weather conditions in H1
  - additional investment to improve Quality of Service
  - higher PFW volumes and implementation of LATs

Costs avoided £70m

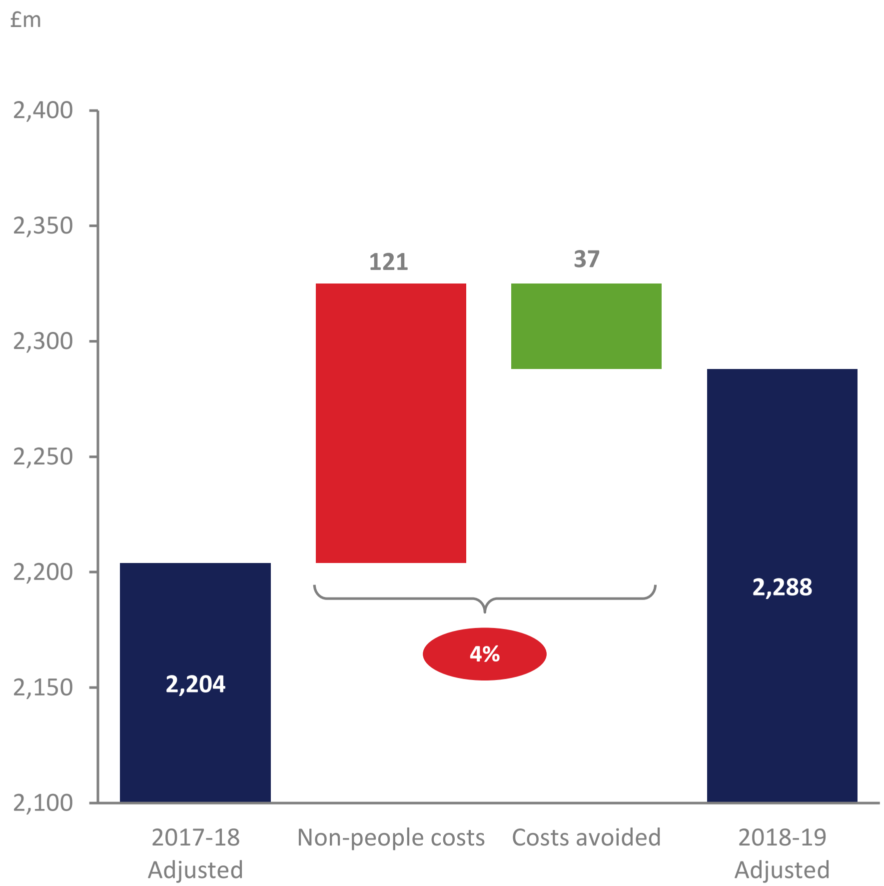
- Implemented and partially absorbed impact of one hour reduction in working week
- Reduction in management headcount will deliver benefits in 2019-20

	H1	H2	FY
Gross core network hours	(0.1%)	(2.0%)	(1.1%)
Workload	(0.3%)	(0.1%)	(0.2%)
Productivity	(0.2%)	1.9%	0.9%

- FTEs down c.840[1]
- Headcount up c.1,600

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment. [1] FTEs 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 (2017-18: 39 hour week basis)

UKPIL non-people costs (52 weeks)



Non-people costs up 4%

Distribution & conveyance - £827m, up 4%

- Vehicle repair costs £19m higher due to adverse weather and delays to delivery of new vehicles
- Fuel costs £156m, £9m higher due to higher than expected parcel volumes
- Terminal dues £6m higher due to adverse FX movement

Infrastructure - £819m, up 9%

- Depreciation & amortisation £333m, up £44m, driven by:
    - £30m impairment costs due to investment portfolio review
    - £12m due to accelerated depreciation of letters sorting machinery
- £21m increase in technology costs largely due to data projects supporting operations

Other - £642m, down 2%

- Largely due to the impact of the cost avoidance programme

Costs avoided £37m

- HWDC modernisation
- Discretionary spend control
- Supplier contract renegotiation

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment.

GLS results

£m	Adjusted 2018-19	Adjusted 2017-18	Underlying change
Revenue	**2,888**	2,557	**8%**
Operating costs	**(2,711)**	(2,366)	**9%**
Operating profit	**177**	191	**(9%)**
Margin	***6.1%***	*7.5%*	***(120bps)***
Volumes (m)	**634**	584	**5%**
Average £1 = €	**1.13**	1.13	

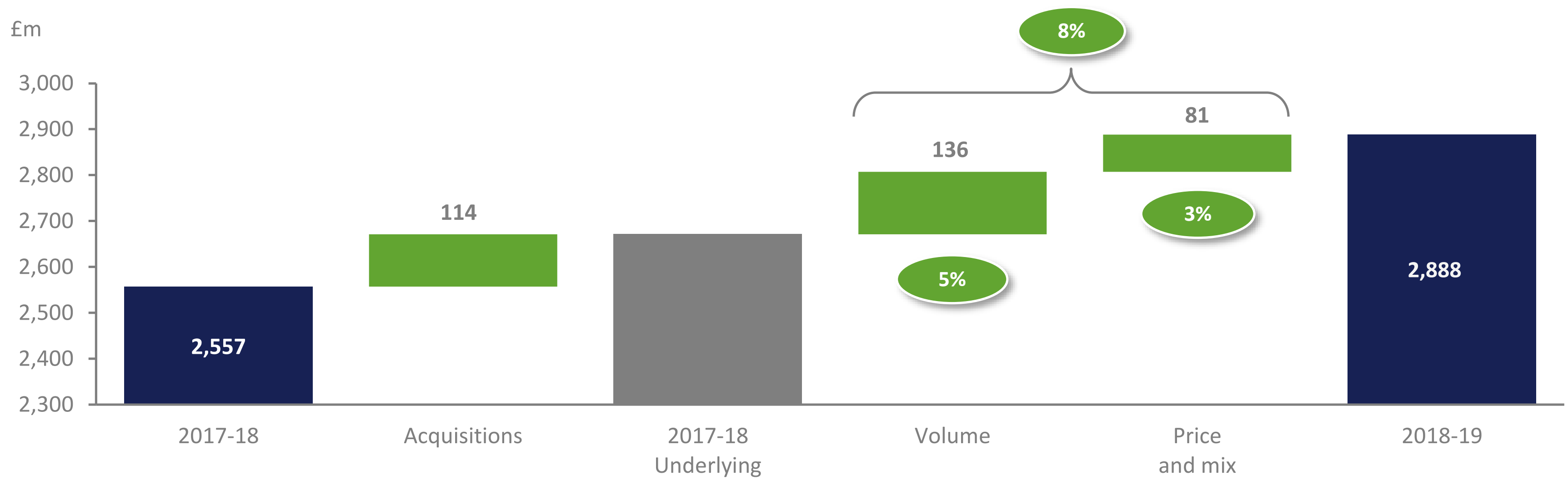
€m	Adjusted 2018-19	Adjusted 2017-18
Revenue	**3,274**	2,899
Operating costs	**(3,073)**	(2,682)
Operating profit	**201**	217

Adjusted results

- Continued good revenue performance
  - good domestic and international volume growth in most markets
- Operating profit margin 6.1% in line with target of over 6%
  - margin impacted by ongoing cost pressures, losses in France and the US and reduction in profitability in Spain
- Volume growth moderated from prior year largely due to general competitive environment and yield management activities
- Negligible Sterling impact

Note: Adjusted results exclude specific items (including £68m impairment of US businesses). Underlying change is calculated after adjusting for 10 months of Redyser and 7 months of Dicom Canada (19m volumes; £114m revenue; £110m costs)

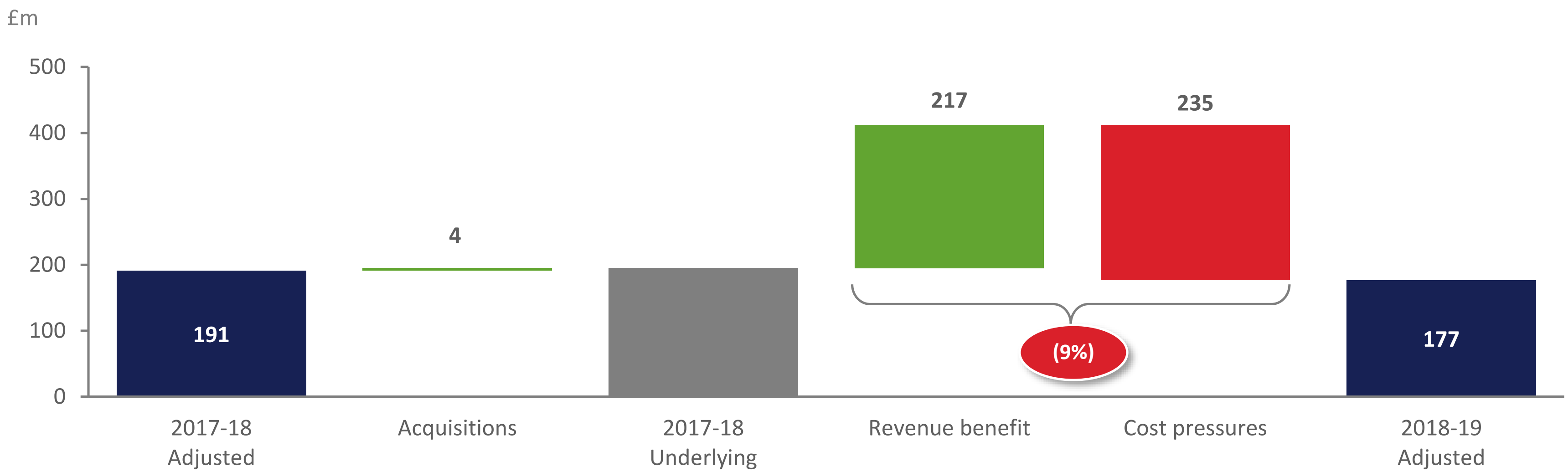
GLS revenue



- Headline revenue up 13% including acquisitions
- Positive impact of price increases and customer mix changes
- Germany up 9%, driven by international volumes and improved pricing
- Italy up 5%, moderating in line with expectations due to competitive environment including launch of Amazon's own logistics network in Italy
- France up 4%, driven by improved pricing and higher export volumes
- Spain up 7%, driven by higher international volumes
- Strong revenue performance in Denmark driven by B2C
- Continued strong performance in Eastern Europe

Note: Movements in volume and revenue are on an underlying basis. Underlying change is calculated after adjusting for 10 months of Redyser and 7 months of Dicom Canada (19m volumes; £114m revenue; £110m costs)

GLS profit/margin



Adjusted operating costs up 9%

- Cost pressures not expected to ease in short term
- People costs up 4% driven by higher semi-variable costs linked to volumes and higher rates of pay
- Distribution and conveyance costs up 11%, driven by higher volumes and network costs
- Infrastructure costs up 7%, driven by higher rents and rates, repairs and maintenance costs and depreciation
- Other operating costs up 24% largely due to higher litigation and claims costs and impact of provision releases in prior year

GLS operating profit margin 6.1%

- Dicom profit in line with expectations
- France losses increased to €18m (c.£16m)
- US losses €15m (c.£14m) impacted by cost pressures, refocusing customer base, and transitioning to new business model
- Spain profitability impacted by integration of Redyser and increasing proportion of domestic volumes from lower margin customers
    - Redyser integration expected to complete in 2019-20

Note: Movements in profits are on an underlying basis. Underlying change is calculated after adjusting for 10 months of Redyser and 7 months of Dicom Canada (19m volumes; £114m revenue; £110m costs)

Group adjusted profit after tax

£m	Adjusted 2018-19 53 weeks	Adjusted 2017-18 52 weeks
Operating profit after transformation costs	**411**	581
Finance costs	**(18)**	(19)
Finance income	**5**	3
Net finance costs	**(13)**	(16)
Profit before tax	**398**	565
Tax charge	**(93)**	(111)
Profit for the period	**305**	454
Earnings per share (basic)	**30.5p**	45.5p

Group effective tax rate 23%

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment.

Specific items and pension adjustment

£m	2018-19 53 weeks	2017-18 52 weeks
Impairment relating to US businesses	**(68)**	-
Accounting impact of RMSEPP buy-in	**(64)**	-
Employee Free Shares charge	**(22)**	(33)
Amortisation of acquired intangible assets	**(20)**	(16)
Legacy/other costs	**(7)**	(8)
Total operating specific items	**(181)**	(57)
Profit on disposal of property, plant & equipment	**15**	71
Net pension interest	**79**	91
Total non-operating specific items	**94**	162
Pension charge to cash difference adjustment	**(70)**	(458)
Total specific items and pension charge to cash difference adjustment	**(157)**	**(353)**

£m	2018-19	
	Reported	Adjusted
Profit before tax	241	398
Profit after tax	175	305
Earnings per share (basic)	17.5p	30.5p

- As announced at H1, £68m non-cash impairment of goodwill and other assets in relation to US acquisitions, and £64m non-cash charge in relation to purchase of further buy-in insurance policy for RMSEPP
- Employee free shares charge £22m
  - expected to be £8m in 2019-20 and not material thereafter
- Prior year profit on PP&E included overage payments on Rathbone Place and Paddington Mail Centre and completion on Phoenix Place plot at Mount Pleasant site
- Lower pension interest credit due to lower pension surplus
  - expected to be c.£86m in 2019-20
- Pension charge to cash difference lower, reflecting closure of RMPP to future accrual
  - expected to be c.£85m in 2019-20

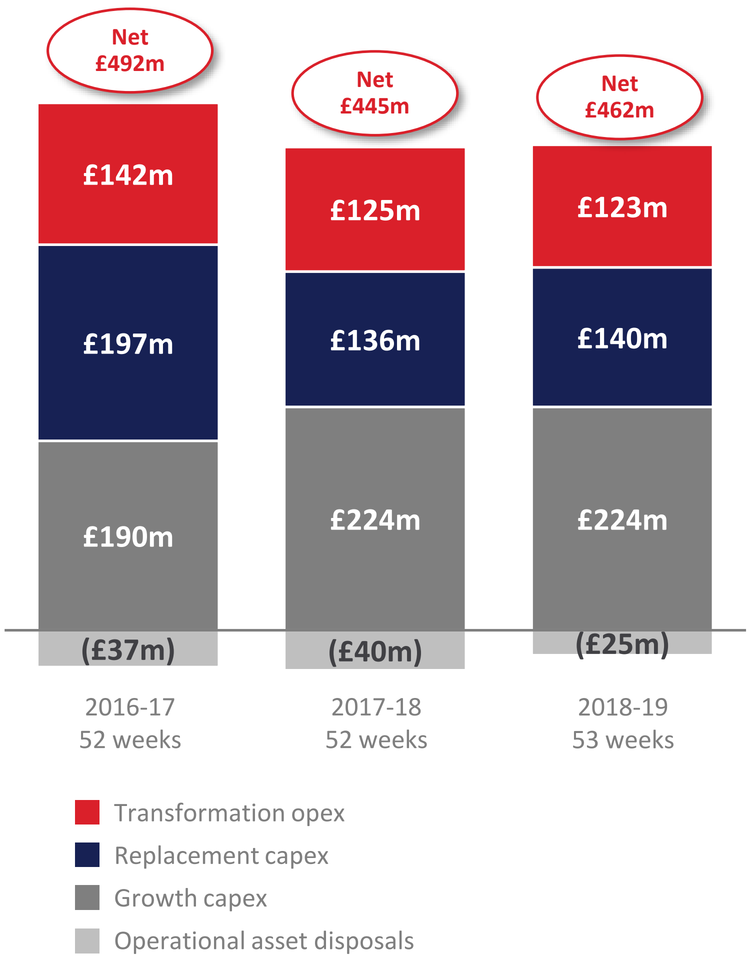
Group in-year trading cash flow

£m	2018-19 53 weeks	2017-18 52 weeks
Reported EBITDA before transformation costs	**865**	577
Pension charge to cash difference adjustment	**70**	458
Adjusted EBITDA before transformation costs	**935**	1,035
Trading working capital movements	**(237)**	74
Share-based awards (SAYE/LTIP/DSBP) charge	**7**	6
Total investment	**(487)**	(485)
Income tax paid	**(91)**	(75)
Research & development expenditure credit	**2**	5
Net finance costs paid	**(12)**	(15)
In-year trading cash flow	**117**	545
Cash flows relating to timing differences	***165***	*(101)*
Adjusted in-year trading cash flow[1]	***282***	*444*

- Trading working capital outflow impacted by:
  - reversal of £101m benefit in prior year related to timing of 2017-18 frontline pay award
  - 53rd week impact from extra monthly payroll payment (£47m) and extra VAT payment (£17m)
  - trading working capital in 2019-20 expected to benefit from £64m of reversal of 53rd week timing differences
- Higher cash tax due to no tax relief on pension escrow payments

[1] Adjusted in-year trading cash flow adjusted for timing differences from 2017-18 frontline pay award (£101m), extra monthly payroll (£47m) and extra VAT payment (£17m)

Group investment - cash

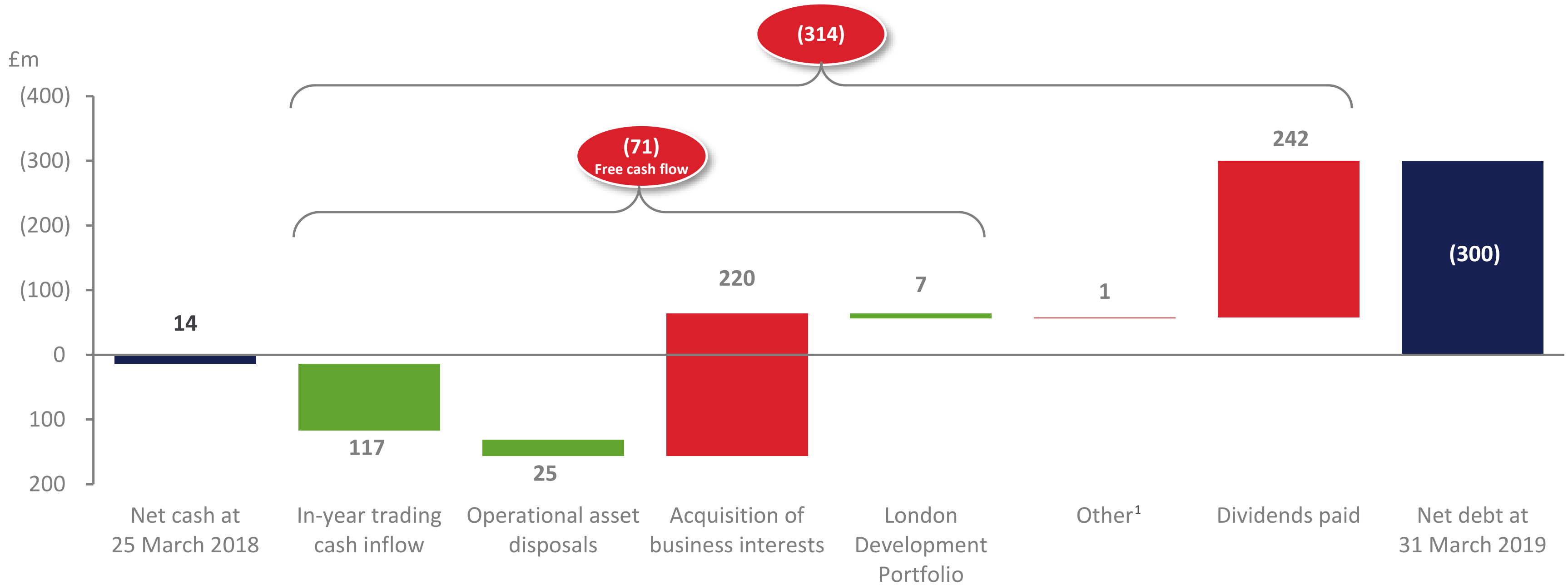


Transformation opex

£m	2018-19 53 weeks	2017-18 52 weeks
Voluntary redundancy	**36**	56
Project costs	**87**	69
Total	**123**	125

- Net cash investment lower than expected due to portfolio review and lower than expected transformation opex
- GLS capex accounted for £113m of growth capex
- Replacement capex £4m higher due to higher vehicle purchases, partially offset by lower property spend and IT and data systems costs
- Transformation opex £2m lower due to £20m lower VR spend, partially offset by £18m higher project costs driven by data projects, IT upgrade, parcel projects and pension transformation costs

Uses of cash



- Operational asset disposals – largely sale of Whetsone, Hendon, Hampton and other smaller DOs
- Acquisition of business interests – largely Dicom Canada
- London Development Portfolio - £21m received in relation to Mount Pleasant plots and £20m overage payment for Paddington net of £34m re-investment in Nine Elms and Mount Pleasant
- Net debt increased by £314m

[1] Other comprises purchase of own shares (-£10m), employee exercise of SAYE options (£5m) and FX movement (£4m)

Financial Outlook

Stuart Simpson
Group CFO and COO

Summary

1 UKPIL returned to revenue growth

- UKPIL parcels revenue growth more than offsetting letters decline

2 Contain UKPIL costs with productivity improvement

- Cumulative productivity improvements of 15-18% over 5 years
- Supported by substantial improvement in digital capability, methods and network redesign

3 GLS continued profitable growth

- Targeting c.€4.5bn revenue in 2023-24
- Targeting operating profit margin of 6-7%

4 Group financial performance turnaround

- 2-3% revenue CAGR over 3 and 5 years
- Group operating margin[1] >4% in 2021-22 and >5% by 2023-24

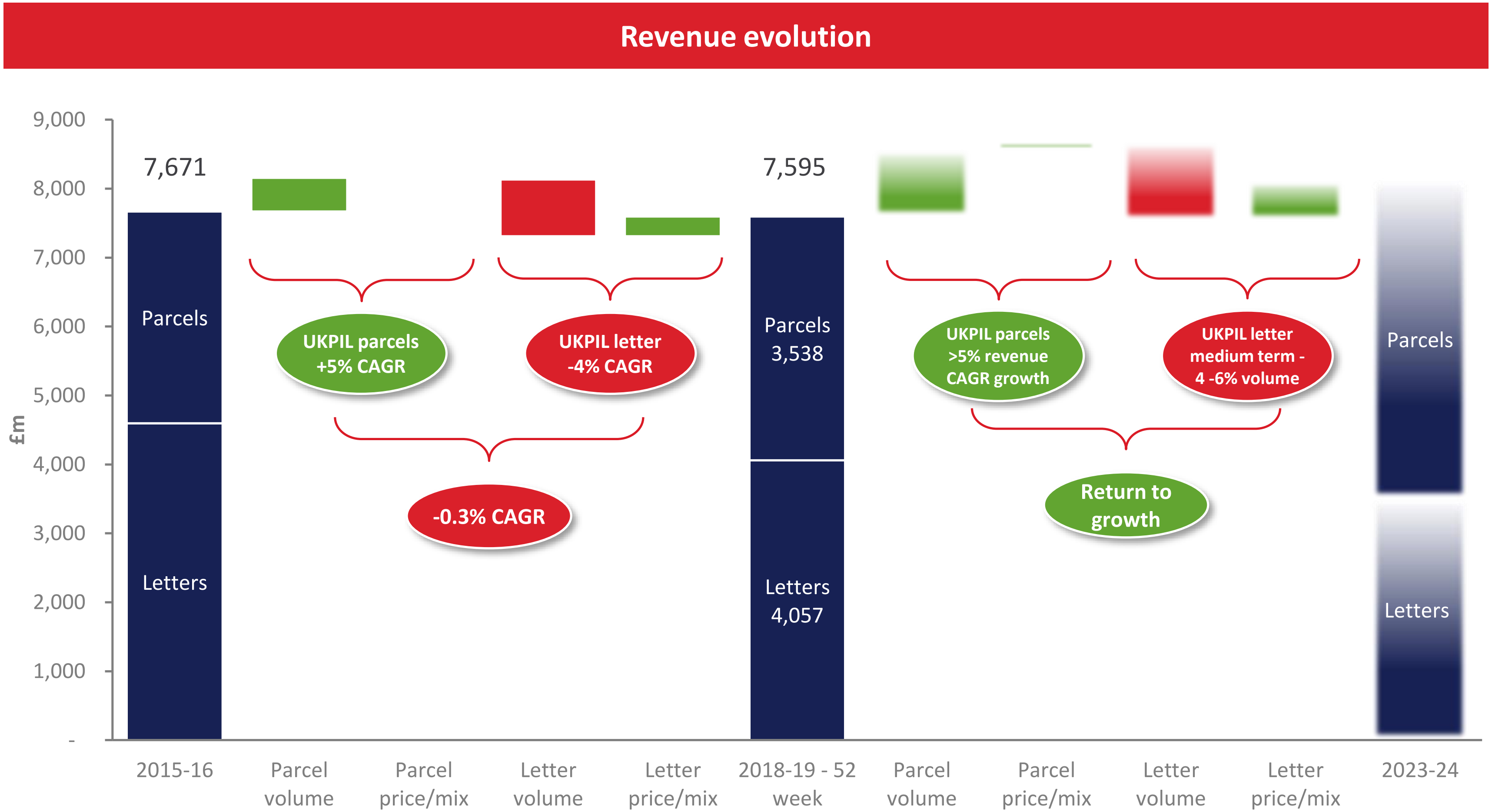
5 Capital prioritisation

- Cumulative incremental capex of £400-500m over 5 years
- 15p dividend underpin

[1] After transformation costs which will be distributed into people and non-people costs

1 UKPIL returned to revenue growth

UKPIL revenue analysis



[1] Historic adjusted revenue and volume figures are based on estimates using the new methodology. Letter volumes are addressed volumes excluding elections [2] 2018-19 is 52 week basis [3] Property and Facilities Solutions (Romec) revenue included within letters

2 Contain UKPIL costs with productivity improvement

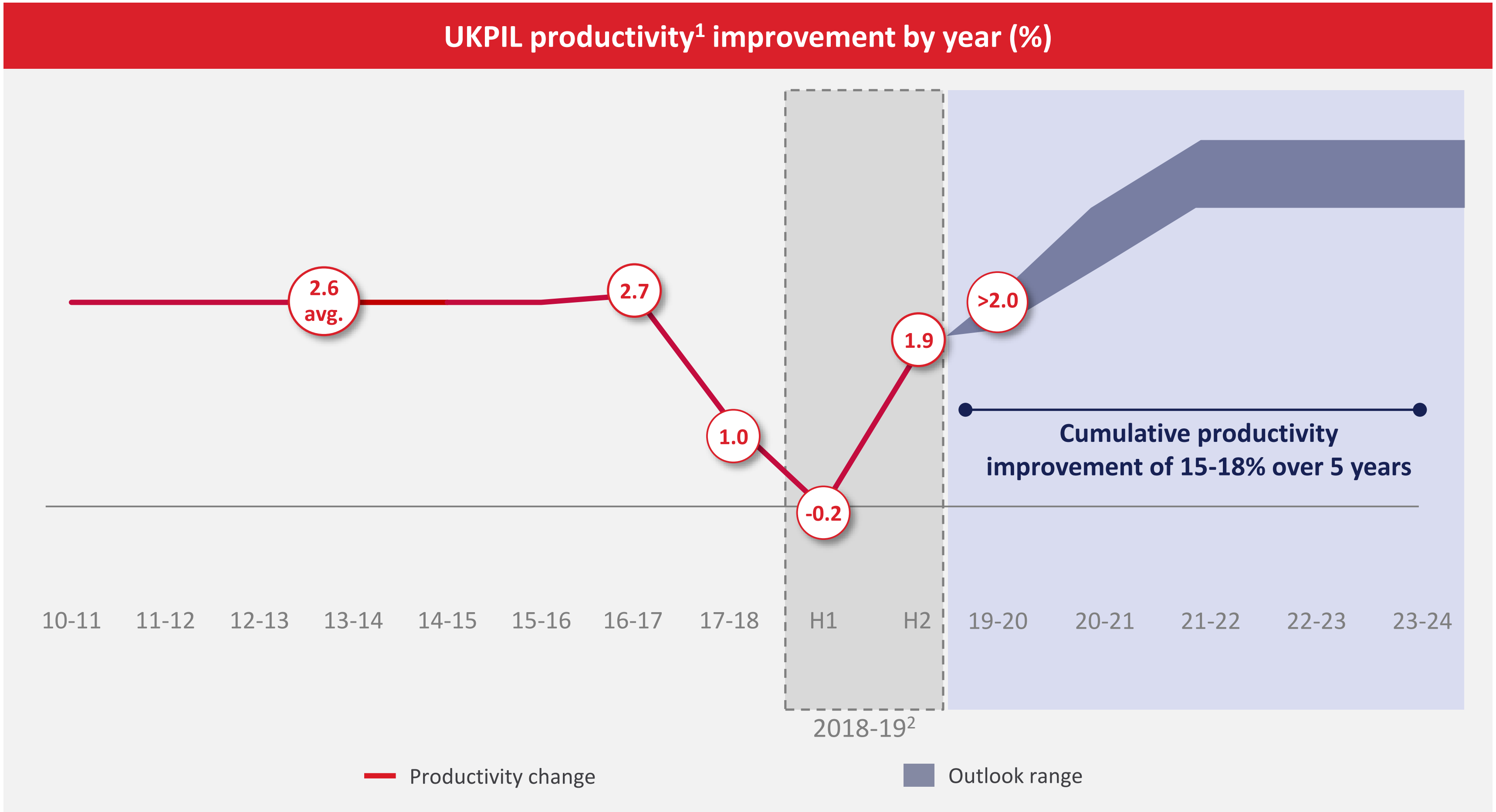
Why is productivity our key performance driver?

Productivity calculation	Outlook
Workload	Increases as parcels replace letters with current operations Indexed
Hours	Automation and operations initiatives drive hours reduction Hours reduction is equivalent to productivity increase, driving people cost down
Productivity Workload handled per hour paid[1]	Ratio of workload per item

[1] Productivity is defined as workload handled per gross hour, for collections, processing and delivery in core network only

2 Contain UKPIL costs with productivity improvement

Why is productivity our key performance driver?



Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide

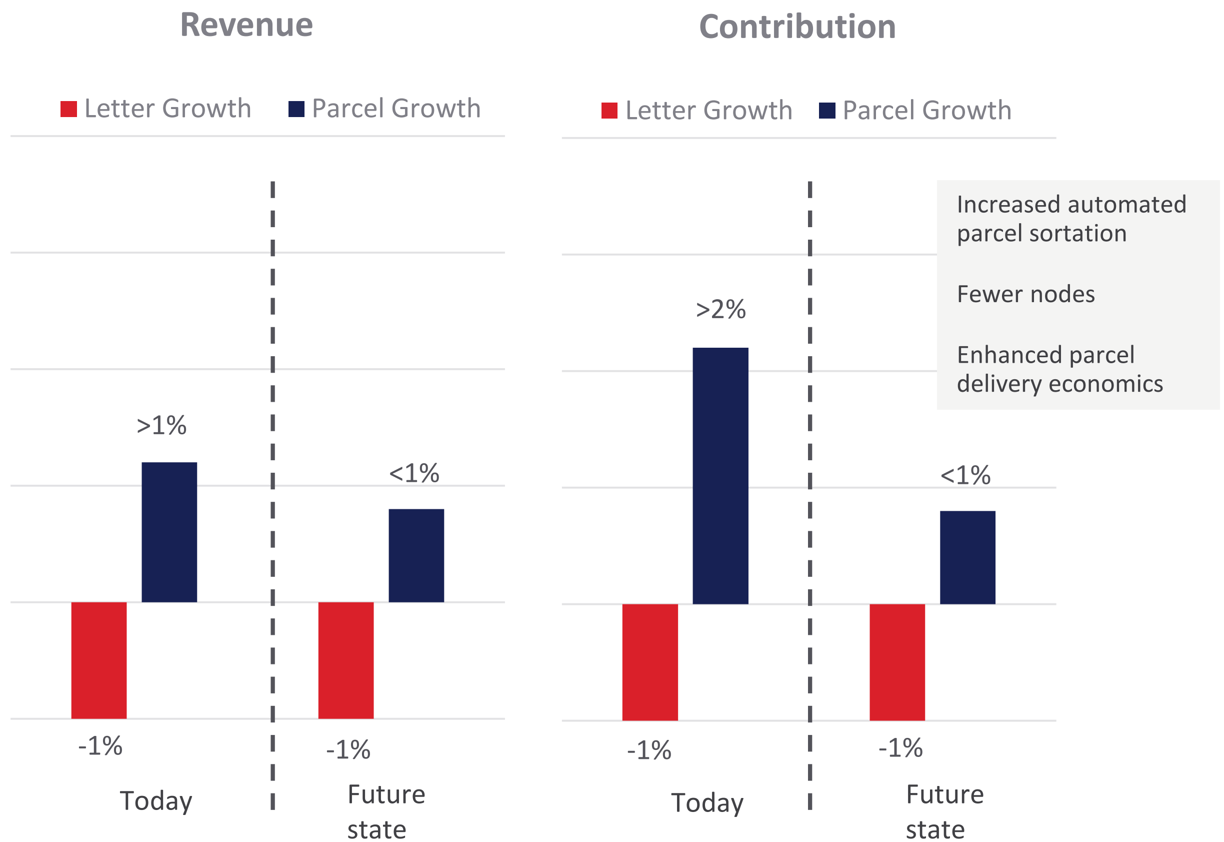
[1] Productivity is defined as workload handled per gross hour, for collections, processing and delivery in core network only

[2] Full year 2018-19 productivity change at 0.9%

2 Contain UKPIL costs with productivity improvement

By the end of the plan less parcel growth is required to maintain revenue and contribution

% Parcel growth required to maintain revenue/contribution for every 1% letters decline



- Large and small parcels can go into Parcel Hubs
- Larger parcels go to 200-300 Delivery Offices for van delivery
- Efficient large parcel delivery
- LAT small parcels also go on the vans
- Foot delivery also made more efficient

[1] Data relates to UK core network only and is estimated

2 Contain UKPIL costs with productivity improvement

UKPIL cost summary

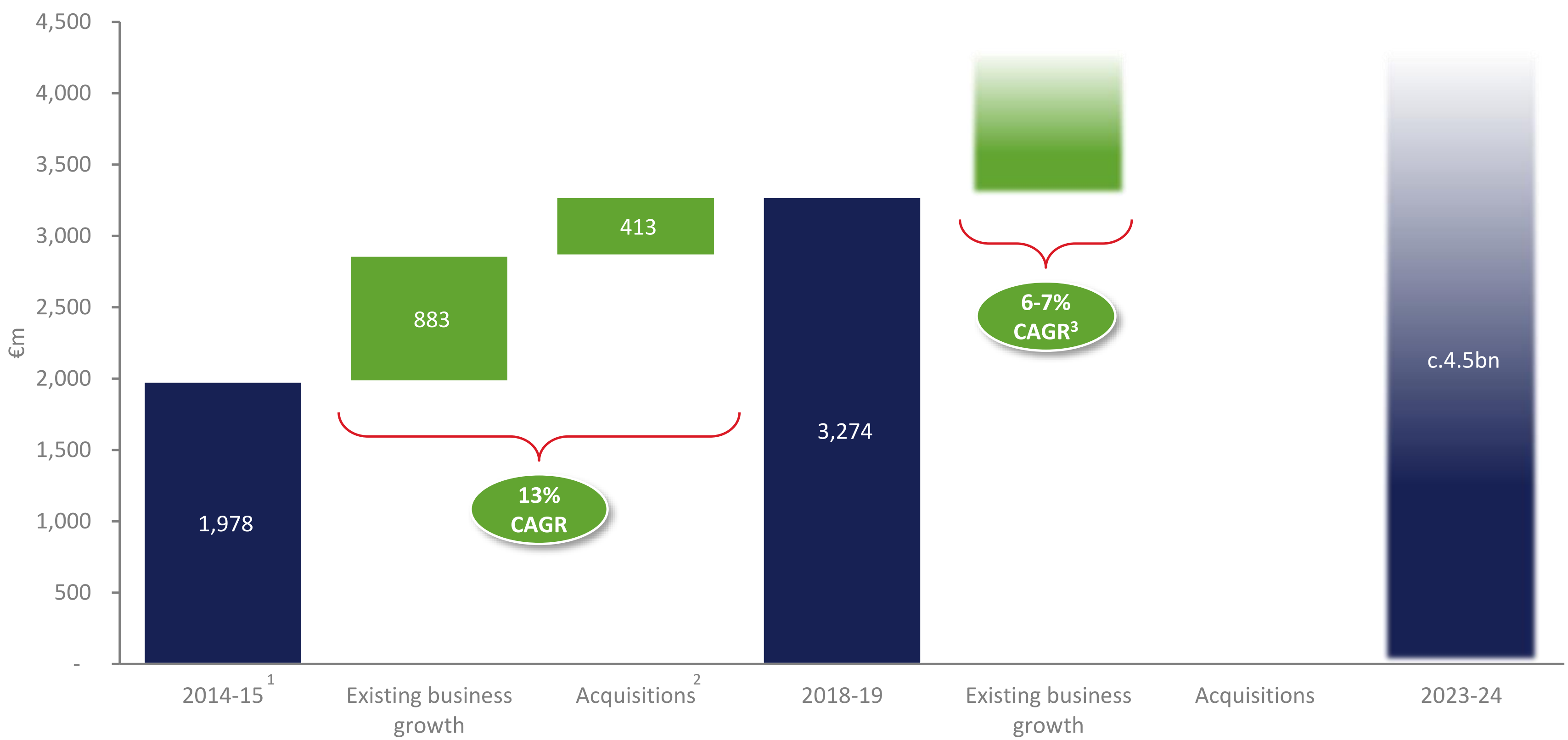
£m	2015-16	2016-17	2017-18	2018-19	Short-term	2021-22 Ambition	2023-24 Ambition
People costs	4,841	4,865	4,908	4,975	Cost pressures not offset by productivity (2019-20)	Pressures more than offset by productivity/hours reduction	
Voluntary redundancy	117	62	44	46			
Non-people costs	2,279	2,320	2,273	2,375	Impacted by CPI and costs of parcels growth of c.£50m p.a.		
Total operating costs	**7,237**	**7,247**	**7,225**	**7,396**	**Cost avoided £150-200m (2019-20)**	**Cumulative cost avoided of c.£1bn**	
Operating margin[2]	**5.7%**	**5.4%**	**5.1%**	**2.6%**	**Margin compression**	**3-4%**	**5%**

[1] All data is 52 weeks adjusted [2] After transformation costs of c.£150m p.a. comprising project costs and voluntary redundancy which will be incorporated into operating costs from 2019-20

3 GLS continued profitable growth

GLS revenue analysis

Revenue evolution



[1] 2014-15 is adjusted to remove revenue attributable to DPD SL, disposed of in March 2015
[2] Revenues are classed as acquired in the first 12 months of ownership [3] Implied CAGR to achieve c.€4.5bn aspiration

Royal Mail plc

3 GLS continued profitable growth

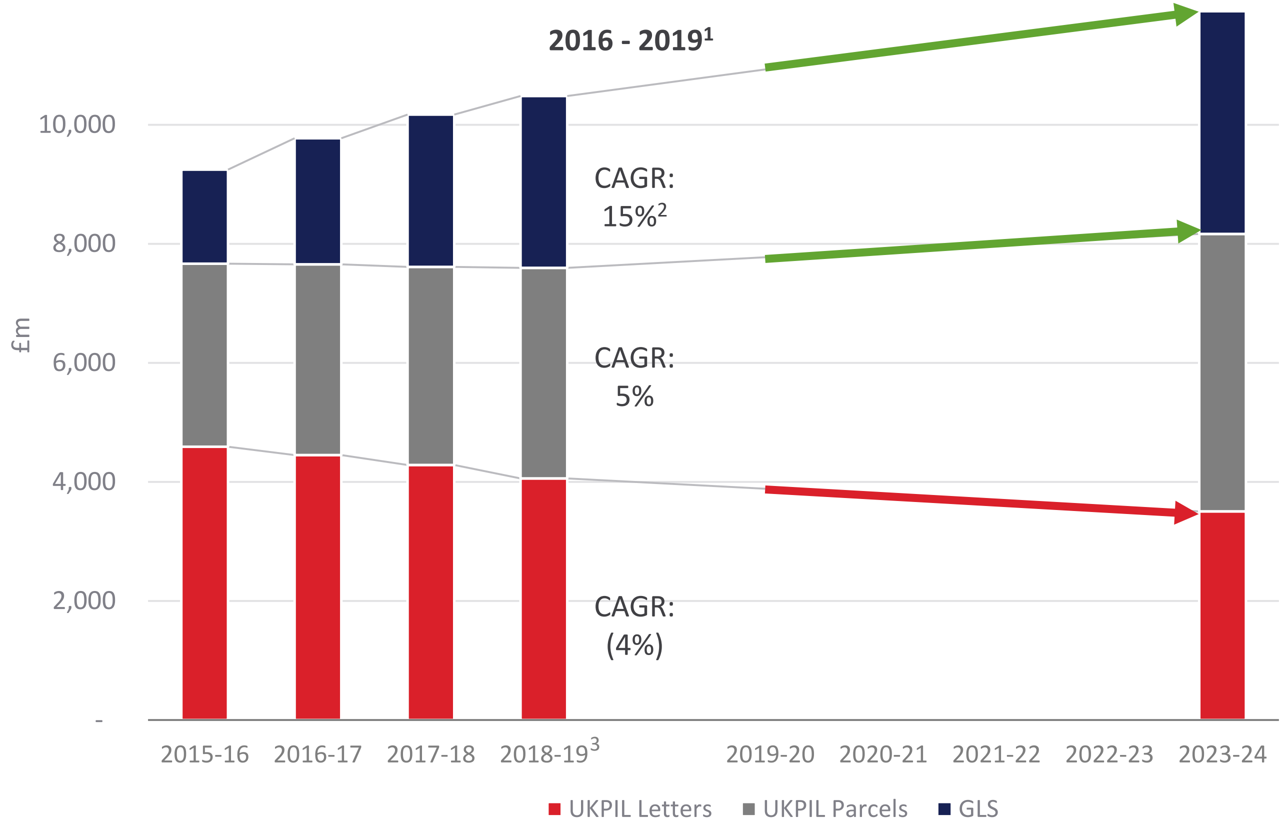
GLS costs and profitability

€m	2014-15[1]	2015-16	2016-17	2017-18	2018-19	Short-term	2021-22 Ambition	2023-24 Ambition
People costs	450	489	582	689	756			
Non-people costs	1,378	1,509	1,743	1,993	2,317			
GLS operating costs	**1,828**	**1,998**	**2,325**	**2,682**	**3,073**			
Operating margin	**7.6%**	**7.4%**	**7.8%**	**7.5%**	**6.1%**	**6-7%**	**6-7%**	**6-7%**

[1] 2014-15 has been adjusted to exclude DPD SL which was disposed 31 March 2015. All cost numbers exclude acquisition amortisation
[2] Includes expenditure of acquired companies

4 Group financial performance turnaround

2-3% revenue CAGR over 3 and 5 years



Ambition c.£12bn

c.€4.5bn in 2023-24

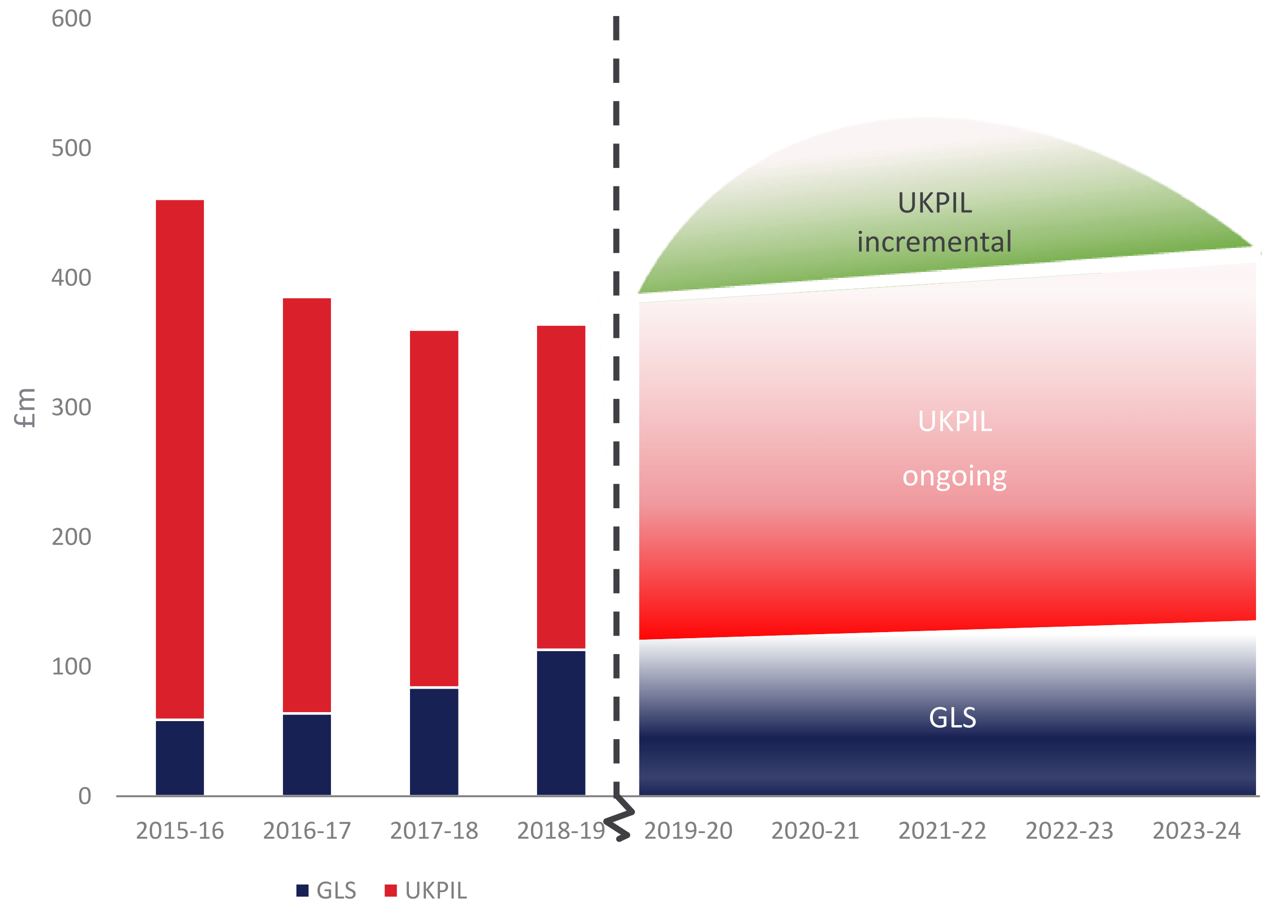
>5% CAGR over 5 years

Medium-term volume decline of 4%-6%

[1] Historic adjusted revenue and volume figures are based on estimates using the new methodology. 2018-19 is 52 week basis
[2] CAGR on a Euro Revenue basis (including acquisitions)
[3] 2018-19 includes intercompany revenue

5 Capital prioritisation

Incremental capital expenditure to fund UK turnaround



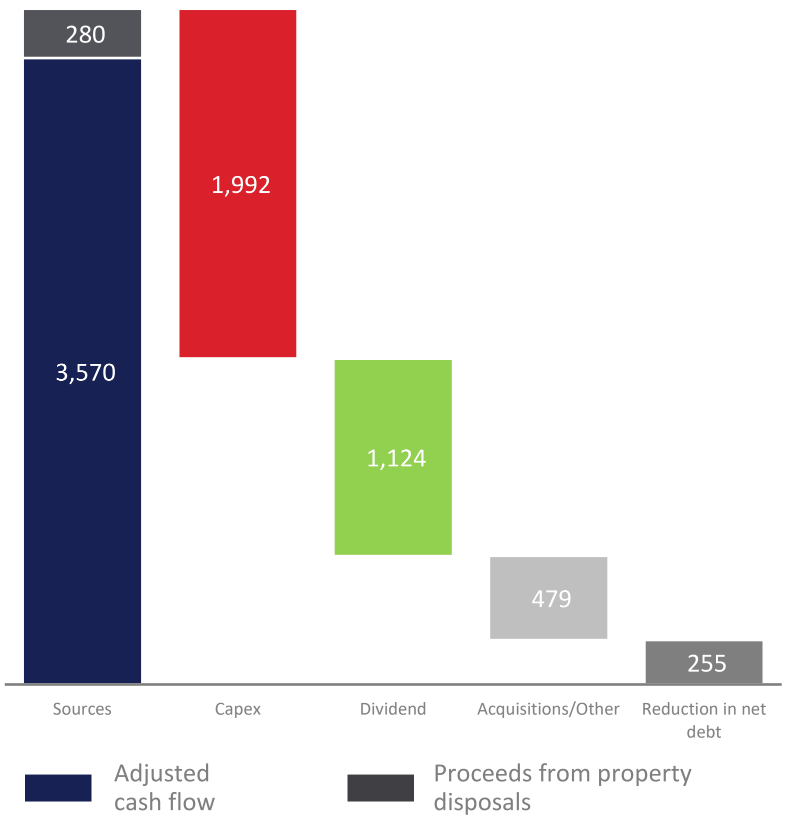
- Total incremental cumulative capex of £400-500m
  - Incremental capex peaks in year 3 of the plan
- UK vehicles and property always need maintenance/ replacement
- Ongoing investment in IT and parcel systems
- GLS investing behind growth areas and products to ensure capacity meets demand

Royal Mail plc

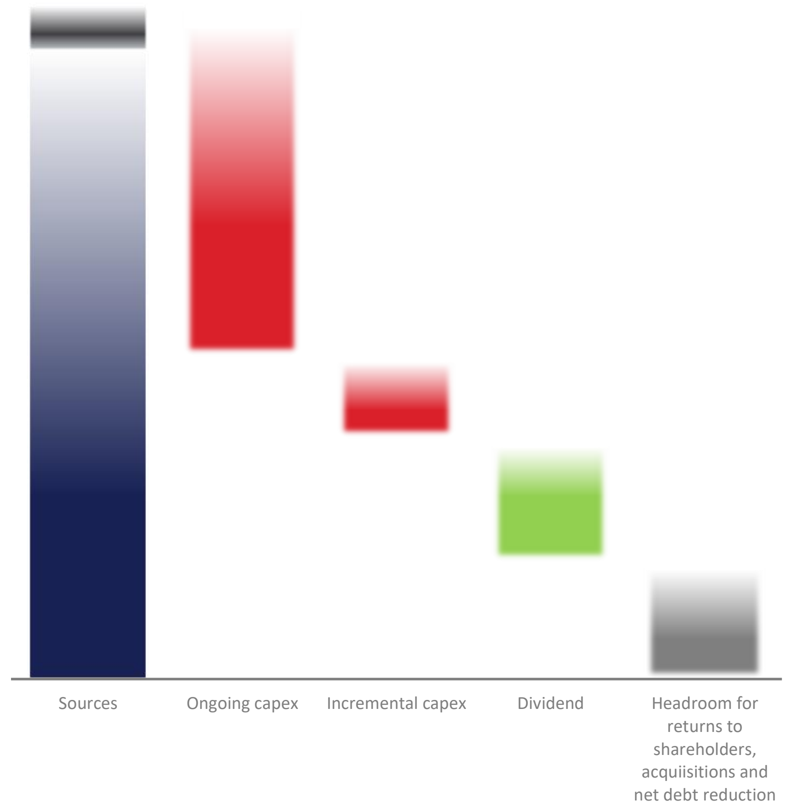
5 Capital prioritisation

Historical and future sources and uses of cash

Past 5 years



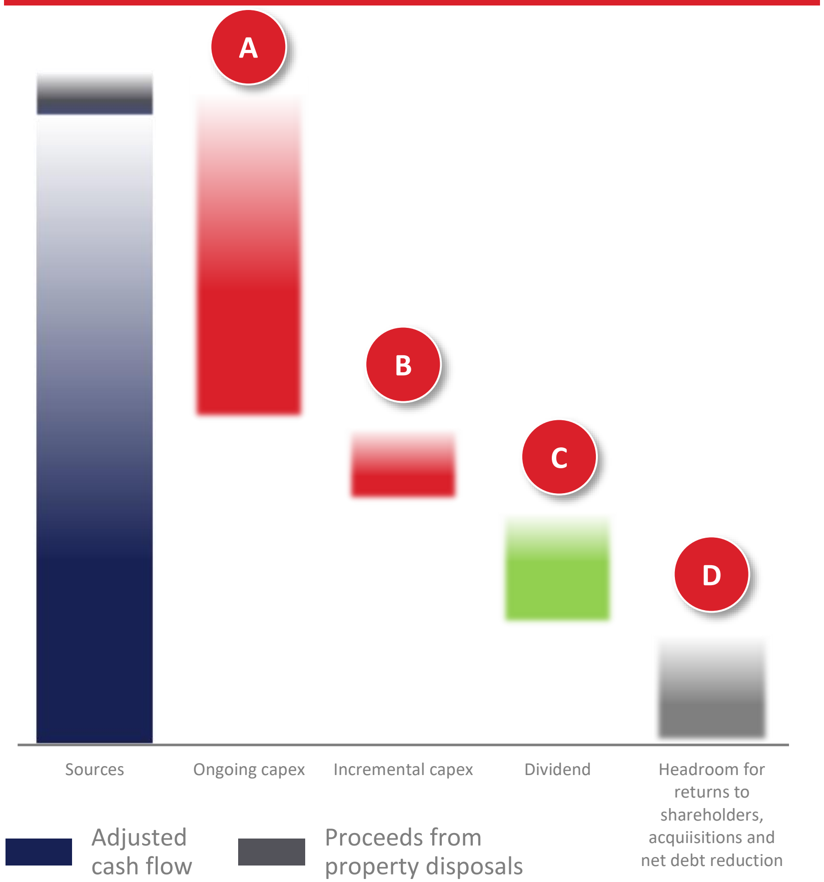
Next 5 years



5 Capital prioritisation

Future sources and uses of cash

Next 5 years



A Sustain existing businesses

- Ongoing capex broadly in line with historic levels of c.£400m p.a
- GLS capex in line with growth

B Incremental capex

- Cumulative incremental capex of £400-500m over period
  - Parcel Hubs
  - Automation
  - Data platforms

C Dividend

- Dividend to be covered by cumulative trading cashflow over 3 and 5 years
- 15p underpin

D Other

- Excess capital may be returned to shareholders when cash flows allow
- Selected bolt-on acquisitions in GLS

Group outlook summary

£m	2018-19	Short-term	2021-22 Ambition	2023-24 Ambition
Revenue	10,444	2-3% CAGR over 3 and 5 years		c.£12bn
Operating costs	(10,068)			
Adjusted operating profit[1]	**376**	**£300-340m**		
Adjusted operating profit margin	3.6%	Margin compression	>4%	>5%
Total capex	**364**	**Cumulative incremental capex of £400-500m**		
Dividend per share	**25p**	**15p underpin**		

[1] After transformation costs, comprising project costs and voluntary redundancy

Royal Mail plc

Summary

1	**UKPIL returned to revenue growth**	• UKPIL parcels revenue growth more than offsetting letters decline
2	**Contain UKPIL costs with productivity improvement**	• Cumulative productivity improvements of 15-18% over 5 years • Supported by substantial improvement in digital capability, methods and network redesign
3	**GLS continued profitable growth**	• Targeting c.€4.5bn revenue in 2023-24 • Targeting operating profit margin of 6-7%
4	**Group financial performance turnaround**	• 2-3% revenue CAGR over 3 and 5 years • Group operating margin[1] >4% in 2021-22 and >5% by 2023-24
5	**Capital prioritisation**	• Cumulative incremental capex of £400-500m over 5 years • 15p dividend underpin

[1] After transformation costs which will be distributed into people and non-people costs

Q&A

Strategy and Outlook, 2018-19 Results

Rico Back
Group CEO

Stuart Simpson
Group CFO and COO

Break

Resuming at 11:20

Agenda

Strategy and Outlook, 2018-19 Results		
09:30	Presentation Commences	
09:35	Video – Our History	
	Strategy Overview and 2018-19 Results Summary	**Rico Back** Group CEO
10:00	2018-19 Results and Financial Outlook	**Stuart Simpson** Group CFO and COO
10:30	Q&A	
11:05	*Break*	

UK Commercial		
11:20	Video – Letters	
	Letters	**Stephen Agar** MD Letters
11:40	Parcels	**Nick Landon** Chief Customer Officer
11:55	Q&A	
12:15	*Lunch*	

UK Operations		
12:55	Operations	**Stuart Simpson** Group CFO and COO; **Achim Dünnwald** Chief Strategy and Transformation Officer
13:15	People	**Sally Ashford** Chief HR Officer
13:30	Q&A	
13:50	*Break*	

GLS and Cross-border		
14:05	Video – GLS	
	GLS	**James Rietkerk** GLS CEO
14:45	Cross-border	**Saadi Al-Soudani** Group International MD
15:00	Q&A	

Summary		
15:20	Video – Our Future	
	Closing Remarks	**Rico Back** Group CEO
15:30	*Close*	

Video

Letters

Letters

Stephen Agar

MD Letters

Summary

1	**Letters are important to Royal Mail**	• Deliver nearly 100% of UK letters, visiting every address • Joint network supports parcel proposition
2	**Structural volume decline is broadly stable**	• The structural rate of e-substitution is broadly stable • Volume outlook is 5-7% decline in 2019-20 and 4-6% p.a. decline in the medium-term[1]
3	**We price for sustainable long-term revenue**	• Segmented pricing, by using elasticities to optimise yield • Regulatory and market headroom for future price change
4	**We support volume by proving the value of mail**	• Promoting, enabling and incentivising use of mail, to retain and stimulate demand • Integrating seamlessly with other media
5	**We use technologies to increase efficiency, protect revenue and add product features**	• Migrating volume onto Mailmark® barcodes • Process automation to improve account set up, billing, performance, analytics and revenue integrity

[1] Addressed letters excluding elections

1 Letters are important to Royal Mail

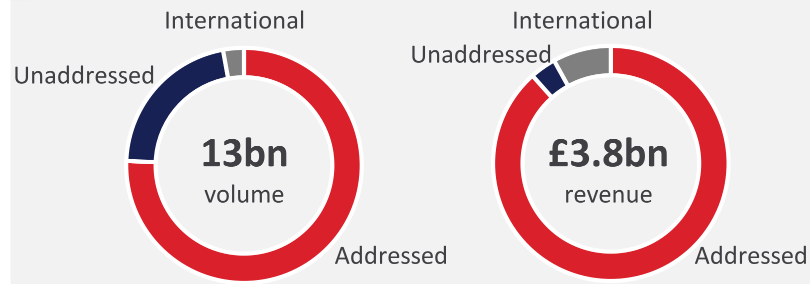
We deliver c.13bn letters, of which most are addressed

I Deliver c.13bn letters[1]

Universal service to over **30m addresses** in the UK, **6 days a week**

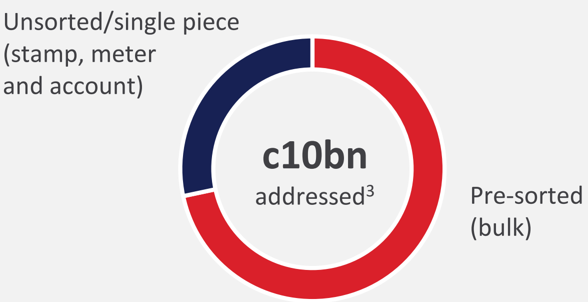
Supporting a **joint network** with parcels

II Addressed mail is the majority[2]



Addressed mail is **76% of volume** and **88% of revenue**

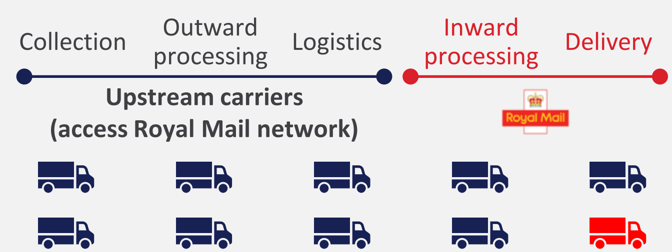
III Most addressed is pre-sorted



Over 70% of addressed mail enters our network pre-sorted by customers

IV Vast majority of pre-sorted is Access

Access is where other companies inject mail into our network at the Inward Processing point



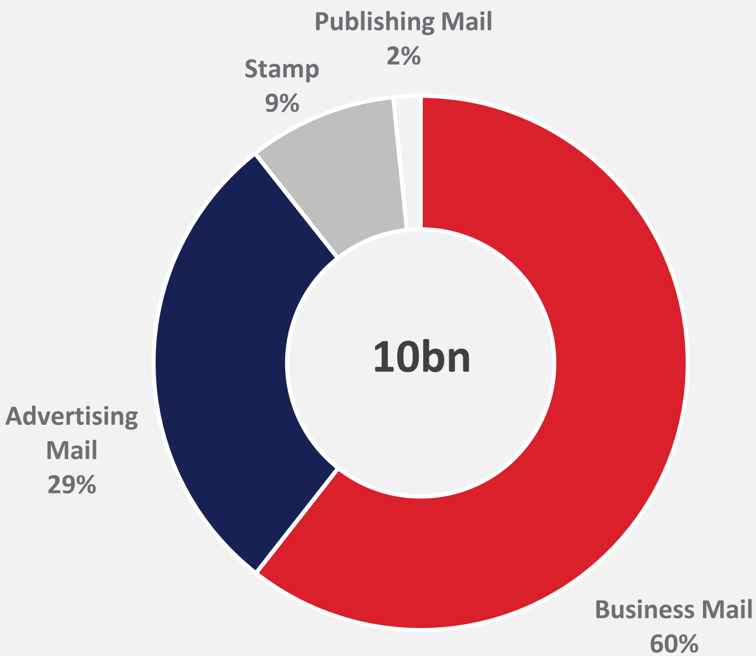
c.90% of pre-sorted (bulk) mail is received via Downstream Access

[1] Letter volume and revenue on new methodology
[2] Total excludes non volume related products
[3] Excludes International and Elections

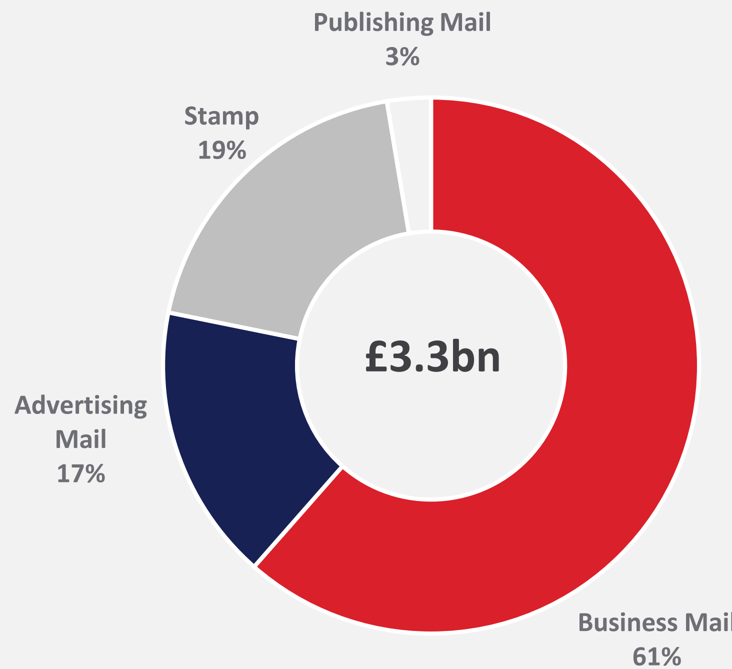
1 Letters are important to Royal Mail

Business mail accounts for a majority of addressed mail

Addressed mail, by product[1,2]



Volume



Revenue

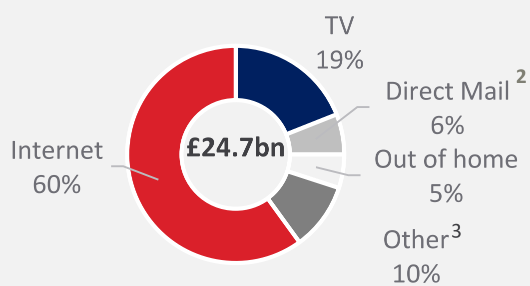
[1] Letter volume and revenue on new methodology
[2] Totals exclude Elections, International and non volume related products

2 Structural volume decline is broadly stable

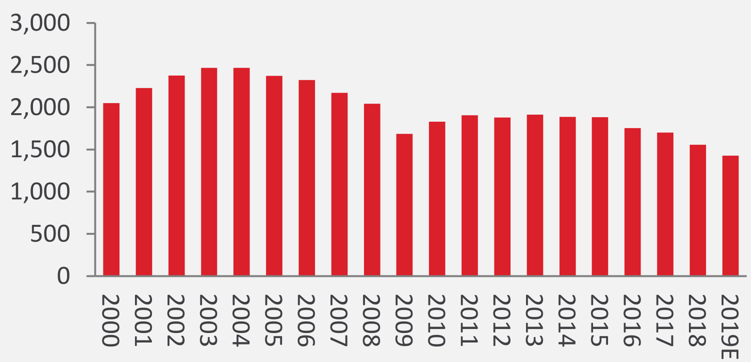
Advertising volume has been impacted by growth of digital media and GDPR

UK advertising market share by media[1]

2019 total market forecast[1]

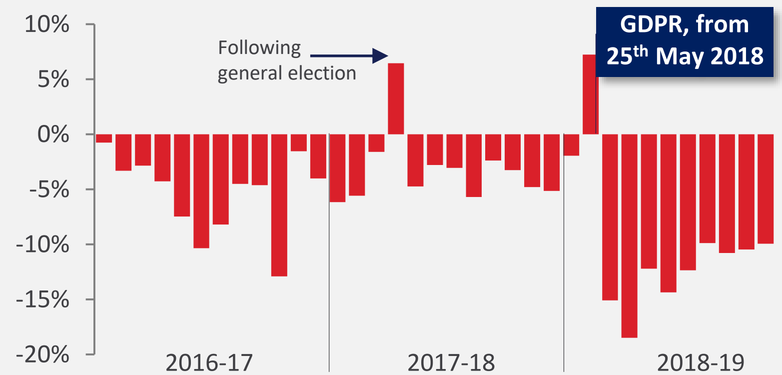


Direct mail market spend (£m)[4]



Recent trend – GDPR effect

Royal Mail Advertising Mail volume: monthly variance vs. prior year



- GDPR negatively impacted volumes in 2018-19
- Rate of decline has somewhat recovered in recent months
- Will take 12-18 months from introduction of GDPR to evaluate long-term impact

Customer feedback indicates that there is:

- A better understanding of GDPR
- Increasing confidence in the quality of 3rd party data
- Strong interest in our new Partially Addressed Product

All of which points to improving conditions from Q2 2019-20

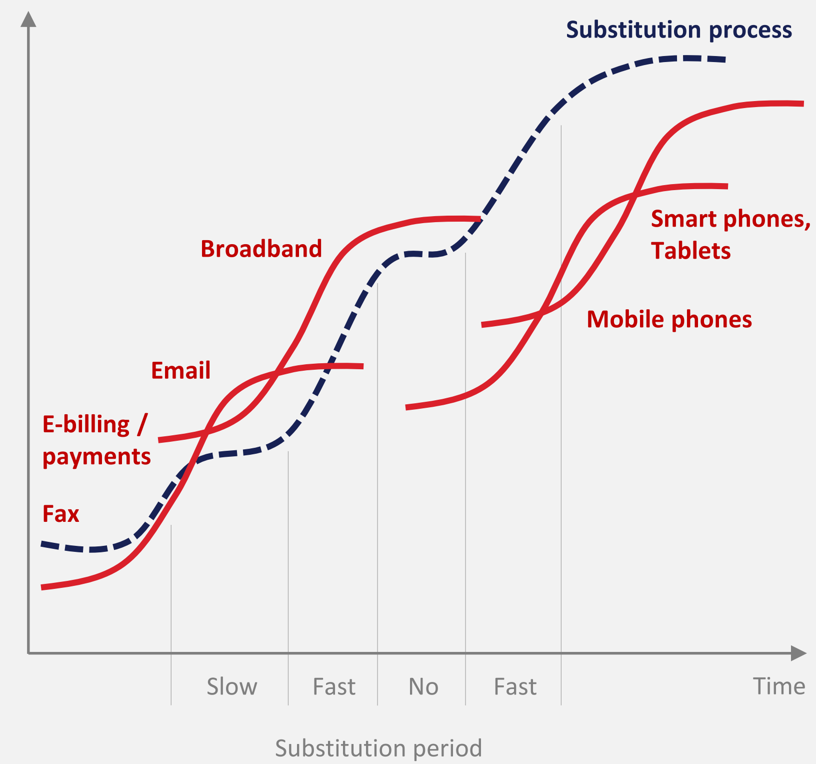
[1] Source: WARC [2] Direct mail excludes unaddressed [3] Other includes magazines, newsbrands, cinema and radio
[4] Source: WARC; includes production costs which Royal Mail does not receive

Structural volume decline is broadly stable

Technology has created a disconnect between GDP and letter volume

Technology wedge

E-substitution is an evolving process



[1] Data smoothed using rolling 2 year averages
[2] Letter volume growth is on old methodology

2 Structural volume decline is broadly stable

Our letter volume modelling accounts for e-substitution, GDP and other factors

Our medium-term volume assumptions[1]

E-substitution ~ -8.5% + **GDP** ~ +2.0% (lower in 2019-20) + **Households/ population** ~ + 1.0%

Market growth ~ -5.5% (calculated from above) + **Pricing & Other Commercial initiatives** ~ +0.5% = **4-6% decline** +/- **Events** *Outside of medium-term guidance*

Our outlook is for 5-7% decline in letter volume in 2019-20 (due to economic uncertainty and GDPR)

Findings from PwC market study into UK domestic letter volume

- "Our letters forecast suggests that the underlying long term rate of volume decline will revert to ~4-6% p.a. by 2021"
- "However, in the short term (2019 and 2020) we forecast a faster rate of decline of ~6-8% p.a., driven by specific events (impact of GDPR and economic uncertainty)"
- From 2023-28 PwC forecasts an annual decline over the period of 4%, trending down to 3.6% in 2027 and 3.3% in 2028

[1] Addressed letters excluding elections

3 We price for sustainable revenue

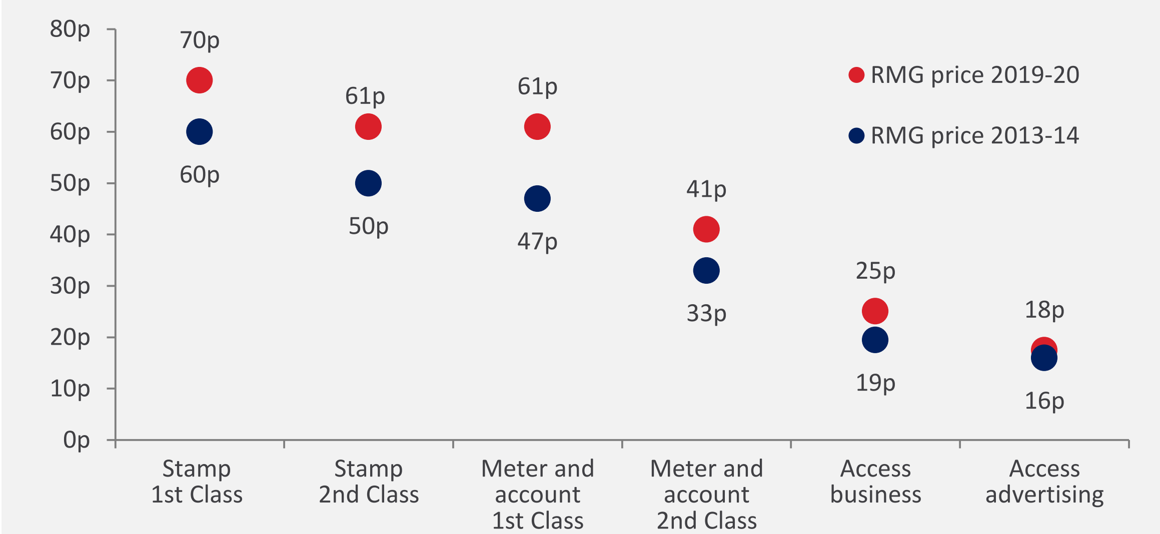
Market drivers vary across products and sectors

		Key volume drivers	Gearing to GDP	Price elasticity
Business	Financial services	• Regulatory interventions • Brands promoting digital engagement • Sender demand for paperless communications versus recipient preferences for paper communications	M	L
Business	Public sector	• 'Digital by Default' • Budget pressure • Citizen preferences and senders expected response	L	L
Business	Utility & telco	• Regulatory requirements • Growth of marketplaces • Consumer attitudes	M	L
Business	SME	• Marketing expertise and time constraints • Perception of mail vs. digital • Social media plays into local markets well	M	M
Marketing		• Digital media growth • Opening up the Agency Channel for mail • Proving commercial value of mail	H	H
Publishing		• Brand commitment to subscriptions • Ability to monetise digital content • Advertising revenue vs. reader revenue	L	M
Social		• E-substitution for key moments for mail • Online form submissions and payments • Availability and awareness of stamp sales	L	M

3 We price for sustainable revenue

We have a segmented pricing strategy

Prices of key domestic addressed letter products[1], 2019-20 vs. 2013-14



	Stamp 1st Class	Stamp 2nd Class	Meter and account 1st Class	Meter and account 2nd Class	Access business	Access advertising
6-year price CAGR	2.6%	3.4%	4.4%	3.7%	4.3%	1.5%
1-year price CAGR	4.5%	5.2%	7.0%	5.1%	9.0%	2.2%
2018-19 revenue	c.£650m		c.£900m		c.£1,500m	

- Balanced approach to adjusting prices, recognising revenue opportunities while ensuring we do not drive volume out in the long-term
- Business mail prices (lower elasticity) increasing more than those for advertising mail

[1] Prices for products up to 100g

4 We support volume by proving the value of mail

Proving, promoting, enabling and incentivising

Prove commercial value of mail
- Research proving mail is a highly effective medium
- Reach and frequency metrics

Promote value to target segments
- Enabling agencies to trade mail
- Proactive relationships with mail supply chain partners

Enable customers to realise value
- Practical guides and training programmes
- Mail on marketing automation platforms

Incentivise customers to act
- Portfolio of incentives and offers

Extended product offering for specific segments

For **advertisers**
- Partially Addressed Product
- Unaddressed Mail Late Booking

For **publishers**
- Magazine subscription product, based on Mailmark®

For the **public sector**
- New options for poll card distribution

For **bulk mailers**
- Reduced sortation levels

5 Using technologies

We are increasing efficiency, protecting revenue and adding product features

Barcoding journey

2014
Bulk letters

Metered mail
2015

2017
Unsorted account

Large Letters Polywrap
2018

- Migrating volume onto Mailmark® barcodes since 2014
  - 68% of addressed mail is barcoded[1]
- Mailmark contains much more information than an address
- Enables item level billing based on what is seen in the network rather than sampling
- Customers enjoy improved visibility of their mail
- Barcoding supports revenue protection

Enables Process Automation

Forecasting
Customer data to help network resourcing

Network Performance
Understanding challenges in the pipeline, and making quicker interventions

Performance Data
Web based services to improve insight flows to customers

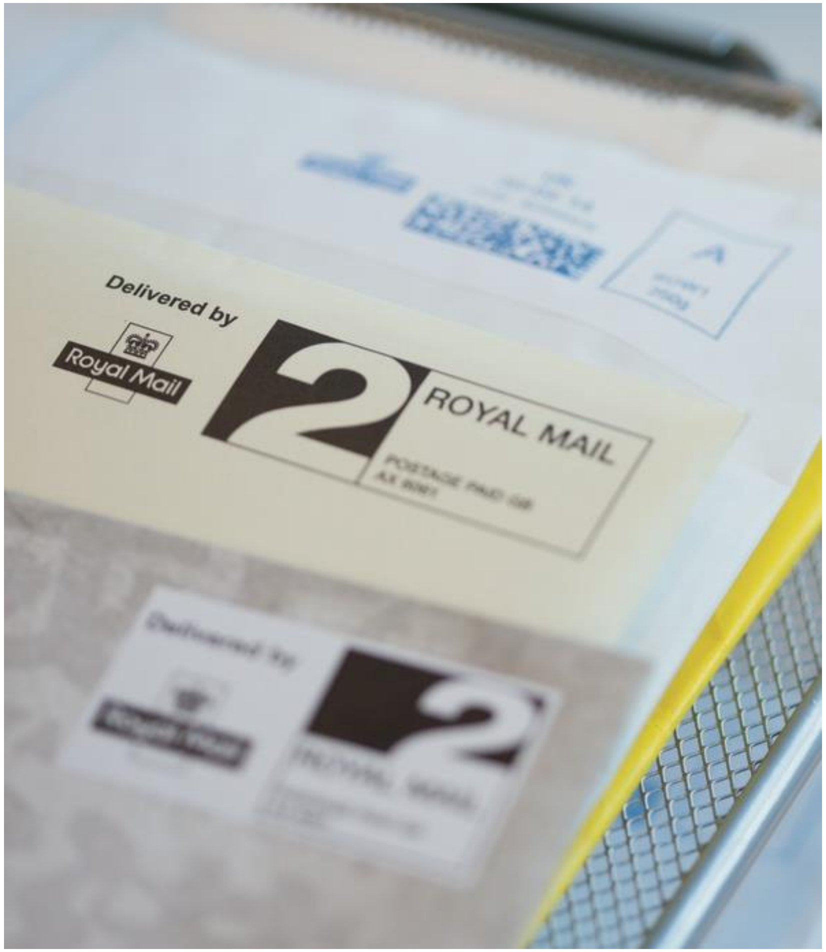
Billing Revenue Protection
Improved accuracy and speed of billing

Incentive Credits
Reducing process time and improving accuracy of rebates

[1] Excludes stamped items with Special Delivery and Recorded Signed For

Summary

1. Letters are important to Royal Mail
2. Structural volume decline is broadly stable
3. We price for sustainable long-term revenue
4. We support volume by proving the value of mail
5. We use technologies to increase efficiency, protect revenue and add product features



UK Parcels

Nick Landon
Chief Customer Officer

Summary

1 No. 1 parcel carrier	• We have over half of our addressable market (51% of volume)
2 A growing market	• The addressable market is forecast to grow at 4-5% p.a.
3 Growing domestic market share	• We are growing share by targeting fast growing sectors to generate above 5% CAGR over 5 years
4 Innovating with customer-led investments	• We are developing features that customers want
5 A clear plan moving forward	• Adding features, reducing cost and increasing network speed to maximise profit

1 No. 1 parcel carrier

On our busiest day[1] this year we handled approximately

9m parcels

For the whole of 2018-19[2] in the UK we handled

1.3bn parcels

Laid end-to-end, they would form a line

over 400,000km long

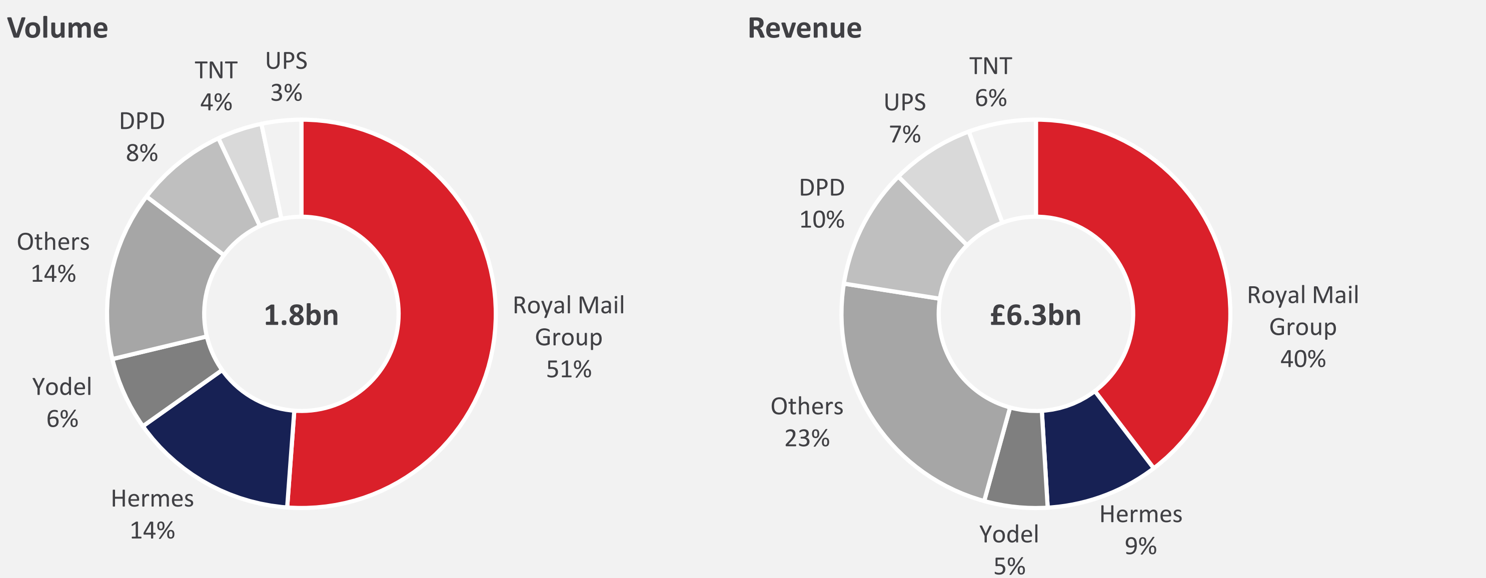
and reach

from the Earth to the Moon

[1] Total parcels handled by UKPIL on 13 December 2018
[2] UKPIL parcels volumes ((including international) based on new methodology

1 No. 1 parcel carrier

Addressable UK domestic parcel market – 2017



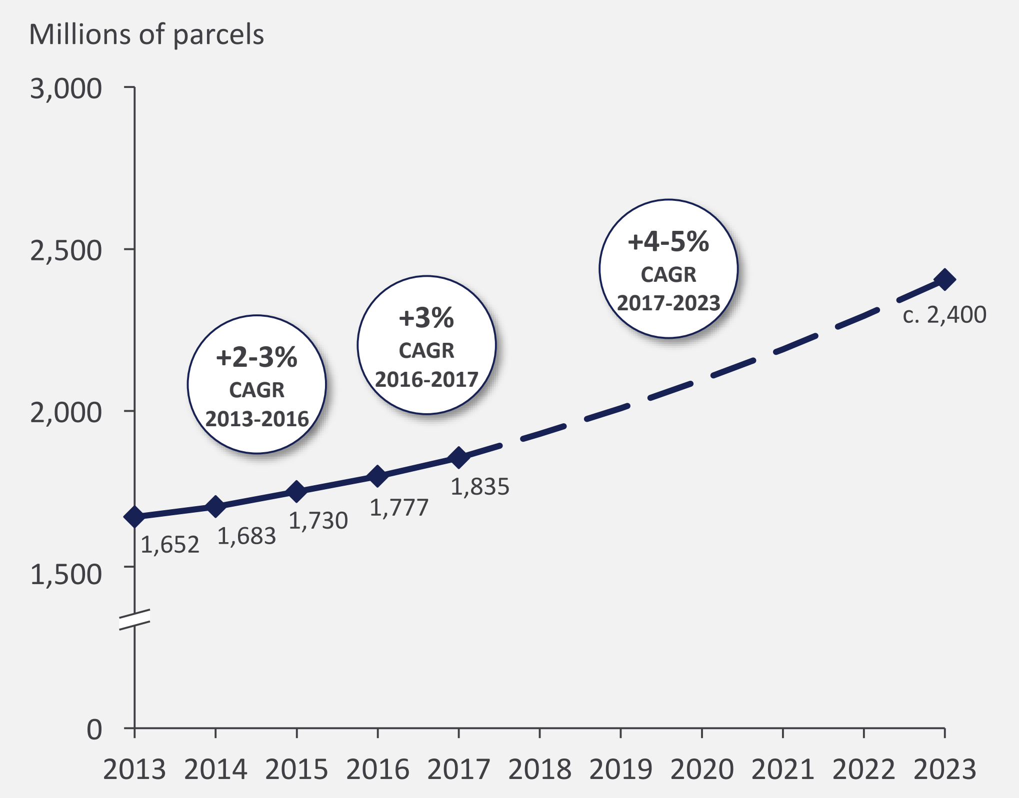
- Our market share has been resilient through a period of significant market change
- Our ‘value for money’ proposition matches requirements of c.70% of the market
- We aim for the best overall combination of quality, service attributes and price
- Excess market capacity will restrict price rises so our focus is on volume growth and cost

Source: internal estimate based on Triangle / RMG UK Fulfilment Market Measure 2017. Addressable market defined as individually addressed parcels and packets, generated and delivered in the UK, weighing up to 30kg, that do not require special handling. Includes access parcels and excludes click-and-collect, same-day, small local operators and all international traffic. Excludes Amazon Logistics and other retailers own-delivery networks. Royal Mail Group share calculated using new methodology

2 A growing market

The addressable market is forecast to grow at 4-5% p.a.

Addressable UK domestic parcel market volume



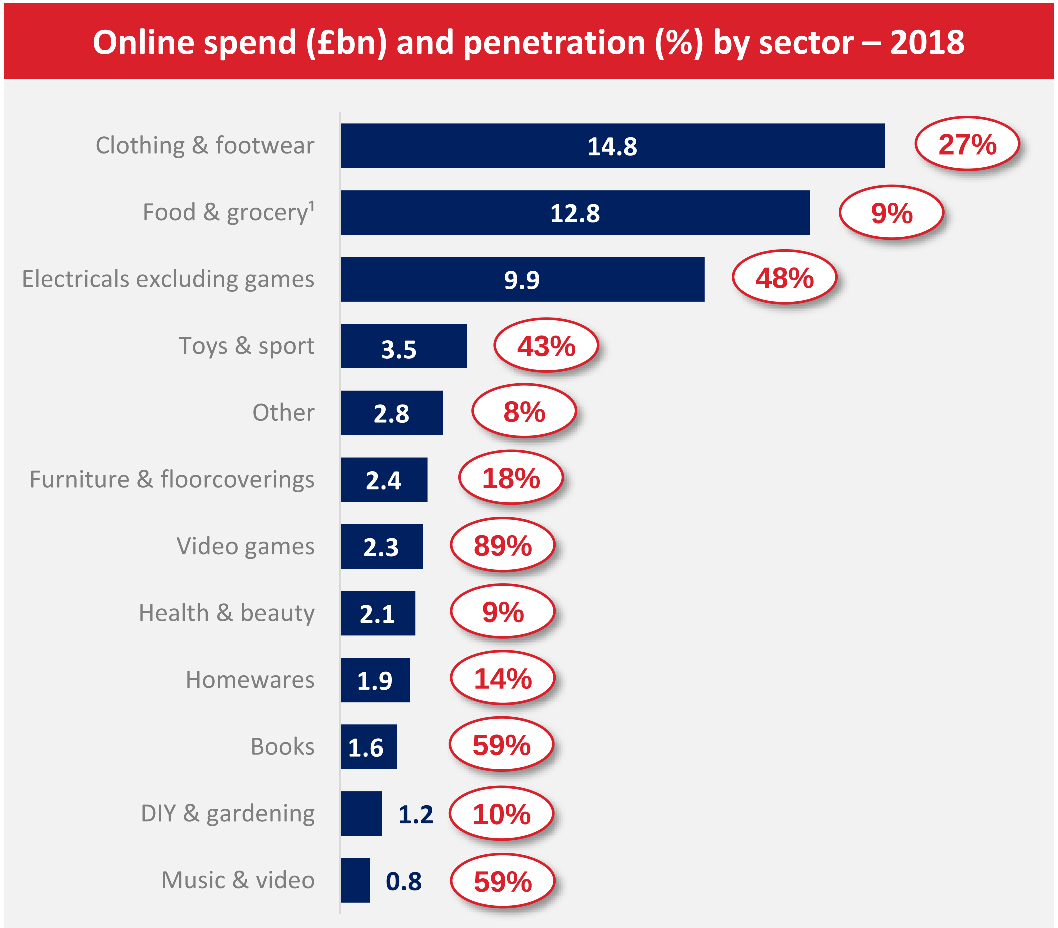
Market growth factors

- E-commerce continues to drive market growth
- Online sales have been very resilient even when the economy has been impacted by external factors
- Key retail sectors underpin growth
- Significant further runway for e-commerce growth
- Strong growth in letterboxable items expected to continue

Source: Triangle / RMG UK Fulfilment Market Measure; RMG analysis. Royal Mail numbers estimated using new methodology

2 A growing market

We are targeting and winning important growing sectors and customers

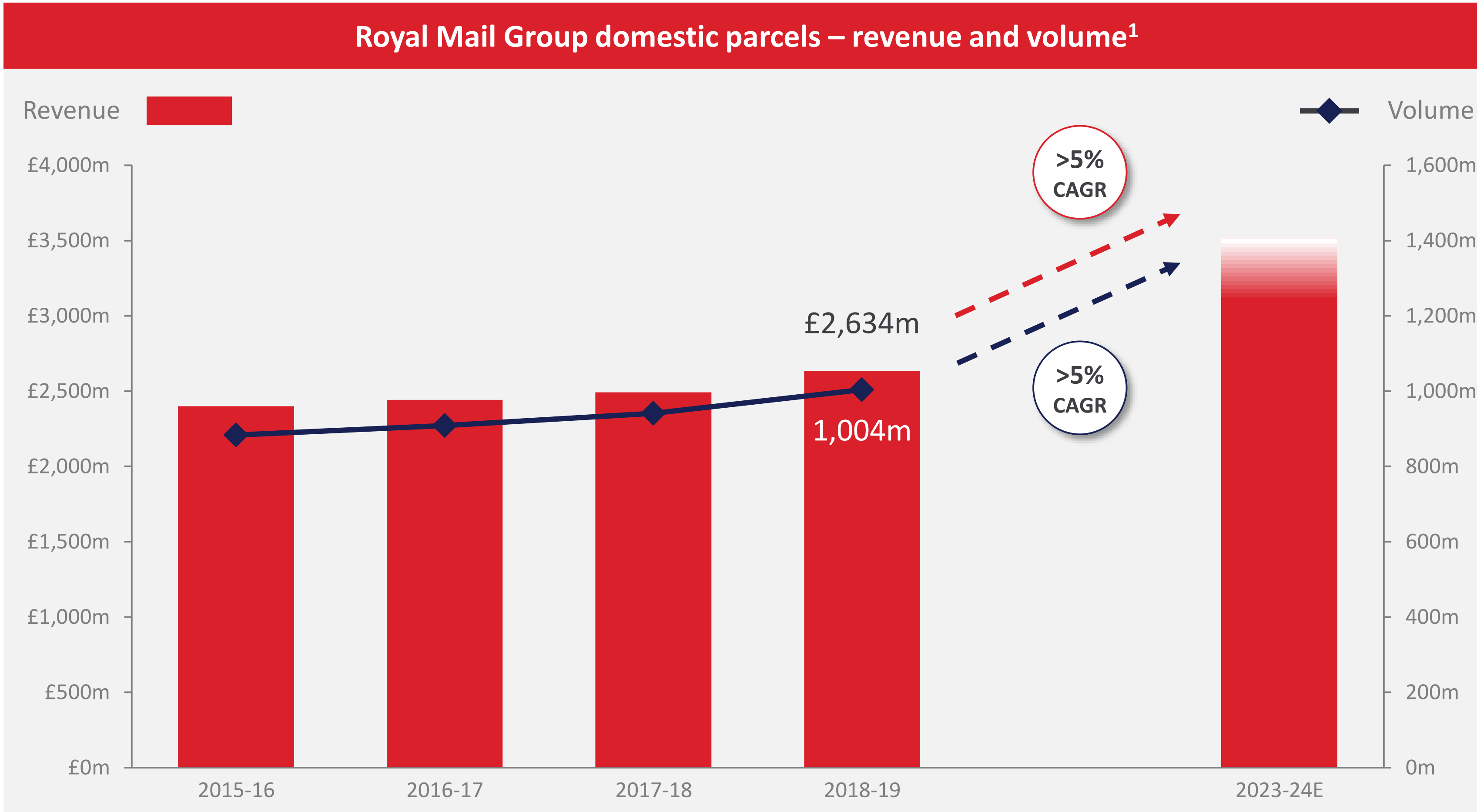


- Non-food online spend represents just 24% of total non-food retail
- 5G should boost growth and online switching further
- We continue to target the top 1,000 retailers to grow our share of the market
- Winning customers growing faster than the market supports our growth
- As does a focus on growing and large sectors
- And our work with key marketplaces

Source: GlobalData, E-retail in the UK (2018)
[1] Includes supermarket deliveries

3 Growing domestic market share

We expect to outpace addressable market growth over the next five years



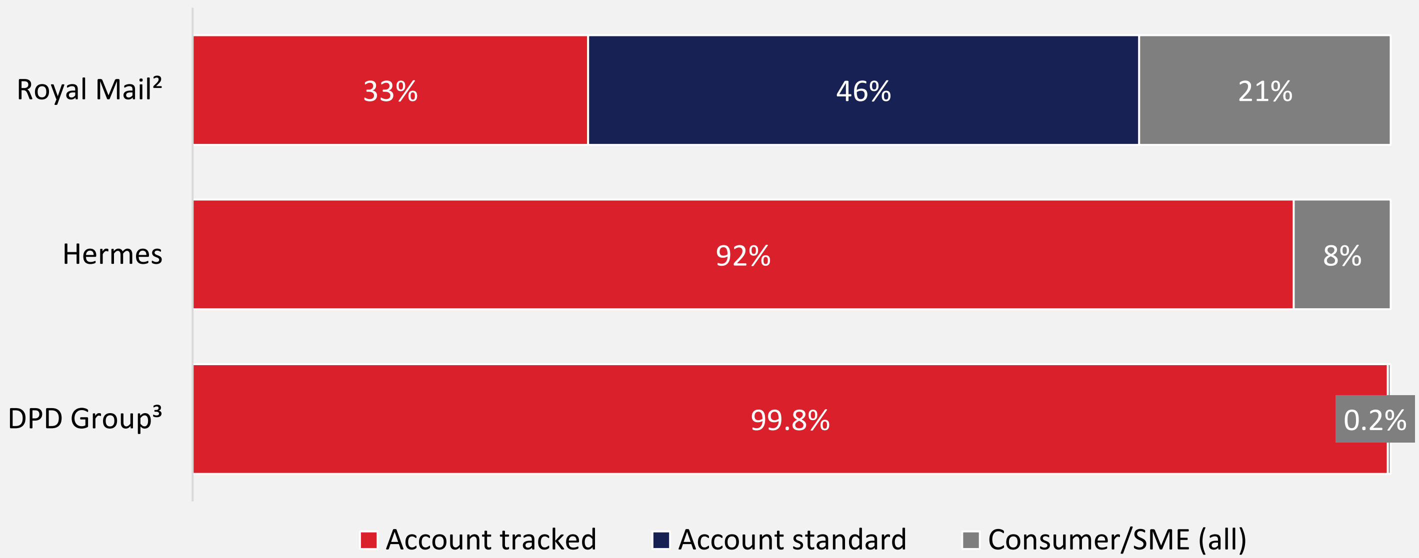
[1] Royal Mail and Parcelforce Worldwide domestic parcels. Royal Mail numbers estimated using new methodology

3 Growing domestic market share

As our mix changes it supports future growth

- Tracked is our growth engine and is growing faster than the market
- As it progressively increases its proportion of our mix it provides a growth tailwind

2018-19 domestic parcel volume – estimated traffic split by segment[1]



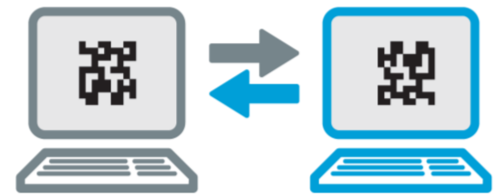
Growth, 2017-18 – 2018-19	Account tracked	Account standard	Consumer/SME (all)
Market[4]	+8%	+2%	+1%
Royal Mail	+23%	+2%	0%

[1] Source: Triangle/RMG UK Fulfilment Market Measure (2018). [2] Royal Mail excludes Access and Parcelforce Worldwide
[3] DPD Group includes DPD and DPD Local (formerly Interlink). [4] Management estimate

4 Innovating with customer-led investments

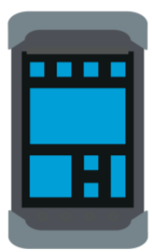
To support this we invested in our technology and processing infrastructure

Built the **UK's largest parcel tracking** system and are now using this for all the parcels scanned in our network

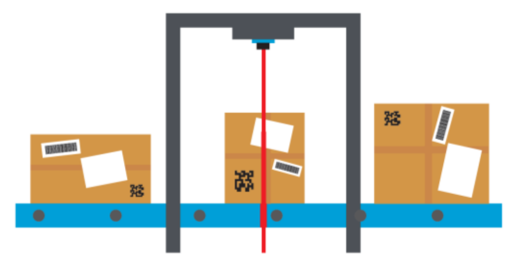


Built our own 'in-house' shipping systems to generate 2D barcodes

Barcoding more parcels



Rolled out **80,000 PDAs**, the largest PDA estate in the UK

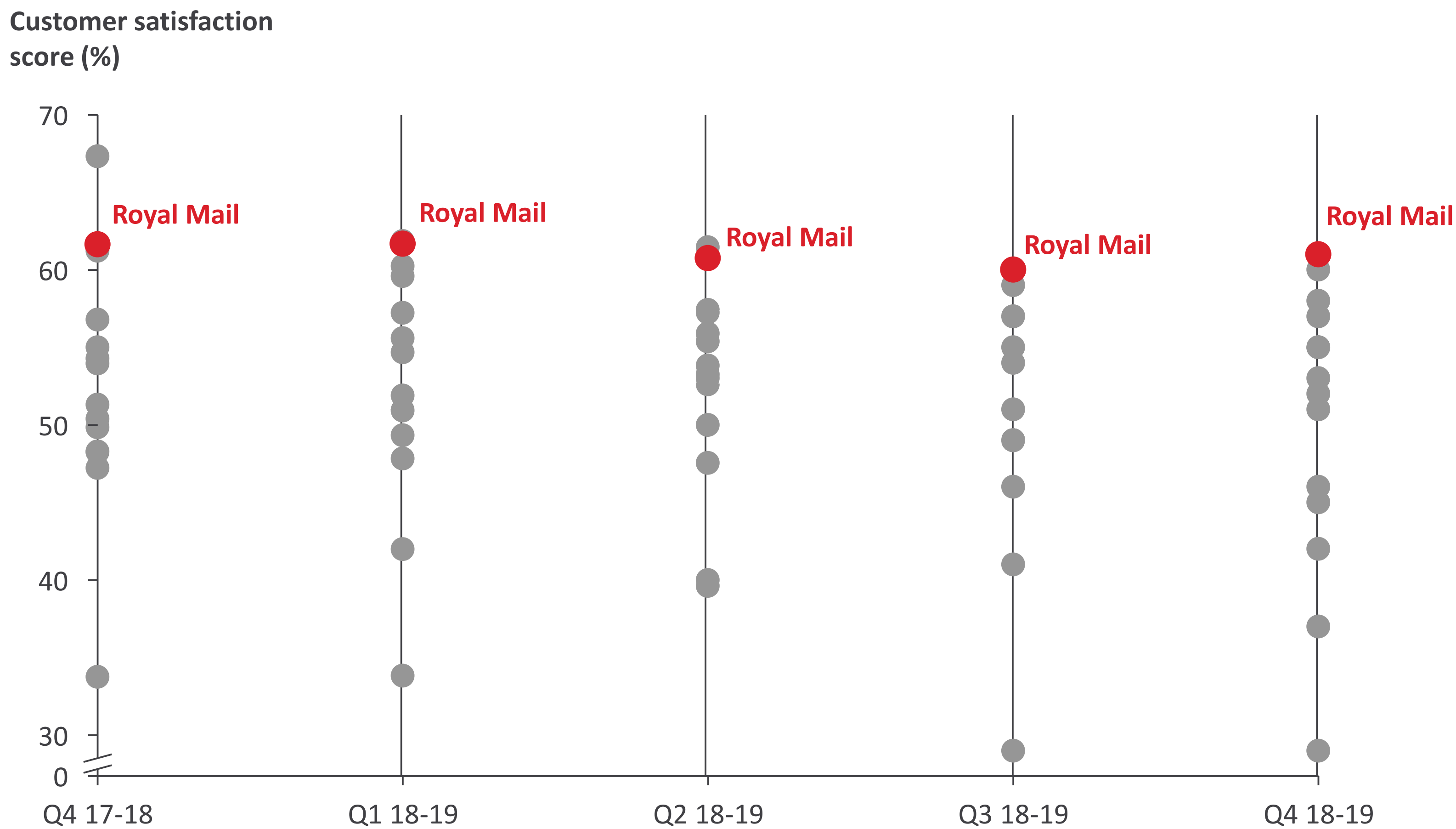


10 small parcel sorting machines, sorting 12% of our parcels[1], with 30 more machines in plan

[1] 2018-19

4 Innovating with customer-led investments

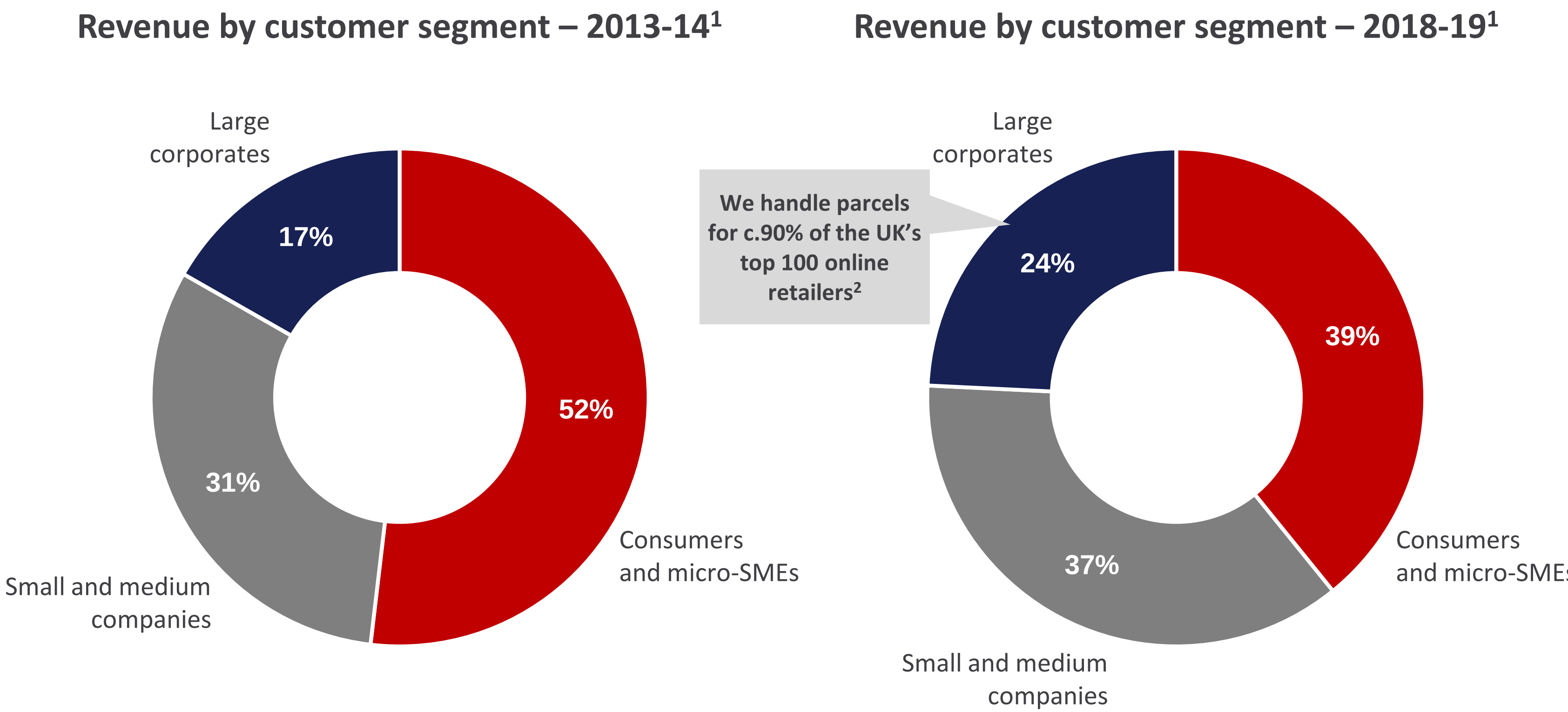
As a result our customers consistently rate us above our key competitors



Source: Royal Mail Group / Illuminas, Business Customer Satisfaction Survey, Q4 2018-19

4 Innovating with customer-led investments

Our activities have driven a change in customer mix that supports growth



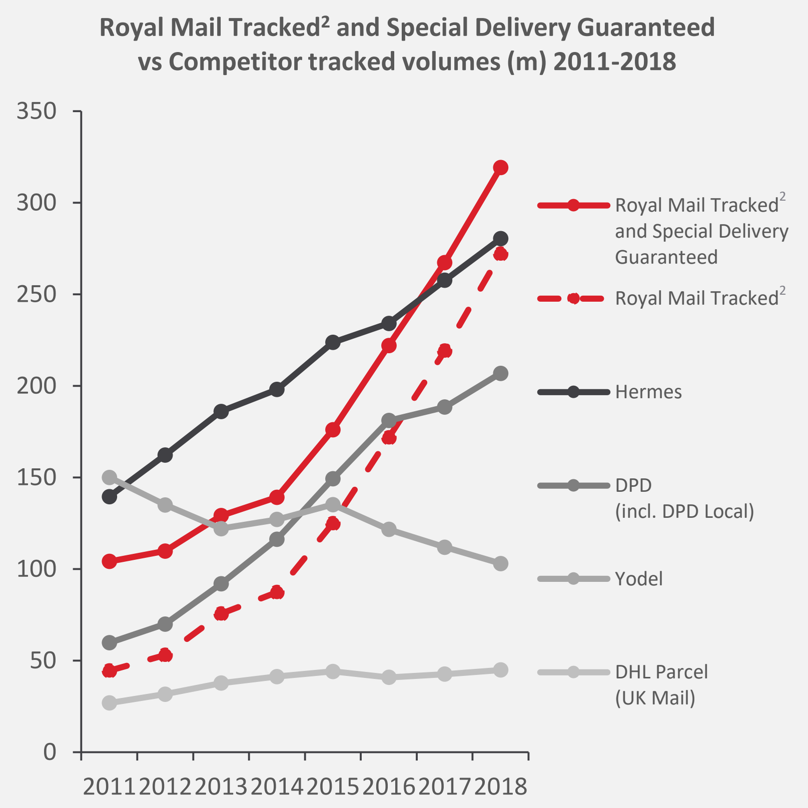
We expect this customer mix change to continue, underpinning our future growth

[1] Based on sales data, excluding Parcelforce Worldwide, RM International, RM Specialist Services and Network Access. Figures calculated using new methodology [2] Based on GlobalData Top 100 Online Sellers by Revenue (2017) and analysis of sales data

4 Innovating with customer-led investments

And we are winning in a highly competitive market

Like-for-like volume[1]



No.1

Highest customer satisfaction[3]

Ahead of all competitors in latest customer satisfaction survey

75%

Most trusted delivery provider[4]

More people trust Royal Mail to deliver their online purchases than any other carrier

Nearest competitor is at 45%

72%

Most trusted alternative delivery location[4]

Post Offices are convenient and trusted

No other parcel shops or locker bank networks are in the Top 5 choices

[1] Internal estimate based on Triangle / RMG UK Fulfilment Market Measure. 2018 figures are estimates based on 2017 financial reports. [2] Includes Royal Mail Tracked 24®, Royal Mail Tracked 48® and Royal Mail Tracked Returns®, 2018 adjusted for 52 weeks. [3] Illuminas / RMG Business Customer Satisfaction Survey, Q4 2018/19. [4] Delivery Matters 2018 UK Report

5 A clear plan moving forward

Building on recent innovations to keep us the No. 1 choice for shippers

We have already achieved

Accepting parcels up to 1:30am for delivery the same day

Accepting and processing parcels 7 days a week

Branded tracking notifications

Cutting edge shipping systems

Closely integrated with major e-commerce platforms

Our plans for the next 5 years

Ensuring our services let merchants meet marketplace requirements

Deliveries to locker banks

Rollout of Parcel Posting Boxes

ID verification on delivery/collection

Enhanced customer reporting

5 A clear plan moving forward

Making deliveries and returns more convenient for recipients

We have already achieved	Our plans for the next 5 years
Estimated delivery windows	In-flight redirections
Tracking updates through Alexa	Predicted day of delivery and shorter delivery windows
Safeplace images and Delivery to Neighbour notifications	Continuous innovation on the Royal Mail app and voice channels
Label-less returns in Post Offices and Customer Service Points	Doorstep collections
Online Returns Portal	Automated self-service at Customer Service Points

Summary

1. No. 1 parcel carrier
2. A growing market
3. Growing domestic market share
4. Innovating with customer-led investments
5. A clear plan moving forward

Q&A
UK Commercial

Stephen Agar
MD Letters

Nick Landon
Chief Customer Officer

Lunch

Resuming at 12:55

Agenda

Strategy and Outlook, 2018-19 Results

09:30	Presentation Commences	
09:35	Video – Our History	
	Strategy Overview and 2018-19 Results Summary	**Rico Back** Group CEO
10:00	2018-19 Results and Financial Outlook	**Stuart Simpson** Group CFO and COO
10:30	Q&A	
11:05	*Break*	

UK Commercial

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UK Operations

12:55	Operations	 **Stuart Simpson** Group CFO and COO  **Achim Dünnwald** Chief Strategy and Transformation Officer
13:15	People	 **Sally Ashford** Chief HR Officer
13:30	Q&A	
13:50	*Break*	

GLS and Cross-border

14:05	Video – GLS	
	GLS	**James Rietkerk** GLS CEO
14:45	Cross-border	**Saadi Al-Soudani** Group International MD
15:00	Q&A	

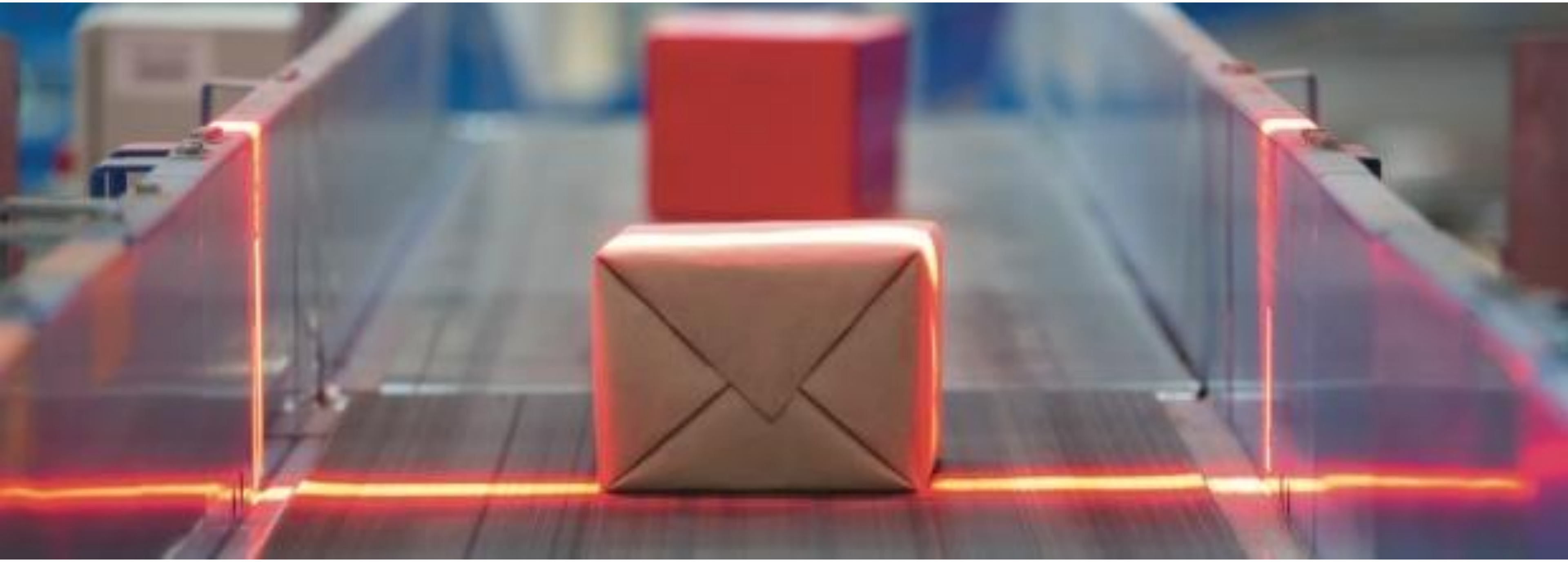
Summary

15:20	Video – Our Future	
	Closing Remarks	**Rico Back** Group CEO
15:30	*Close*	

Operations

Stuart Simpson
Group CFO and COO

Achim Dünnwald
Chief Strategy and Transformation Officer



Summary

1 Competitive network, big challenges

- Largest UK delivery network for letters and parcels
- Limited change activity since 2015

2 Turnaround journey launched

- Operations reorganised
- Improving existing processes

3 Redesigning network around parcels

- Complete small parcel sorting machine roll out in Mail Centres
- Build 3 new automated Parcel Hubs
- Launch dedicated van delivery for larger parcels

4 Productivity improvement of 15-18% over 5 years

- Returning to >2% productivity improvement in 2019-20, accelerating from 2020-21 onwards

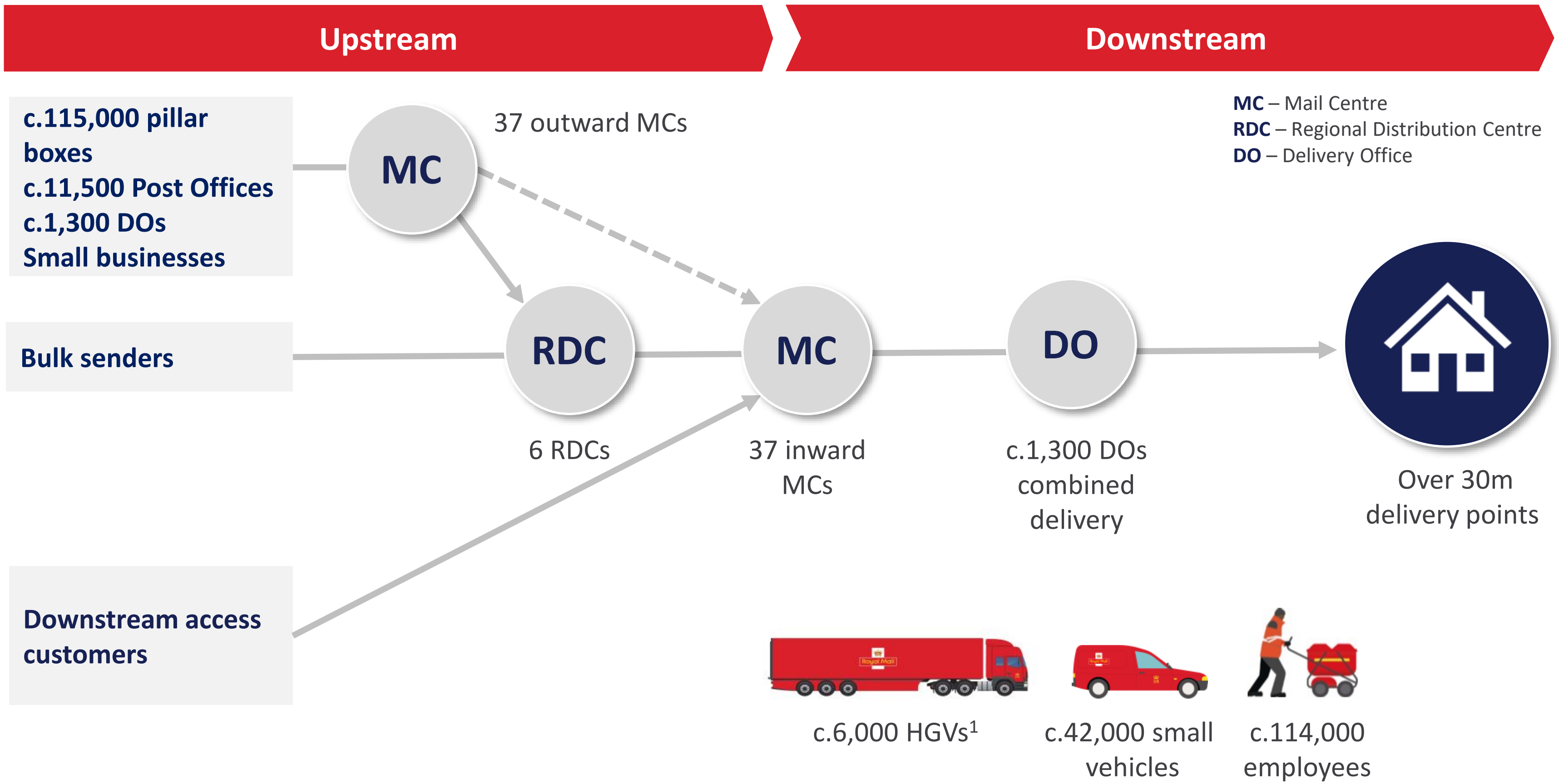
5 Deployment over 3 horizons

- 2018 to 2020: lay foundations and improve performance
- 2020 to 2023: build our redesigned network
- 2023 and beyond: roll-out and run the redesigned network

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

1 Competitive network, big challenges

Largest UK delivery network, delivering to over 30m delivery points, 6 days per week

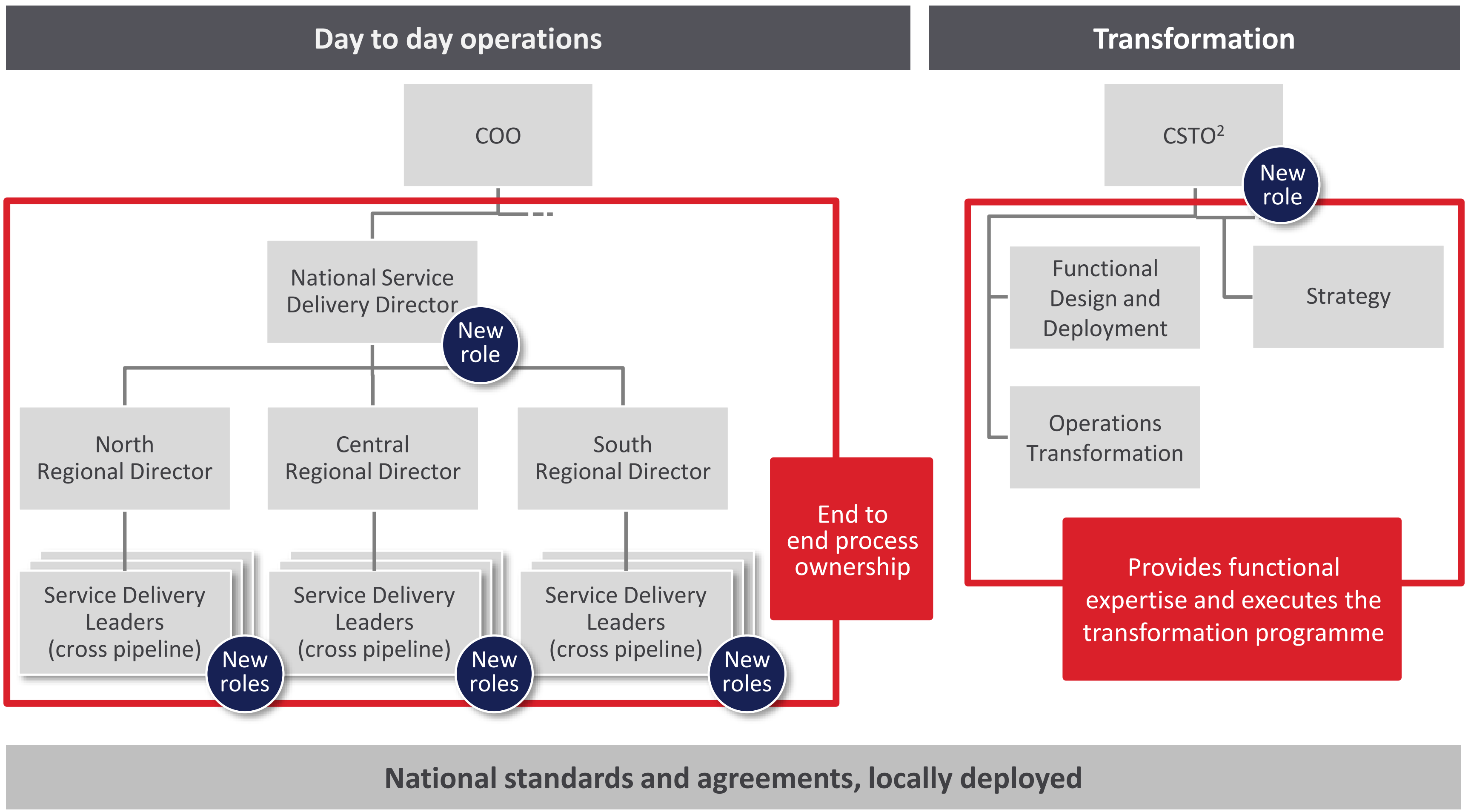


Limited change activity since 2015

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] Number of HGVs including trailers

2 Turnaround journey launched

We have reorganised operations[1]



Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] The diagrams shown are simplified from the full organisation chart; [2] Chief Strategy and Transformation Officer

2 Turnaround journey launched

Improving existing processes and redesigning our network, supported by digital transformation

Improving existing processes

- **A** Restore 1C quality of service
- **B** Remove unnecessary work
- **C** Resource closer to demand
- **D** Get paid for everything we do

Redesigning network around parcels

- **I** Complete small parcel sorting machine roll out in Mail Centres
- **II** Build 3 new automated Parcel Hubs
- **III** Launch dedicated van delivery for larger parcels

Digital transformation supporting the change

Cumulative productivity improvement over 5 years of 15-18%

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

2 Turnaround journey launched

Functional programme to improve existing processes

Selected initiatives

	Delivery	Processing
A Restore 1C quality of service	• **Collect and deliver to time**	• **Move all work to time**
B Remove unnecessary work	• Improve delivery preparation methods	• Improve Mail Centre flow and layouts
C Resource closer to demand	• Match resourcing closer to demand	• Track work hours automatically
D Get paid for everything we do	• Ensure 100% scanning on delivery of barcoded parcels	• Strengthen revenue integrity through barcoding

RM Tracked and Special Delivery quality of service above 97% for last year and continued improvement into this year[1]

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] Target: 97% (2018-19), 97.5% (2019-20), excludes peak period (weeks 36 – 40)

2 Turnaround journey launched

Functional programme to improve existing processes

	Selected initiatives: Delivery	Selected initiatives: Processing
A Restore 1C quality of service	• Collect and deliver to time	• Move all work to time
B **Remove unnecessary work**	• **Improve delivery preparation methods**	• **Improve Mail Centre flow and layouts**
C Resource closer to demand	• Match resourcing closer to demand	• Track work hours automatically
D Get paid for everything we do	• Ensure 100% scanning on delivery of barcoded parcels	• Strengthen revenue integrity through barcoding

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

2 Turnaround journey launched

B Processing: Improving Mail Centre flow and layouts

Reconfiguring a typical Mail Centre towards processing parcels

	Current	Future
Layout of Mail Centre	• Evolved through incremental changes - sub-optimal flows	• Designed to minimise movement of work and optimise flow
Movement of mail	• Manual	• Automated e.g., Automated Guided Vehicles
Letter sorting machines	• 4-6	• <4-6, consolidate and reduce based on lower volumes
Large letter sorting machines	• 1	• 1
Parcels processes	• Manual	• Automated sorting systems

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

2 Turnaround journey launched

Functional programme to improve existing processes

	Selected initiatives: Delivery	Selected initiatives: Processing
A Restore 1C quality of service	• Collect and deliver to time	• Move all work to time
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D Get paid for everything we do	• **Ensure 100% scanning on delivery of barcoded parcels**	• **Strengthen revenue integrity through barcoding**

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

2 Turnaround journey launched

Enabling improved resourcing and revenue integrity with digital transformation

Initiatives enabled by technology	Digital transformation
C Resource closer to demand	Capture hours worked automatically, improve planning and schedule resources to demand
	Employ predictive analytics to forecast demand and improve planning
D Get paid for everything we do	Expand bill on scan for payment, and support revenue integrity with advanced analytics

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

3 Redesigning network around parcels

Network review identified changes to improve efficiency and meet customer expectations

Rationale for redesigning network around parcels

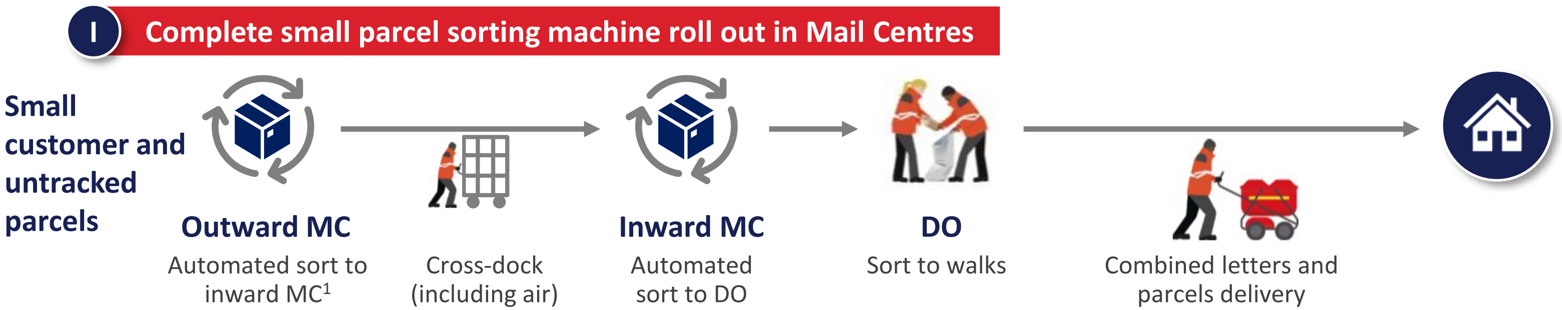
Conclusions of network review	Implications for future network design
High efficiency where parcels and letters combined, but joint delivery not optimal for larger and Latest Acceptance Time parcels	Keep joint delivery where possible, dedicated van delivery for larger and Latest Acceptance Time parcels
Limited capacity for parcel growth (e.g. space requirements, cost structure)	Create infrastructure/sorting capacity to underpin parcels growth
Upstream inefficient as a result of multiple, manual sorts	Sort parcels automatically and eliminate inward sort (“hub2DO”)
Pipeline setup restricts capacity for next day and Latest Acceptance Time products	“Shorten” the value chain to grow next day and Latest Acceptance Time products

Main benefits: Significantly reduced upstream production cost and incremental operating profit from additional volume

Note: Royal Mail Parcels, excluding Royal Mail International and Parcelforce Worldwide.

3 Redesigning network around parcels

We will move to a largely automated processes for parcels

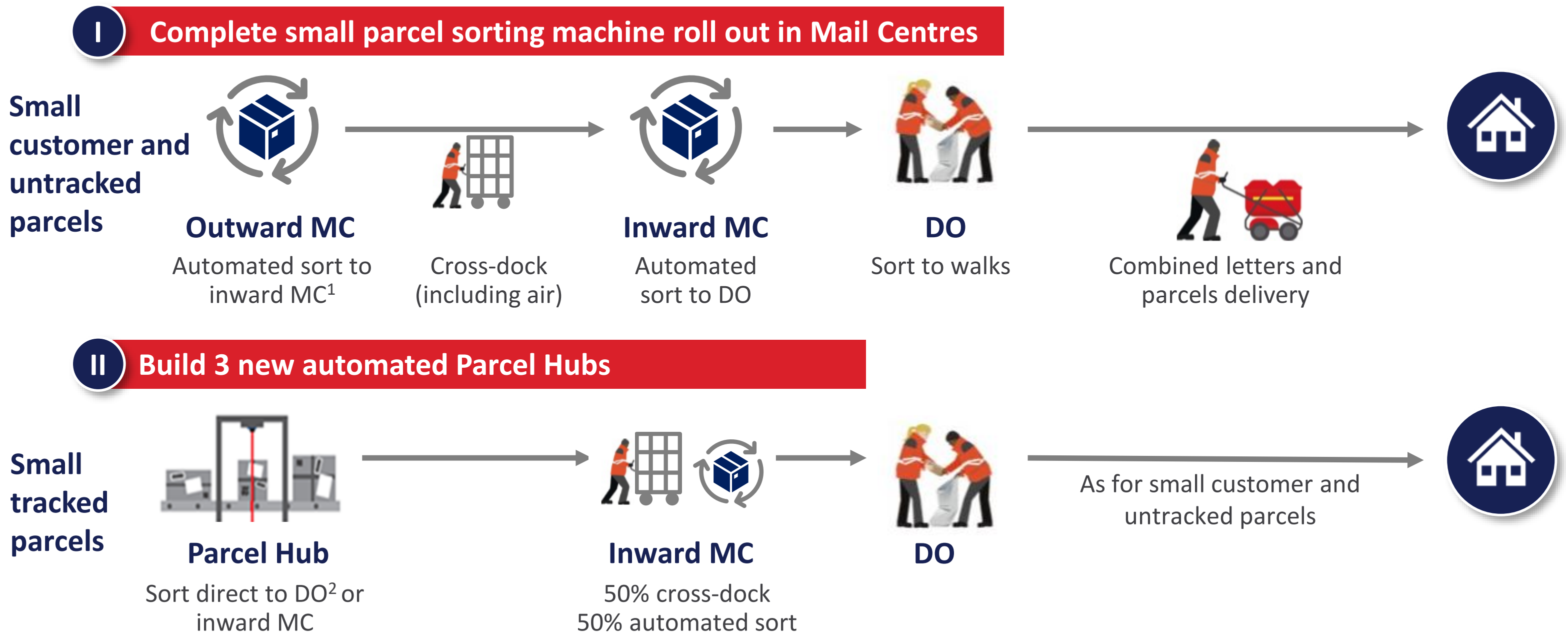


MC – Mail Centre
DO – Delivery Office

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] Small parcel sorting machines currently in 10 Mail Centres as at end 2018-19

3 Redesigning network around parcels

We will move to a largely automated processes for parcels



MC – Mail Centre
DO – Delivery Office

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] Small parcel sorting machines currently in 10 Mail Centres as at end 2018-19; [2] 200-300 designated DOs for dedicated parcels van deliveries, covering the entire country

3 Redesigning network around parcels

We will move to a largely automated processes for parcels

2023-24 parcel volumes

I Complete small parcel sorting machine roll out in Mail Centres

Small customer and untracked parcels — c. 60%

Outward MC
Automated sort to inward MC[1]

Cross-dock (including air)

Inward MC
Automated sort to DO

DO
Sort to walks

Combined letters and parcels delivery

II Build 3 new automated Parcel Hubs

Small tracked parcels — c. 25%

Parcel Hub
Sort direct to DO[2] or inward MC

Inward MC
50% cross-dock
50% automated sort

DO

As for small customer and untracked parcels

III Launch dedicated van delivery for larger parcels

Larger and late acceptance parcels — c. 15%

As for small tracked parcels (100% cross-dock)

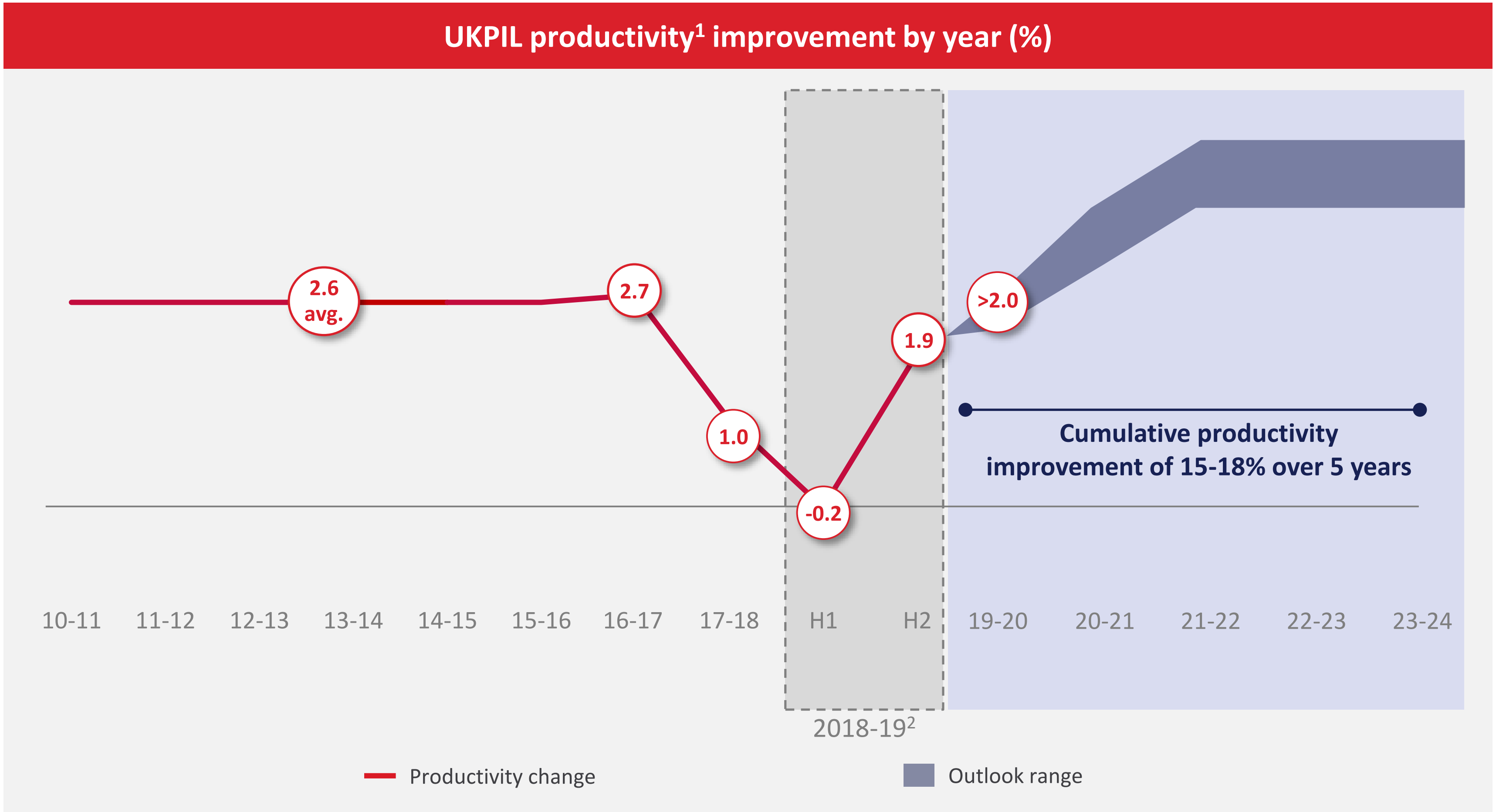
DO[2]

Dedicated van delivery from DO[2]

MC – Mail Centre
DO – Delivery Office

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] Small parcel sorting machines currently in 10 Mail Centres as at end 2018-19; [2] 200-300 designated DOs for dedicated parcels van deliveries, covering the entire country

4 Productivity improvement of 15-18% over 5 years



Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.
[1] Productivity is defined as workload handled per gross hour, for collections, processing and delivery in core network only; [2] Full year 2018-19 productivity change at 0.9%

Royal Mail plc

5 Deployment over 3 horizons

a. Lay foundations for change and restore 1C quality of service	b. Build our redesigned network	c. Roll-out and run the redesigned network
• Complete roll out of small parcel sorting machines • Trials for new delivery methods • Parcel Hub 1 • Step up productivity gains and quality of service	• Parcel Hub 2 • New technology (route planning, resource to workload) • Launch dedicated parcel van deliveries • Further customer and recipient parcel features	• Parcel Hub 3 • Complete roll out of dedicated van deliveries for parcels
2018 to 2020	2020 to 2023	2023 and beyond

Change Management

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

Summary

1. Competitive network, big challenges
2. Turnaround journey launched
3. Redesigning network around parcels
4. Productivity improvement of 15-18% over 5 years
5. Deployment over 3 horizons

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

People

Sally Ashford
Chief HR Officer

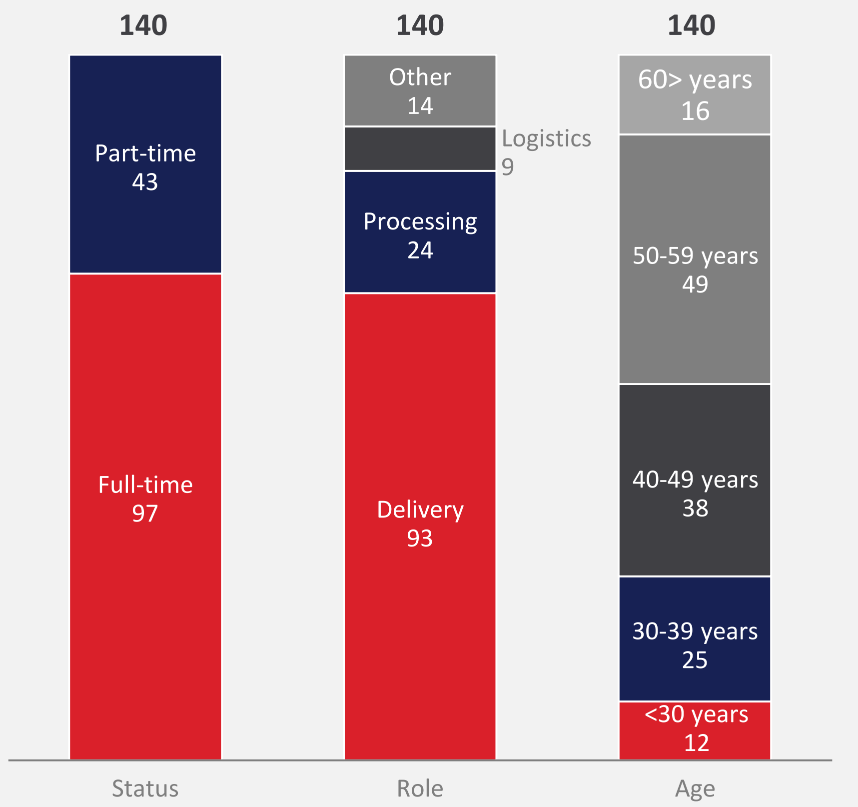
Summary

1. Royal Mail and its brand are built on its people
2. A reduction in overall hours worked
3. A more flexible workforce fit for a parcels-led business
4. Working collaboratively with our unions
5. Capability to deliver change

1 A people business

We are proud of our UK workforce, which is uniquely experienced

Employee profile (in thousands)[1]

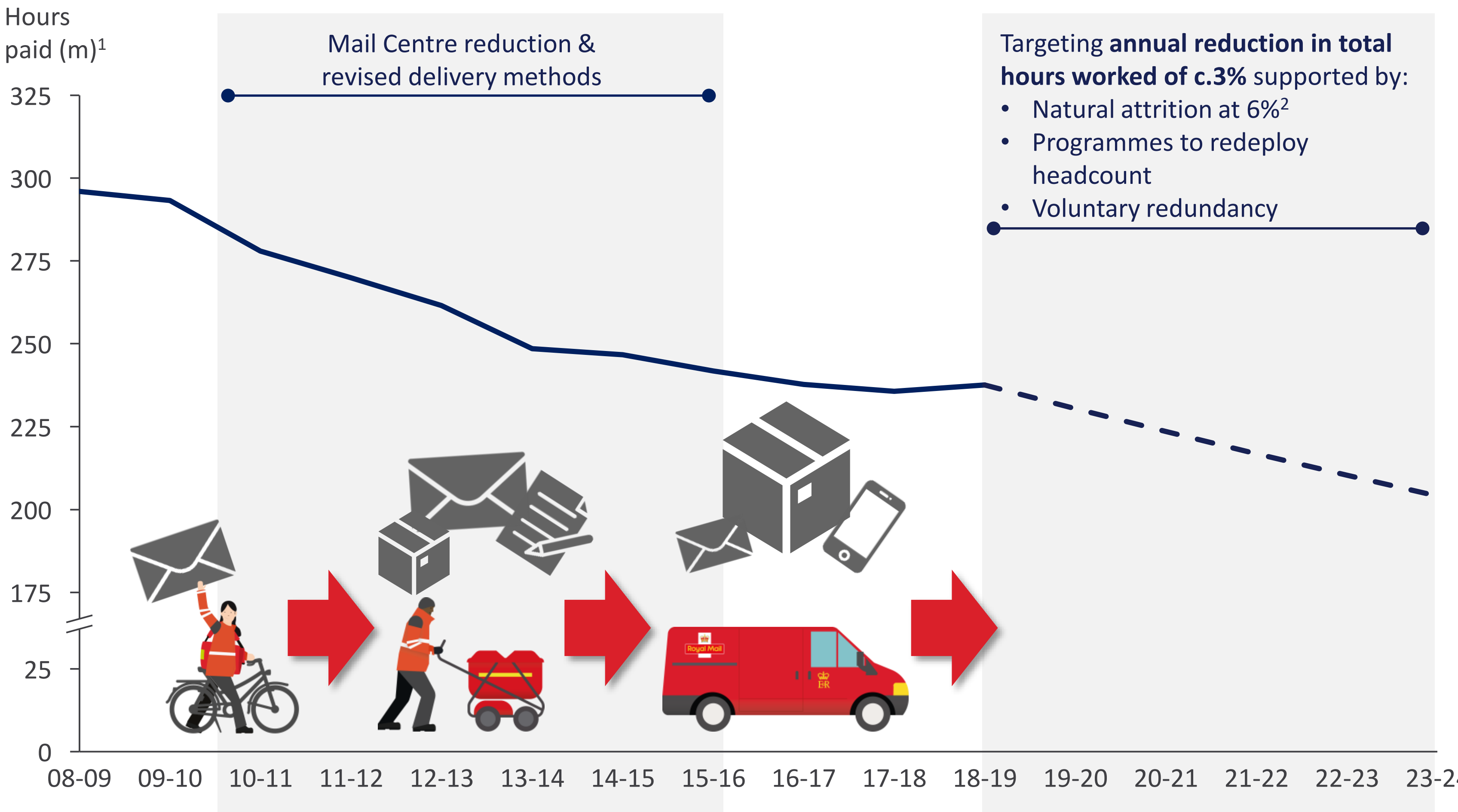


- **People love their postie**
  - The face of Royal Mail present on every street
- **Our people have pride in what they do**
  - Employee engagement 60% vs. 49% in 2012
  - 8% of shares in employee share plans[2]
- **Progress on diversity**
  - Ethnically representative
  - Times Top 50 Employer for Women for 6th year running
- **Loyal workforce**
  - Average length of service 17 years
  - 70% proud to work for Royal Mail

[1] Permanent employees at financial year end, excluding Property & Facilities Solutions
[2] As of March 2019

2 Future-fit workforce

We anticipate a reduction c.3% p.a. in hours worked



[1] UKPIL frontline collections, processing and delivery, in the core network only
[2] Average natural attrition over three years 2016-17 to 2018-19

3 Flexible workforce

Building on our track record of flexing our workforce to meet workload and customer needs

The role of a postie is constantly evolving

Planned initiatives in operations will have a further impact for our people

- **A** Restore 1C quality of service
- **B** Remove unnecessary work
- **C** Resource closer to demand

- Technology will enable **better forecasting and resource planning**, so our people will know what they are doing and when they are doing it
- **Automation upstream in processing** will reduce FTEs in our Mail Centres
- Underpinned by improvements in the ways of working and **culture at a local level** with a greater connection between employees and the business
- Separating larger parcel delivery will require changes in working times and delivery methods **aligned to customer needs**

4 Working with our unions

A history of collaboration to deliver change

Our two recognised trade unions

CWU The communications union

unite theUNION

- Agenda for Growth has facilitated a collaborative approach to change, without national strike action
- We work together on training, absence and service improvements
- Have also jointly designed and advocated a new CDC pension scheme

A decade of peace since 2010

2010 Business Transformation Agreement
- Walk sequencing
- Mail Centre Rationalisation

2013 Privatisation of Royal Mail
DB pensionable pay de linked from actual pay

2014 Agenda for Growth

2018 Agreement on Pay, Pension and Pipeline

2019 – **2024** New focus on transformation into a parcels operation and driving productivity improvements

5 Capability to deliver change

New building blocks to support our transformation

- New executive board
- Geographical operations structure established
- Reduced HQ

- Across the organisation to bring in young talent

- Enhancing our engagement with frontline employees
- Local team action plans

- With KPIs to underpin our focus on transformation

- Streamlining policies and processes
- Introducing new digital tools to make managing easier

Supported by market leading T&Cs and strong focus on health and wellbeing of our employees

Summary

1	**Royal Mail and its brand are built on its people**	• 140,000 permanent UK employees, of which 90,000 are posties • Uniquely experienced workforce
2	**A reduction in overall hours worked**	• Not met productivity targets in the last two years • Targeting c.3% reduction in hours p.a.
3	**A more flexible workforce fit for a parcels-led business**	• Flexing our workforce to meet workload and customer needs
4	**Working collaboratively with our unions**	• Track record of achieving change collaboratively • Working with our unions to achieve this change in the future
5	**Capability to deliver change**	• An organisation that has stayed relevant over 500 years points to a long term track record of change

Q&A
UK Operations

Stuart Simpson
Group CFO and COO

Sally Ashford
Chief HR Officer

Achim Dünnwald
Chief Strategy and Transformation Officer

Break

Resuming at 14:05

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UK Commercial

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GLS and Cross-border

14:05	Video – GLS	
	GLS	 **James Rietkerk** GLS CEO
14:45	Cross-border	 **Saadi Al-Soudani** Group International MD
15:00	Q&A	

Summary

15:20	Video – Our Future	
	Closing Remarks	**Rico Back** Group CEO
15:30	*Close*	

Video

GLS

GLS

James Rietkerk
GLS Group CEO

Summary

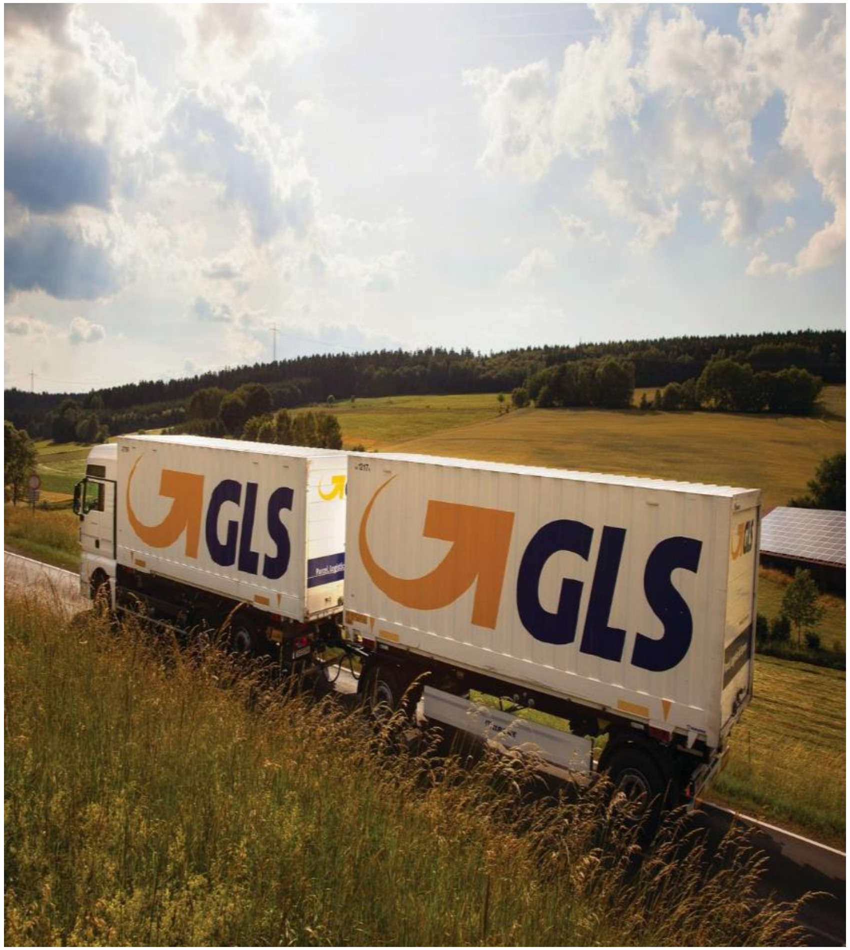
1 International deferred parcel network built on local market presence

2 Continue to focus on profitable revenue growth

3 Stabilising and improving operating profit margins

4 Continue to invest with focus on network and technology

5 Selective acquisitions to support future growth



1 International deferred parcel network

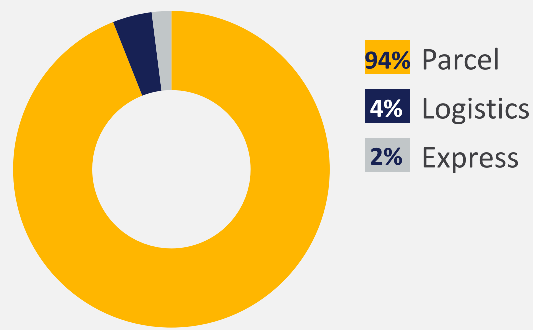
International network primarily serving the deferred parcel market

GLS in figures

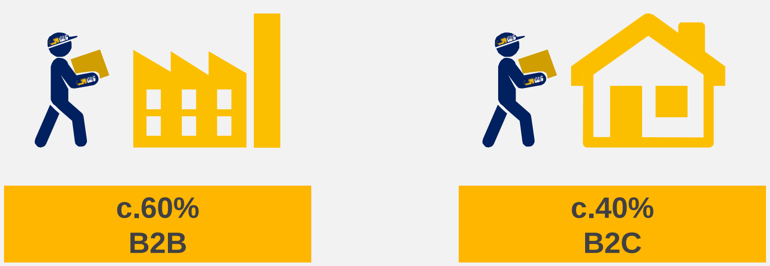
- **€3.3 billion revenue** in 2018-19
- **634 million parcels** delivered in 2018-19
- **>200,000 customers**
- **c.19,000 employees**[1]
- **70 hubs**[2] **and c.1,400 depots**[3]
- **c.23,000 parcel shops**
- **c.26,000 delivery vehicles**[4]
- **c.3,500 long-distance trucks**[4]

Market positioning and focus

2018-19 GLS revenue split



2018-19 GLS parcel volume split[5]



[1] Headcount [2] Including regional hubs [3] Including agencies and franchisees [4] Subcontracted [5] Company estimate (volume based)

1 International deferred parcel network

Strong international network connecting local subsidiaries meeting local market needs

Core values

- Reliability
- Sustainability
- Flexibility
- Transparency
- Security

Key strengths

Physical footprint
Extensive European coverage and a developing footprint in North America

Local market presence
Local management teams ensure close proximity to customers and markets

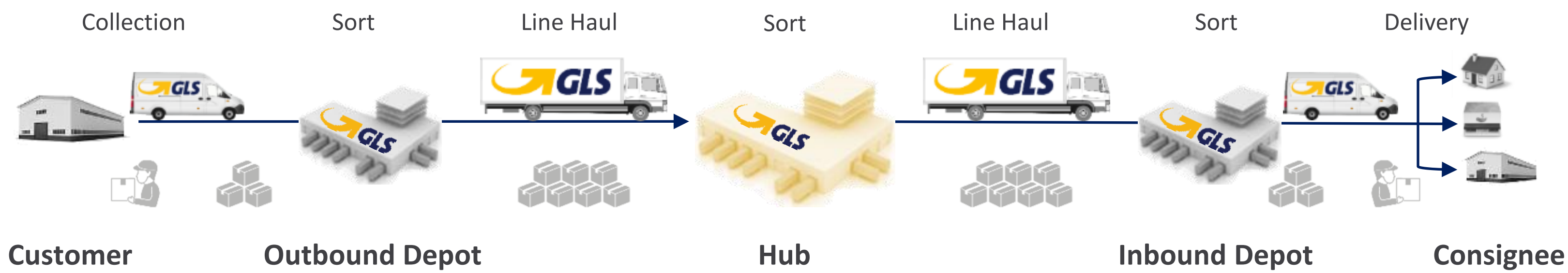
Culture
Entrepreneurial business culture within clearly defined corporate governance framework

Customer base
Balanced portfolio of small, mid-sized and large customers none of whom expected to represent more than 1% of GLS revenue in 2019-20

GLS is local, flexible and close to customers

1 International deferred parcel network

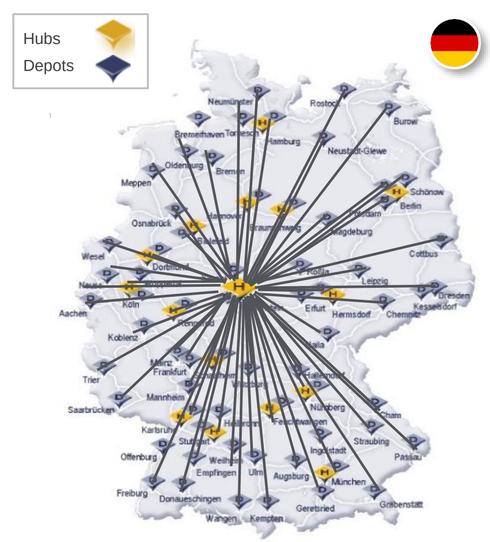
Extensive network delivering domestic and international deferred parcels



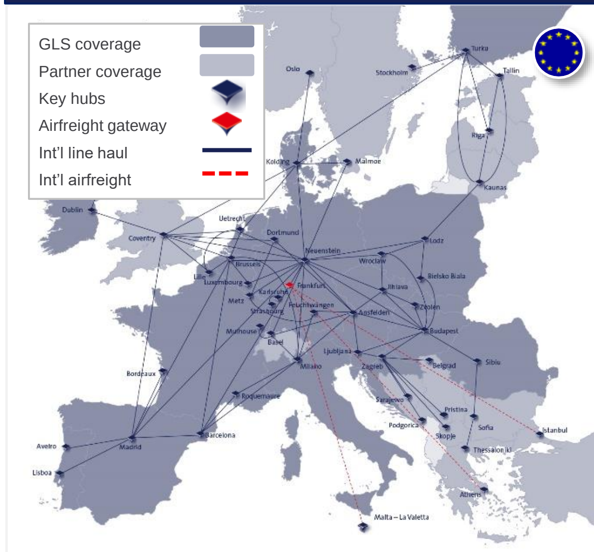
GLS network structure

- Road based network delivering parcels up to 40kg
- Domestic parcels generally delivered within 24 hours from pick-up through to delivery
- Majority of international parcels delivered within 24-72 hours

GLS Germany



GLS International



1 International deferred parcel network

Germany, Italy and France represent c.60% of revenue, North America c.9%

GLS US

- Focus on B2B
- 1-2 day parcel shipping across the Western US
- Zone-specific express

Dicom (GLS Canada)

- Strong B2B focus
- Combined parcel and freight offer
- Network partner coverage across Canada

GLS Denmark

- Strong B2C focus
- Own parcel shops
- 2nd biggest player

GLS BeNeLux

- Strong B2B focus
- Offers parcel and freight in separate networks

GLS Germany

- Strong B2B focus
- Separate express network via DerKurier

GLS France

- Strong B2B focus
- Challenging market conditions
- Current focus on improving volume mix and operations

GLS Europe East

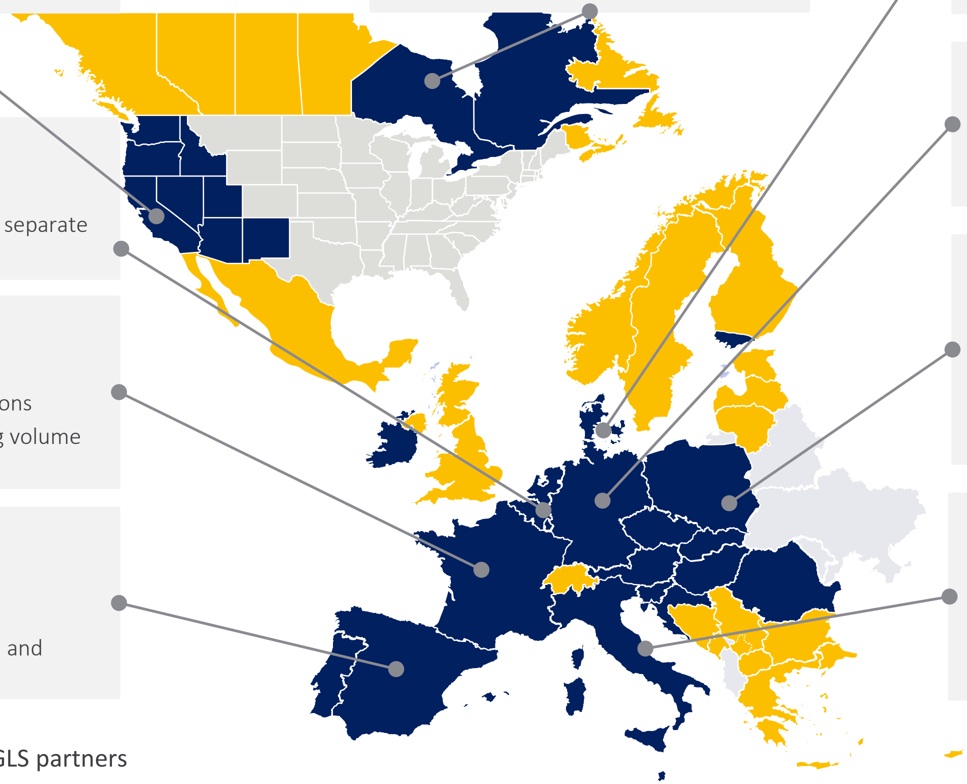
- High B2C share and many B2C-specific services
- Deployment of parcel lockers
- Depots are operated by subcontractors

GLS Spain

- B2B and B2C focus
- Agent model
- Recent acquisitions of ASM and Redyser

GLS Italy

- B2B and B2C focus
- Franchise model
- Offers express parcel, pallet and freight services in one network



GLS subsidiaries GLS partners

1 International deferred parcel network

Main competition varies by market and requires a local approach

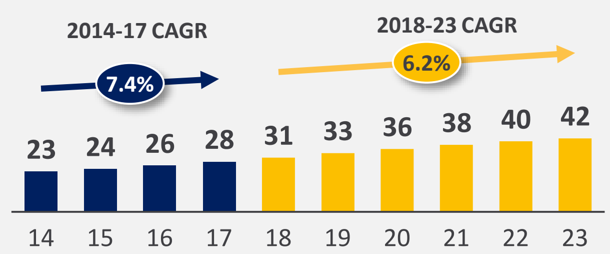
Key competitors domestic parcel markets	Local posts	Integrators			Local competitors		amazon Logistics[1]
		DHL	UPS	FedEx TNT	dpd	Others	
Germany	Deutsche Post	✓	✓		✓	Hermes	✓
Italy	Posteitaliane	✓	✓	✓	BRT Corriere Espresso	nexive	✓
France	La Poste		✓	✓	✓		✓
Spain	Correos Express	✓	✓	✓	SEUR	MRW NACEX	✓
Austria	Post	✓	✓		✓		✓
The Netherlands	postnl	✓			✓		
Belgium	bpost	✓	✓	✓	✓	postnl	
Denmark	postnord					DAO365 bring	
Poland	Poczta Polska	✓	✓	✓	✓	InPost	
Europe East		✓	✓		✓	Express One	
USA (West Coast)	United States Postal Service		✓	✓		OnTrac	✓
Canada (Ontario, Quebec)	Postes Canada Post		✓			TFI International	

Note: GLS internal management view as to which competitors are considered main local competition
[1] Amazon in-house delivery capabilities

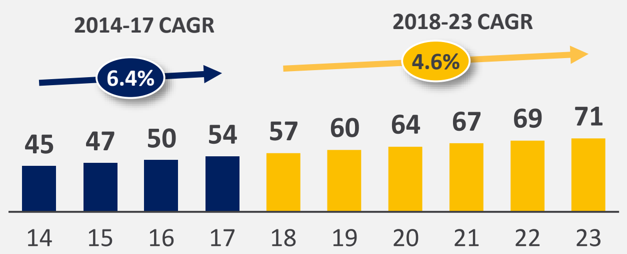
2 Continue to focus on profitable revenue growth

GLS is well positioned to meet the changing requirements of growing parcel markets

European deferred parcel market (£bn)[1]



North Am. domestic deferred parcel market (£bn)[1]



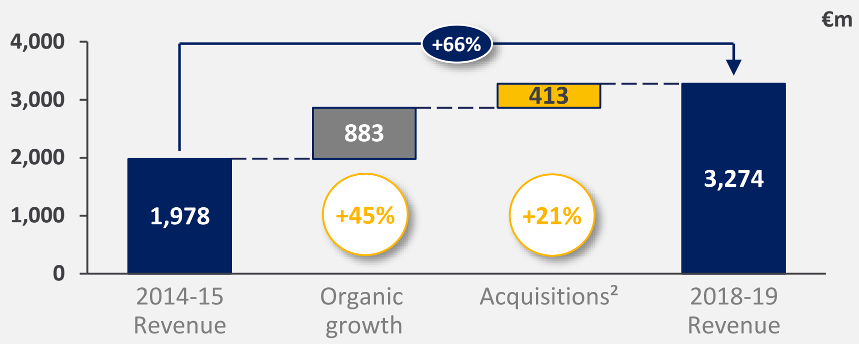
Market trends	Response
Increase of international shipments	Strengthen and invest in international network
B2C growth	Development and roll-out of B2C services, flexible re-routing of parcels and use of parcel shops
Digitalisation	Digital developments to increase consignee convenience
Labour shortage	Improving driver working conditions and providing tools (e.g. route planning and pre-sorts)
City regulation	Alternative methods of transport (e.g. use of electric vans and cargo bikes in city centres)

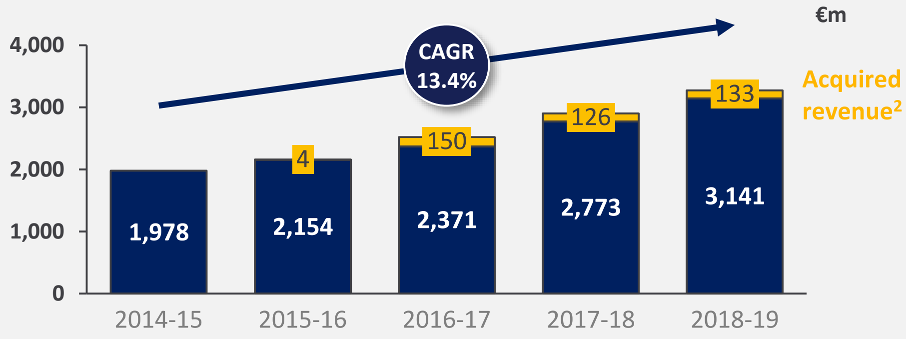
[1] Effigy deferred parcel market growth rates (Europe excluding UK)

2 Continue to focus on profitable revenue growth

Revenue growth has been driven by a combination of organic growth and acquisitions

Revenue growth: organic and acquisitions[1]





Revenue CAGR 2014-15 – 2018-19

GLS organic	GLS total
+ 9.7%	+ 13.4%

Historic growth partly driven by exposure to fast growing East European markets and strong performances in Italy and Denmark

Outlook:

- Profitability focus and generally lower growth rates expected to lead to slower revenue growth
- Markets will continue to be competitive
- Strong international network will remain a source of competitive advantage

Target 2023-24 revenue c.€4.5bn (excluding any future acquisitions)

[1] Adjusted for disposal of DPD Systemlogistik (March 2015)
[2] Revenue is classified as acquired revenue in the first 12 months of GLS ownership

2 Continue to focus on profitable revenue growth

Grow in B2B, selective B2C and cross-border

B2B

- More parcels per stop
- Maintain focus on B2B
- Provide high quality services
- Maintain a balanced mix of customers

B2C

- Fewer parcels per stop
- Focus on profitable volumes
- Adapting local operating model to market needs
- Ensuring a balanced customer mix of e-tailers
- Strengthening the GLS parcel shop network
- Expanding value-added B2C services (consignee convenience)

Cross-border

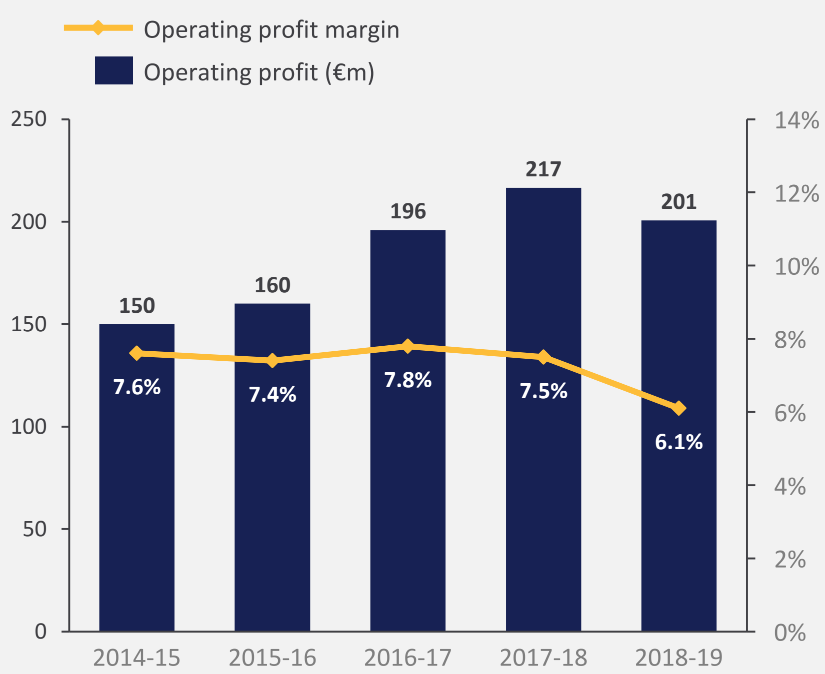
- Maintain focus on high growth cross-border traffic
- Continue development of international services
- Connect the UK and GLS European networks to the North American GLS networks
- Continue developing the cross-border network via partners

Maintain B2B and cross-border focus, selective B2C focus adapted to individual markets

3 Stabilising and improving operating profit margins

Profit growth has been steady up to and including 2017-18

GLS operating profit performance[1]



Factors impacting 2018-19

1. Tight labour markets resulting in cost pressures in all markets
2. 13 of 19 countries reported year on year lower margins in 2018-19
3. Acquired company synergies and restructuring benefits taking longer to realise
4. Turnaround in France remains challenging

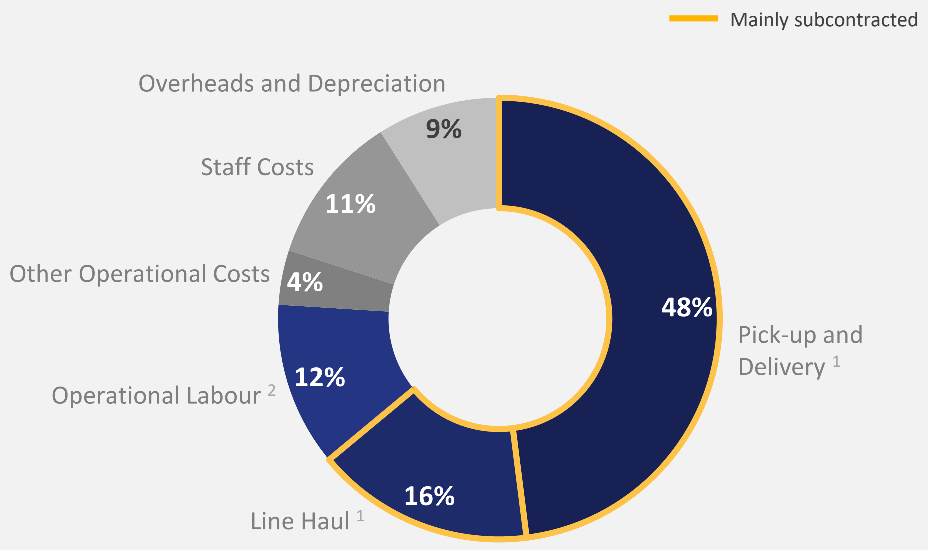
Targeted operating profit margin range 6-7%

[1] Adjusted for disposal of DPD Systemlogistik (March 2015)

3 Stabilising and improving operating profit margins

Pick-up, delivery and line haul costs are the main cost drivers

Breakdown of 2018-19 cost base



Two thirds of costs are subcontracted

Main cost drivers

- Volumes
- Labour costs
- Parcel size / weight
- Network density
- Delivery stop factors
- Inflation

Main cost driver is labour and due to the tight labour market has impacted margins

[1] Principally all subcontracted [2] Of which 3% is subcontracted

3 Stabilising and improving operating profit margins

Initiatives to address general cost pressure

Profitable revenue growth and pricing

- Increase prices necessary to offset cost increases and yield management
- Service fees (e.g. residential delivery service fee)
- Ensure the right traffic for the network

Cost management

- Depot, hub and line haul efficiency
- Support tools for drivers (e.g. route optimisation tools)
- Optimise depot pre-sort processes to improve driver productivity

Success results from relentless focus on the details throughout the complete network

3 Stabilising and improving operating profit margins

Focus on underperforming countries US, France and Spain representing c.20% of GLS revenue

US

Change of operating model from own drivers to subcontractors and improve yield

- Finalise and optimise model change
- Engineered depot processes and selective automation
- Optimise line haul network (tighter scheduling for better quality, improve equipment to secure efficiencies)
- Grow volumes in Pacific Northwest

France

Difficult turnaround in challenging market

- Improve quality
- Improve brand awareness
- Selective volume acquisitions
- Improve driver productivity
- Improve depot and hub productivity

Spain

Complex integration of acquired businesses

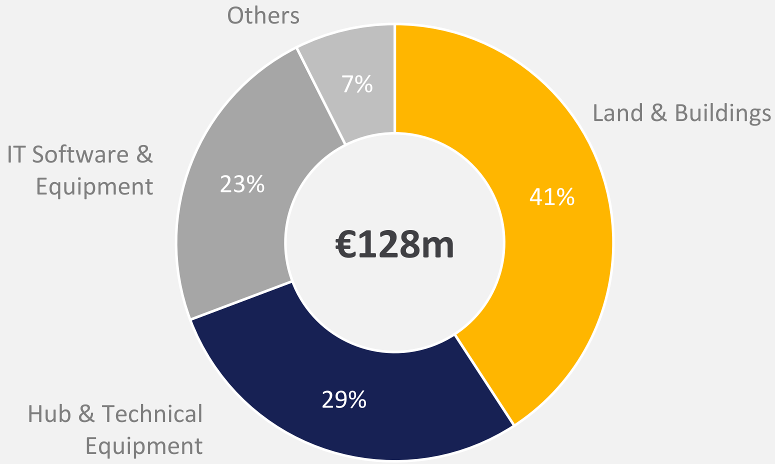
- Eliminate hub and line haul inefficiencies
- Optimise final mile
- Price increase and yield management

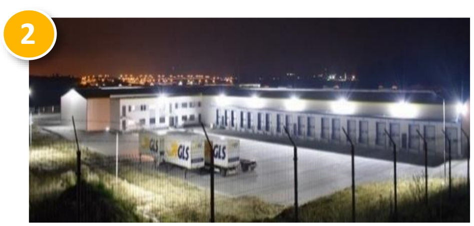
Improvements will support GLS margin progression

4 Continue to invest

Investments in physical network infrastructure and IT

Capital expenditure 2018-19





Planned investments 2019-20

Examples of network infrastructure investments

1) Copenhagen hub extension (Denmark)
2) Sibiu hub extension (Romania)
3) Budapest hub extension (Hungary)
4) New Euro hub Essen (Germany)
5) New Gliwice depot (Poland)

Examples of IT investments

1) New hand scanners
2) Modernisation of depot IT infrastructure
3) Software development projects

Capex as a percentage of revenue expected to remain at historic levels of 3-4%
(2018-19 capex excluding land and buildings 2% of revenues)

5 Selective acquisitions to support future growth

Acquisitions as a source of growth

Europe

- Bolt-on acquisitions most likely
- Continue strategy of acquiring Italian franchisees

North America

- Provides access to attractive growing market and geographic earnings diversification
- North America accounts for c.9% of GLS revenue
- Transfer of GLS Europe best practice and experience
- Bolt-on acquisitions in near future rather than transformative acquisitions

Selective acquisitions subject to the right companies at the right prices

Summary

1 International deferred parcel network built on local market presence

- Portfolio of local businesses connected to an international network
- Strong record of growth and profitability

2 Continue to focus on profitable revenue growth

- Target 2023-24 revenues c.€4.5bn, excluding any future acquisitions
- Grow in B2B, selective B2C and cross-border

3 Stabilising and improving operating profit margins

- Targeted operating profit margin range 6-7%
- Initiatives to address general cost pressures and to improve under-performing companies

4 Continue to invest with focus on network and technology

- Capex as a percentage of revenue expected to remain at historic level
- Investments in physical network infrastructure and IT

5 Selective acquisitions to support future growth

- Bolt-on acquisitions in Europe and North America subject to right companies being available at the right prices

Cross-border

Saadi Al-Soudani
Group International MD

Summary

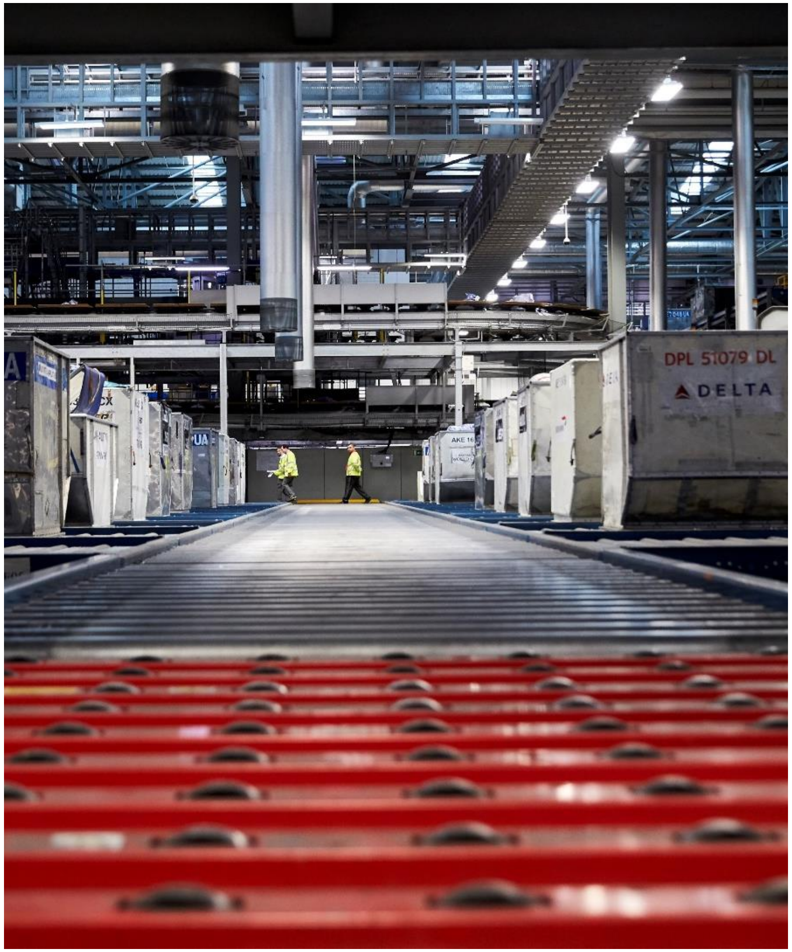
1 Growth mainly driven by global e-commerce

2 Our existing cross-border revenues are significant

3 Leveraging the best of Royal Mail and GLS

4 Focus on small packets and deferred parcels

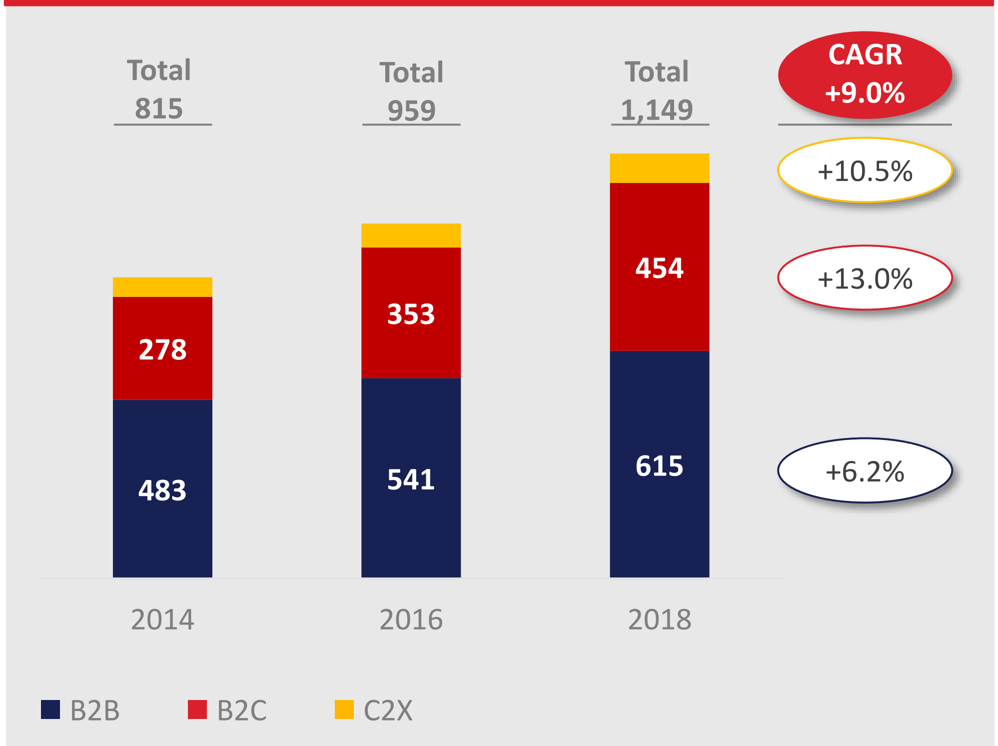
5 Initiatives in place to capture growth



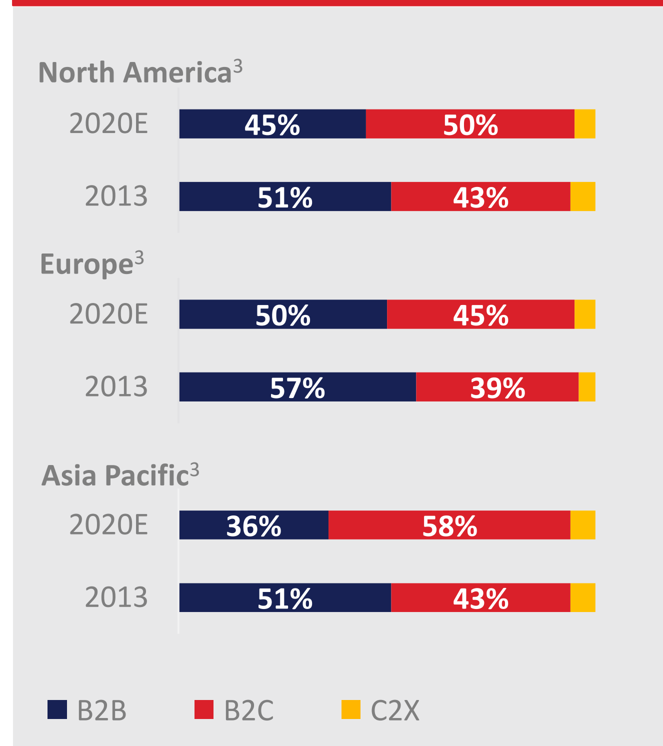
1 Growth mainly driven by global e-commerce

B2C expected to grow its share of the market in all major geographies

European export CEP market volume (m)[1]



B2C volume share by regions[2]



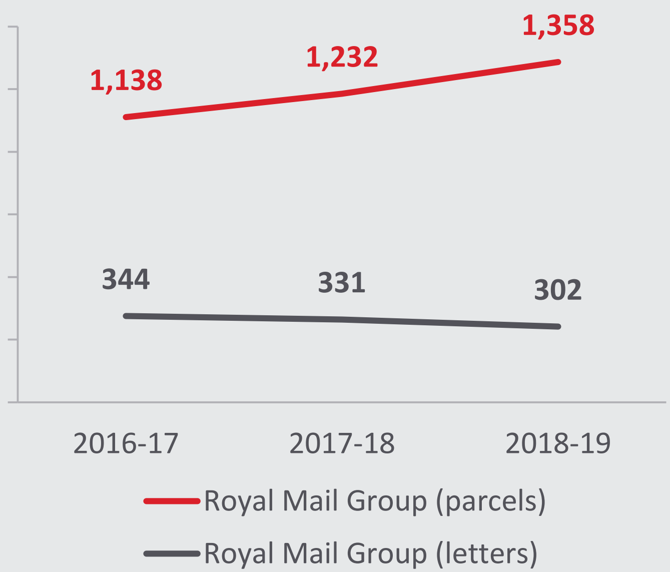
Growing global e-commerce driving faster cross-border growth

[1] Effigy Market Research 2019 [2] Accenture, 2015 [3] Total market (domestic and cross-border)

2 Our existing cross-border revenues are significant

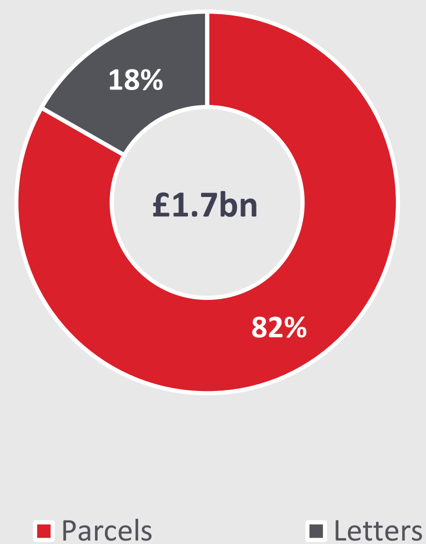
Royal Mail Group parcel revenues have grown by 9% per year

Group cross-border revenue development (£m)[1]



18-19 vs PY	CAGR
10.3%	9.2%
(8.8%)	(6.3%)

Group cross-border revenue by product 2018-19



Cross-border parcel growth has more than offset letter decline

[1] Letter decline is broadly in line with UK domestic. Royal Mail including Parcelforce Worldwide

3 Leveraging the best of Royal Mail and GLS

Royal Mail and GLS offer a broad range of cross-border services

Royal Mail		GLS
£1,137m[1]	Revenue (2018-19)	£522m[2]
UK / International	Service from / to	Europe / Europe
Letters, Parcels	Products	Parcels
	Strengths	

Delivering

Approx. 380m letters and 350m parcels… …to 230 countries and territories… …through own network, postal and other partners.

Cross-selling opportunities by combining Royal Mail and GLS networks

[1] Includes Parcelforce Worldwide
[2] Cross-border revenues only: excludes domestic

4 Focus on small packets and deferred parcels

Royal Mail and GLS are targeting the larger and faster growing segments

	Small Packet	Deferred	Express
Main players	Post, Correos, Deutsche Post, Posteitaliane, La Poste, Royal Mail, Parcelforce Worldwide, GLS	Hermes, dpd, DHL	UPS, FedEx
Characteristics	• Day uncertain • 3-5 days • Mainly untracked • Up to 2kg • Ground and air networks • Mainly 2C	• Day certain / not guaranteed • 1-5 days • Signed & tracked • Up to 30kg • Primarily ground networks • Mixed: 2B and 2C	• Time sensitive • 1-3 days • Guaranteed • Up to 70kg • Air networks • Mainly 2B
European export market size (volume)[1]	902m		247m
European export market growth[1]	CAGR 9.4% (2014-18)		CAGR 7.3% (2014-18)

Royal Mail Group well positioned in the deferred and small packet market

[1] Effigy Market Research 2019

5 Initiatives in place to capture growth

Leveraging our existing networks means limited investments

IMPROVE UK PARCEL EXPORT SOLUTION	GENERATE GLOBAL VOLUME OUT OF EUROPE	INCREASE SHARE OF GROWING ASIAN IMPORTS	DEVELOP NORTH AMERICAN OFFERING
Provide Royal Mail access to GLS European network	Provide GLS access to global postal network	Consolidated import solution across Europe	Connect our European & North American networks
Royal Mail already routing <2kg traffic to 14 GLS countries	3 ETOEs[1] already established in Europe	Delivery <7 days vs 20-30 day service from postal	Mexican coverage through network partner Estafeta
>2kg service launch expected for H2 2019/20	Leveraging GLS' European infrastructure	Combined pan European product & service offering	Sales initiatives targeting existing customers

Combining the best of Royal Mail and GLS

[1] Extra Territorial Office of Exchange

Summary

1	**Growth mainly driven by global e-commerce**	• B2C expected to grow its share of the market in all major geographies • Cross-border growth expected to grow faster than domestic
2	**Our existing cross-border revenues are significant**	• Royal Mail Group cross-border revenues £1.7bn • Cross-border parcel growth has more than offset letter decline
3	**Leveraging the best of Royal Mail and GLS**	• Royal Mail and GLS offer a broad range of cross-border services • Cross-selling opportunities by combining Royal Mail and GLS networks
4	**Focus on small packets and deferred parcels**	• Well positioned in the deferred and small packet market • Targeting larger and faster growing segments
5	**Initiatives in place to capture growth**	• Leveraging our existing networks • Requires limited investments

Q&A
GLS and Cross-border

James Rietkerk
GLS CEO

Saadi Al-Soudani
Group International MD

Agenda

Strategy and Outlook, 2018-19 Results			
09:30	Presentation Commences		
09:35	Video – Our History		
	Strategy Overview and 2018-19 Results Summary		**Rico Back** Group CEO
10:00	2018-19 Results and Financial Outlook		**Stuart Simpson** Group CFO and COO
10:30	Q&A		
11:05	*Break*		

UK Commercial			
11:20	Video – Letters		
	Letters		**Stephen Agar** MD Letters
11:40	Parcels		**Nick Landon** Chief Customer Officer
11:55	Q&A		
12:15	*Lunch*		

UK Operations			
12:55	Operations		**Stuart Simpson** Group CFO and COO; **Achim Dünnwald** Chief Strategy and Transformation Officer
13:15	People		**Sally Ashford** Chief HR Officer
13:30	Q&A		
13:50	*Break*		

GLS and Cross-border			
14:05	Video – GLS		
	GLS		**James Rietkerk** GLS CEO
14:45	Cross-border		**Saadi Al-Soudani** Group International MD
15:00	Q&A		

Summary			
15:20	Video – Our Future		
	Closing Remarks		**Rico Back** Group CEO
15:30	*Close*		

Video

Our Future

Closing Remarks

Rico Back
Group CEO

Royal Mail will change

Vision and strategic priorities

2023-24 vision

Growing.

c.£12bn revenue

(2-3% CAGR over next 5 years)

Efficient.

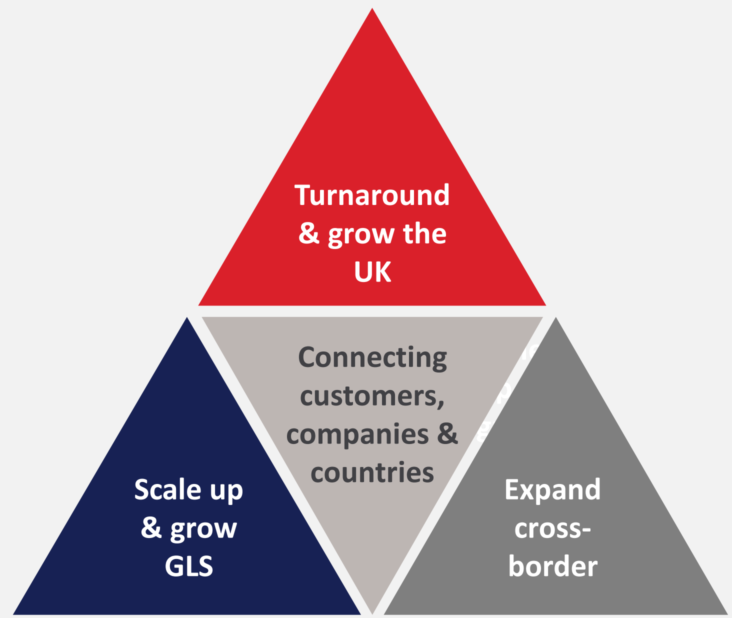
>5% operating profit margin

Diversified.

>70% revenue from Parcels

>40% generated outside UK

Strategic priorities



Thank you

Appendix

IFRS 16

- IFRS 16 is the new accounting standard for leases coming into effect for our 2019-20 reporting year
- Principal impact is that majority of leases previously classified as operating leases will be capitalised on the balance sheet as assets. A liability representing the present value of contractual payments will also be recognised
- Illustrative impact on 2019-20 financial results:

Income statement

	IFRS 16 Impact	
Revenue		
Non-people costs		
Depreciation	↑	c.£120-130m
Operating lease costs	↓	
Operating profit after transformation costs	↑	c.£35-45m
Net finance costs	↑	
Profit before tax	↑	

Cash flow

	IFRS 16 Impact
Adjusted EBITDA	↑
Net finance costs paid	↑
In-year trading cash flow	↑
Capital payments on finance leases	↑
Net movement in cash	↔

Balance sheet

	IFRS 16 Impact	
Property, plant and equipment	↑	c.£0.8-1.0bn
Total assets	↑	
Obligations under finance lease	↑	c.£1.0-1.2bn
Total liabilities	↑	
Net assets / reserves	↓	c.£100-200m
Net Debt	↑	

Note: Royal Mail will continue to implement and refine procedures and processes to apply the new requirements of IFRS 16. As a result of this ongoing work, it is possible that there may be some changes to the adoption impact outlined above, before the HY 2019-20 results are issued. However, at this time these are not expected to be material.

Changes in disclosures and metrics used in external reporting

Changes effective from 2019-20 financial year
All outlook provided on new basis

1 UK letters and parcels revenue and volumes

- Historically, sampling surveys of stamped, metered and other prepaid revenue channels allocated revenue relating to letters and parcels
- New methodology reduces reliance on sampling by using data captured at point of sale in Post Offices
- Change impacts stamped letters and parcels and some export products. Advertising, business and metered letters and account parcels not impacted
- Split between letters and parcels revenue and volumes changes; total UKPIL revenue unchanged

2 Definition of marketing mail revenue

- Current definition includes specific advertising mail products, allocation of revenue from other channels by sampling surveys and non-volume related revenue from data, redirections and Address Management Unit
- New definition includes specific advertising mail products only
- Marketing mail revenue lower than previously reported

3 Underlying change

- No prior period underlying adjustments will be made; any factors with material impact on period on period comparisons will be highlighted in narrative

4 Treatment and presentation of transformation costs

- Transformation costs will be included within relevant operating cost categories
- Project costs allocated across people costs and non-people costs; voluntary redundancy separately disclosed within people costs
- ‘Profit after transformation costs’ replaced with ‘Operating profit’

UKPIL data

	As reported		Movement	New methodology
	2017-18 52 weeks	2018-19 52 weeks		2018-19 52 weeks
UKPIL volumes (m)				
Parcels				
Royal Mail	1,132	1,224	(36)	1,188
Underlying change	*6%*	*8%*		
Parcelforce	98	99	-	99
Underlying change	*2%*	*1%*		
Total parcel volume	**1,230**	**1,323**	**(36)**	**1,287**
Underlying change	*5%*	*8%*		
Letters				
Addressed	11,269	10,266	230	10,496
Underlying change	*(5%)*	*(8%)*		
Unaddressed volume	3,109	2,880	-	2,880
Underlying change	*6%*	*(7%)*		
Total letter volume	**14,378**	**13,146**	**230**	**13,376**
UKPIL revenues (£m)				
Total parcel revenue	3,463	3,692	(154)	3,538
Underlying change	*4%*	*7%*		
Total letter revenue	4,152	3,903	154	4,057
Underlying change	*(4%)*	*(6%)*		

Note: New methodology based on data captured at point of sale in Post Offices.

Property

Site	Acres	Key features	Status

Nine Elms	13.9	Planning consent for 1,950 residential units
		Core infrastructure works on two-thirds of the site nearly complete
			• Plots B and D: Mayor of London and local council granted planning consent to Greystar
			  • expect to receive £101m consideration in H1 2019-20
			  • £30m being re-invested in infrastructure associated with plots
			• Plot C: Exchanged with Galliard Homes
			  • expect to receive £22m consideration in H1 2019-20
			• Remaining four plots remain available for sale
			• Further investment required (infrastructure, park) for remaining plots when sold

Mount Pleasant	8.6 acres covered by planning consent (of which 6.25 acres sold)	Full planning permission in place for up to c.680 residential units Separation works required	• 6.25 acres sold for £193.5m in August 2017 • c.£64m in staged payments received to date • Remaining to be paid in staged payments over 2019-20 to 2020-21 and final lump sum payments in 2024 • Separation and enabling works well underway and expected to cost c.£100m
Paddington	1.0	Sold in 2014 for £111m with overage agreement for £20m upon purchaser obtaining planning permission	• Overage payment of £20m received in April 2018 • Recorded as profit on disposal of property in 2017-18

	2014-15	2015-16	2016-17	2017-18	2018-19
Total proceeds	111	-	-	43	41
Total investment	(11)	(23)	(34)	(33)	(34)
Net cash position	100	(23)	(34)	10	7
Cumulative	100	77	43	53	60

2019-20 onwards

- **Nine Elms expected proceeds (2019-20) from plots C, B and D; further potential sales proceeds**
- **Staged payments and lump sum for Mount Pleasant**
- **Nine Elms additional investment only if further sales**

Pensions

Income statement

£m		2018-19	2017-18
RMPP[1]		(12)	(791)
DBCBS		(362)	-
RMDCP[3]		(82)	(57)
GLS		(7)	(7)
PSE[4]		(172)	(151)
People costs		**(635)**	**(1,006)**
Pension costs relating to VR		-	(3)
RMSEPP buy-in[5]		(64)	-
Total EBIT pension costs		**(699)**	**(1,009)**
Pension interest credit[6]		79	91
Total net PBT pension costs		**(620)**	**(918)**
Pensionable payroll (£bn)	DBCBS[7]	1.9	1.9
Income statement rate	RMPP[8]	41.0%	41.1%
	DBCBS[8]	18.9%	-
	RMDCP[9]	8.0%	6.3%
Number of active members	DBCBS[7]	c.82,700	c.83,200
	RMDCP	c.50,600	c.47,200

Cash flow

£m		2018-19	2017-18
RMPP[1,2]		(5)	(323)
DBCBS		(297)	-
RMDCP[3]		(82)	(57)
GLS		(7)	(7)
PSE[4]		(172)	(151)
RMSEPP deficit		(2)	(10)
Cash contributions		**(565)**	**(548)**
Pension payments relating to VR		-	(4)
Total cash payments		**(565)**	**(552)**
Pensionable payroll (£bn)	DBCBS[7]	1.9	1.9
Cash rate	RMPP	17.1%	17.1%
	DBCBS	15.6%	-
	RMDCP[9]	8.0%	6.3%

[1] 1 week to 31 March 2018 [2] Includes -£2m pension related accruals timing difference (2017-18: £2m) [3] Excludes £10m insurance premium costs which are included in people costs (2017-18: £8m) [4] Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay [5] Operating specific item [6] Non-operating specific item [7] Prior period relates to RMPP [8] Rate determined by real discount rate at end of March based on longer term RPI and appropriate AA corporate bond rates at the time [9] Average employer contribution rate for the period, excluding benefits

Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
Euro bond[1]	2.5%	430	430	2024
Loans in GLS	0.9%	1	1	2022
Revolving credit facility	LIBOR +0.55 %	1,050	-	2020-22[2]
Total		**1,481**	**431**	

- S&P investment grade rating of BBB stable outlook
- Net debt increased by £314m largely driven by lower free cash flow and dividends
- Net debt excludes £187m related to RMPP pension escrow investments which are not considered to fall within definition of net debt

Net (debt)/cash

£m	31 March 2019	25 March 2018
Loans/bonds	**(431)**	**(437)**
Finance leases	**(125)**	**(169)**
Cash and cash equivalents[3]	**236**	**600**
Pension escrow (RMSEPP)	**20**	**20**
Net (debt)/cash	**(300)**	**14**

Other working capital movements

£m	2018-19	2017-18
Stamps used but purchased in prior periods/deferred revenue	**10**	(5)
Client cash in GLS[4]	**(4)**	2
Other working capital	**6**	(3)

[1] €500m liabilities net of discount and fees at spot rate £1:€1.158 revalued at balance sheet date [2] £98m expires in 2020
[3] Includes GLS client cash of £20m (25 March 2018: £24m) [4] Cash collected on behalf of customer, payment on delivery

Group tax

£m	Reported 2018-19					Adjusted 2018-19		
	UK	Pension impact	GLS	Group	Group ex. pension	UK	GLS	Group
Profit/(loss) before tax	160	-	81	241	241	229	169	398
Income statement tax charge	(23)	-	(43)	(66)	(66)	(40)	(53)	(93)
Effective tax rate	**14%**		**53%**	**27%**		**17%**	**31%**	**23%**
Cash tax payments	(23)	(17)	(51)	(91)	(74)	n/a	n/a	n/a

Income statement tax

UK

- Adjusted: higher rate than prior year (2017-18: 16%) as the prior year included a catch up on patent box claims
- Reported: rate significantly impacted by certain specific items for which there is no tax charge or credit in the income statement

GLS

- Adjusted: higher rate than prior year (2017-18: 28%) due mainly to deferred tax assets in GLS US and GLS France not being recognised
- Reported: rate significantly impacted by the impairment of goodwill for GLS US for which there is no tax credit

Cash tax

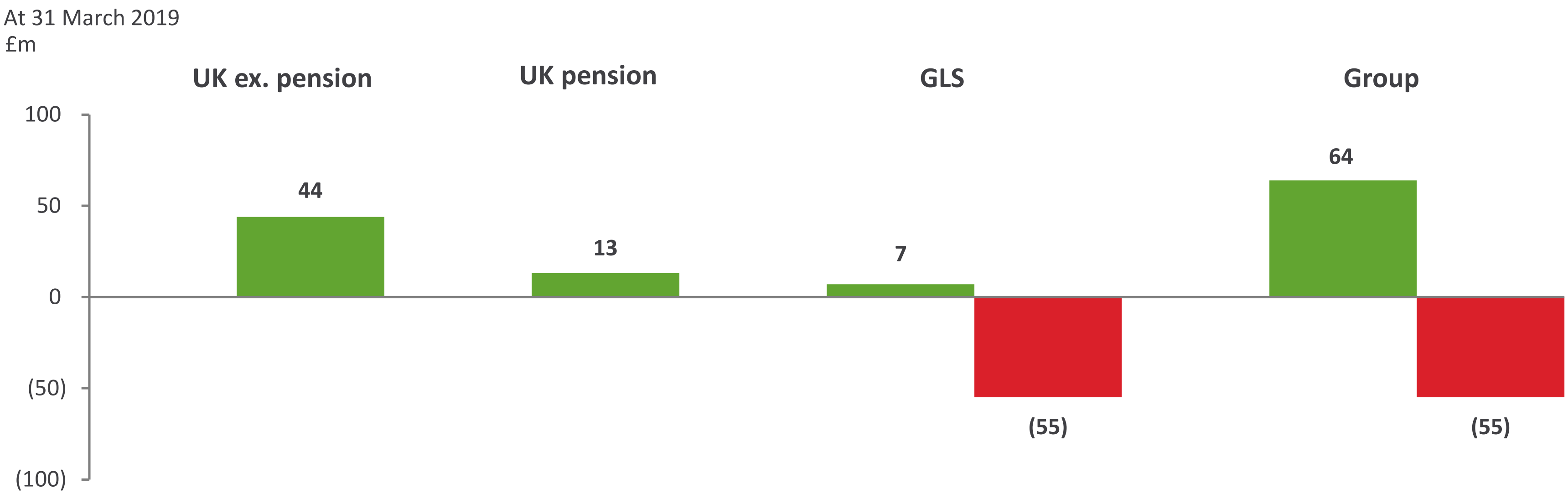
UK

- Additional tax payment of £17m in respect of 2017-18 one off pension escrow payment which does not attract tax relief
- Higher cash tax than prior year (2017-18: £16m) due to impact of new tax loss restriction rules

GLS

- Cash tax lower than prior year (2017-18: £59m) mainly due to prior year settlement of provision in relation to tax in Italy
- Cash tax in line with adjusted income statement tax charge

Deferred tax - balance sheet



UK

- Deferred tax asset of £44m in relation to tax losses, short term timing differences and capital allowances expected to be utilised in the short to medium term
- Deferred tax asset of £13m in respect of the DBCBS pension deficit expected to move in line with the deficit

GLS

- The increase in GLS deferred tax liabilities (2017-18: £45m) relates to deferred tax on acquisition intangibles. This has increased due to acquisition of Dicom, offset by the impairment of GLS US businesses

Journey 2024

Growing. Efficient. Diversified.

Royal Mail plc