Journey 2024

Growing. Efficient. Diversified.

Half Year 2019-20 Results

21 November 2019

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Rico Back

Group CEO

Reminder: Journey 2024

2023-24 vision

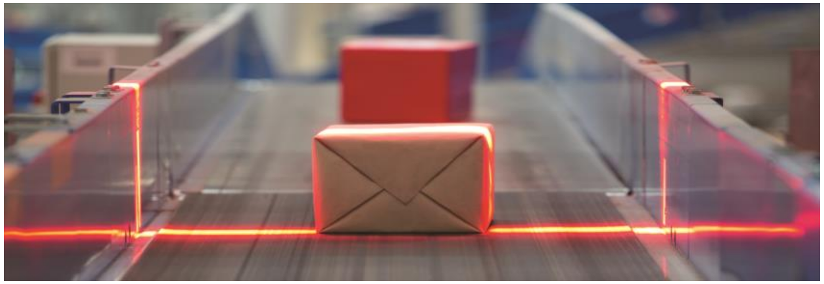
Growing.

c.£12bn revenue

(2-3% CAGR over next 5 years)

Efficient.

>5% operating profit margin



Diversified.

>70% revenue from Parcels

>40% generated outside UK

Half Year 2019-20 Results - Summary

Progress made executing the plan

Growing.	Efficient.	Diversified.
Group revenue up 5.1% Domestic account parcels volumes up 7% (excluding Amazon)	Productivity improvement 2.2% Costs avoided £86m	Parcels 63% of Group revenue 38% Group revenue outside UK

H1 Tailwinds and Headwinds

- Continue to outpace UK addressable parcel market growth ↑
- Letter price increases from January 2019 onwards ↑
- European parliamentary elections ↑
- Continued business uncertainty ↓
- Weak Sterling impact on import revenue/export costs ↓

H2 Tailwinds and Headwinds

- Continued growth in parcels ↑
- Christmas trading ↑
- General Election December 2019 ↑
- Continued business uncertainty – addressed letter volumes (excluding elections) now expected to decline 7-9% for FY 2019-20 ↓
- Industrial relations environment ↓

Growing.

Delivering growth against a challenging backdrop

Group revenue up 5.1%[1]

UKPIL revenue up 1.8%[1]	GLS revenue up 14.1%[1]

Parcels

- Outpacing domestic parcels addressable market volume growth
    - Domestic account parcels (excluding Amazon) up 7%
    - Royal Mail Tracked 24 / 48 / Returns up 20%
- Product innovation

Letters

- Letters revenue down 1.4%
- Addressed letter volumes (excluding elections) down 8%
    - Continuing business uncertainty
    - Weaker GDP outlook
    - Negative GDPR effects at start of period

GLS

- Revenue up 8.9% (excluding acquisitions)
- Acquisitions contributed £69m revenue growth
- GLS US performing well
- Operating profit up 16.9%; operating margin 5.9%

Cross-border

- Cross-border revenue c.£800m[2], up 4.2%
- 6.9% revenue growth in cross-border parcels
- UK exports stronger due to customer win and imports weaker due to Sterling
- Universal Postal Union rate increase

[1] Absolute increase including acquisitions [2] Cross-border comprises GLS International, Parcelforce International and Royal Mail International

Efficient.

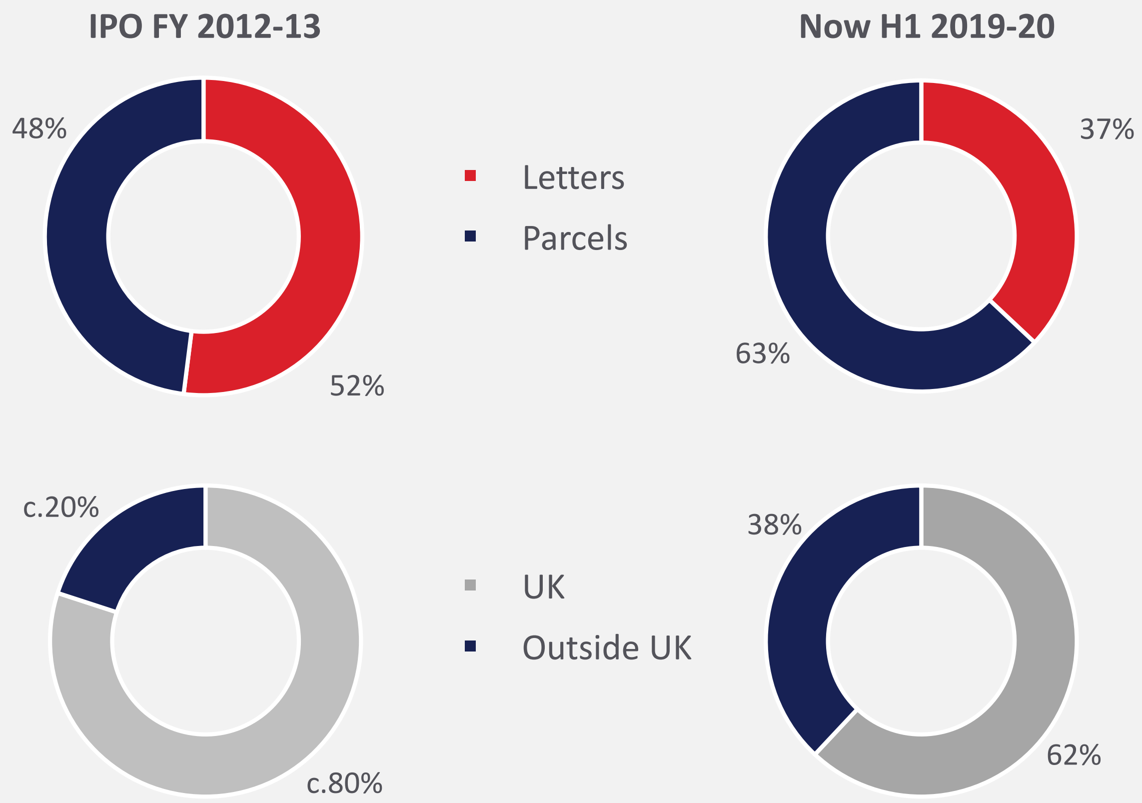
Good progress in many of our change initiatives…

Productivity and quality	• Above target Quality of Service • Productivity improvement 2.2% vs prior period	✓
Network design	• 16 small parcel sorting machines (vs. 10 YE 2018-19) • Parcel automation now c.26% (vs. 12% during 2018-19) • Secured parcel hub and finalising automation design	✓
Tools and trials	• PDA Outdoor Actuals deployed • Routing tool completed and deployment started • Delays in hours capture and resource scheduler	–
New delivery method trials	• Delivery methods delayed • Second van delivery trial postponed	✗

Diversified.

H1 2019-20 Group revenue becoming increasingly diversified

63% revenue from parcels[1], 38% generated from outside UK[2]



[1] Total UKPIL parcel revenue and total GLS revenue as proportion of total Group revenue [2] GLS and Royal Mail International revenue as proportion of total Group revenue

Outlook

Maintain Journey 2024 plan ambition[1]

£m	2019-20	2020-21	2021-22 Ambition	2023-24 Ambition
Group revenue growth	2-3% CAGR over 3 and 5 years			c. £12 billion
Group adjusted operating profit[2]	£300-340m			
Group adjusted operating profit margin[2]	Margin compression		>4%	>5%
Total capex	Cumulative incremental capex of £400 – 500m			
Dividend per share	15p underpin			
UKPIL revenue growth	Returns to growth			
Letter volume decline	7-9%	6-8%	4-6%	
UKPIL adjusted operating profit margin[2]	Margin compression		3-4%	5%
GLS revenue growth	€4.5bn in 2024			
GLS adjusted operating profit margin[2]	6-7%			

[1] Assumes GDP will remain below average in near-term, and return to a typical growth rate in the medium term. We assume we will deliver the change associated with the UK "turnaround and grow" programme in a collaborative manner [2] Before impact of IFRS 16

Summary

Our Journey 2024 plan ambitions remain unchanged

Building a strong and successful Royal Mail for the future

H1 execution

- GLS and UK parcels growth
- Great Quality of Service
- Productivity gains
- Transformation key milestones

Headwinds

- Continued business uncertainty
- Industrial relations environment

Outlook

- Journey 2024 plan ambitions unchanged
- Strong balance sheet

Stuart Simpson

Group CFO and COO

H1 2019-20 Financial summary

£m	Pre IFRS 16 adjusted H1 2019-20	Adjusted H1 2019-20	Re-presented[1] adjusted H1 2018-19	Change[2]
Revenue	5,166	**5,166**	4,914	**5.1%**
Operating profit	158	**165**	190	**(13.2%)**
Margin	*3.1%*	***3.2%***	*3.9%*	***(70bps)***
Earnings per share (basic)	11.5p	**11.1p**	13.6p	
In-year trading cash flow	85	**152**	(100)	
Net debt	(310)	**(1,372)**	(470)	
Interim dividend per share	7.5p	**7.5p**	8.0p	

- Acquisitions accounted for c.1ppt of revenue growth
- Margin compression as expected
- In-year trading cash flow impacted by timing differences, IFRS 16 and no payment of 2018-19 bonuses
- Net debt increased significantly due to IFRS 16
- Interim dividend set at half of full year underpin of 15p

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment
[1] Re-presented to reflect: new methodology for allocation of letters and parcels revenue and volume in UKPIL; transformation costs incorporated within relevant UKPIL operating cost categories, and elimination of intragroup revenue and costs on consolidation. The results for H1 2018-19 have not been restated for the impact of IFRS 16 [2] Change reflects period on period movement between figures as presented

UKPIL results

£m	Adjusted H1 2019-20	Re-presented[1] adjusted H1 2018-19	Change[2]
Revenue	**3,649**	3,585	**1.8%**
Operating costs	**(3,574)**	(3,472)	**2.9%**
Operating profit	**75**	113	**(33.6%)**
Margin	***2.1%***	*3.2%*	***(110bps)***

- Revenue growth of 1.8%
- People cost pressures not offset by productivity gains
- Margin compression as expected
- IFRS 16 impact on operating profit £5m benefit

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment
[1] Re-presented to reflect: new methodology for allocation of letters and parcels revenue and volume in UKPIL and transformation costs incorporated within relevant UKPIL operating cost categories. The results for H1 2018-19 have not been restated for the impact of IFRS 16
[2] Change reflects period on period movement between figures as presented

UKPIL revenue

Parcels

- Parcel volume up 5%; revenue up 5.6%
- Domestic account volumes (ex. Amazon) up 7%
  - Royal Mail Tracked 24®/48® and Tracked Returns® volumes up 20%
- International traffic
  - cross-border offering moderating as expected. Lower import volumes (ex. cross-border) driven by weak Sterling
  - contract export volumes benefitted from new customer win
- Parcelforce Worldwide volumes up 2%

Letters

- Total letter revenue down 1.4%
  - benefiting from European parliamentary elections and introduction of targeted price increases
  - advertising letter[2] revenue down 8.8% at £306m
    - impacted by GDPR and business uncertainty
- Addressed letter volumes (ex. elections) down 8%
  - excluding impact of GDPR, decline would have been c.1ppt lower
- Unaddressed volumes down 10%
  - impacted by continued business uncertainty

Note: Addressed volumes exclude political parties' election mailings
[1] Other includes unaddressed advertising mail, philatelic and other non-volume related items [2] Comprises addressed and unaddressed advertising letters products

Addressed letter volume outlook

Addressed letter volumes (excluding elections)

		vs. medium-term guidance	
2019-20 May Guidance	5-7% decline	GDPR	↓
		GDP	↓
2019-20 Outlook	7-9% decline	GDP	↓ ↓
		Business uncertainty	↓ ↓
		Residential building	↓
2020-21 Outlook	6-8% decline	GDP	↓
		No GDPR impact	↔
		Business uncertainty	↓

UKPIL costs

£m	Adjusted H1 2019-20	Re-presented[1] adjusted H1 2018-19	Change[2]
People costs	**2,495**	2,416	**3.3%**
People costs	**2,489**	2,406	**3.4%**
Voluntary redundancy costs	**6**	10	**(40.0%)**
Non-people costs	**1,079**	1,056	**2.2%**
Distribution & conveyance costs	**390**	369	**5.7%**
Infrastructure costs	**381**	361	**5.5%**
Other operating costs	**308**	326	**(5.5%)**
Total costs	**3,574**	3,472	**2.9%**

Adjusted operating costs up 2.9%

- People cost pressures not fully offset by productivity gains
- Transformation costs £49m
- Costs avoided £86m, on track for £150-200m for FY

People costs up 3.3%

- Impact of:
  - frontline and manager pay awards
  - only partially absorbing one hour reduction in working week
- Productivity of 2.2% and 1.7% reduction in core network hours

Non-people costs up 2.2%

- Increase in distribution & conveyance costs driven by higher terminal dues and fuel costs
- Increase in infrastructure costs driven by higher depreciation and IT costs
- Other operating costs lower reflecting cost programme

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment
[1] Re-presented to reflect transformation costs incorporated within relevant UKPIL operating cost categories. The results for H1 2018-19 have not been restated for the impact of IFRS 16 [2] Change reflects period on period movement between figures as presented

GLS results

£m	Adjusted H1 2019-20	Adjusted H1 2018-19	Change[1]
Revenue	**1,537**	1,347	**14.1%**
Operating costs	**(1,447)**	(1,270)	**13.9%**
Operating profit	**90**	77	**16.9%**
Margin	***5.9%***	*5.7%*	***20bps***
Volumes (m)	**321**	301	**7%**
Average £1 = €	**1.13**	1.13	

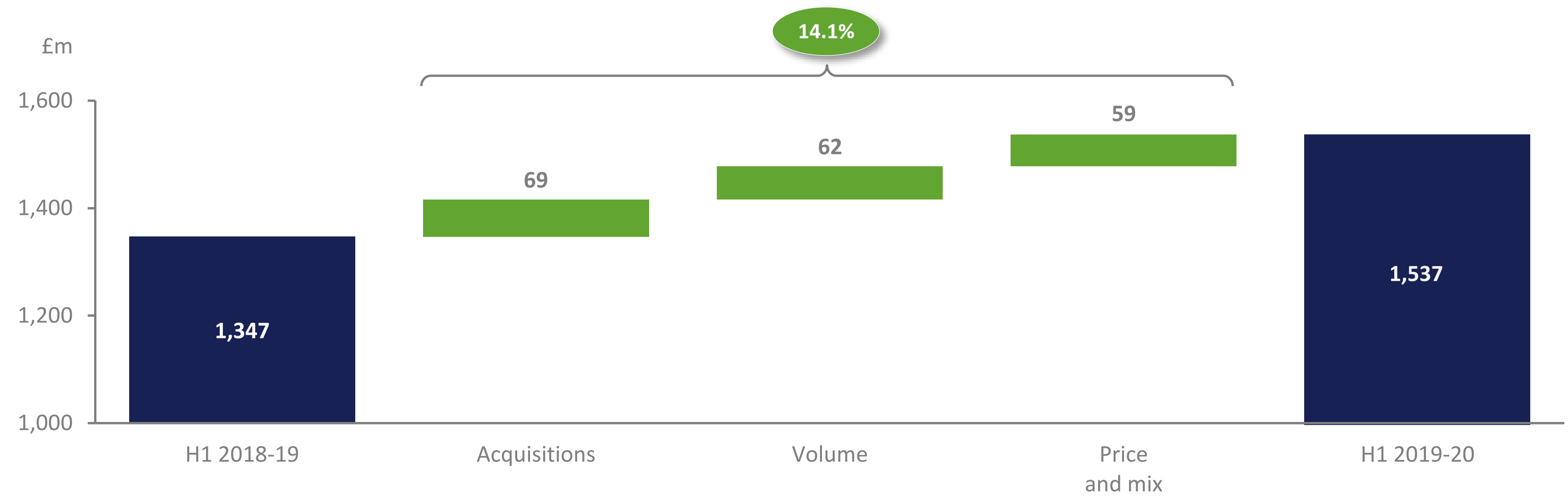
€m	Adjusted H1 2019-20	Adjusted H1 2018-19
Revenue	**1,730**	1,524
Operating costs	**(1,629)**	(1,437)
Operating profit	**101**	87

Adjusted results

- Continued good revenue performance, up 14.1% including acquisitions
  - driven by higher volumes, targeted price increases and customer mix effects
- Operating profit margin 5.9%, benefiting from Dicom acquisition
- GLS US losses reduced by $4m - business plan performing well
  - adding LTL capability through Mountain Valley Express acquisition
- Dicom performing in line with expectations
- IFRS 16 impact on operating profit £2m benefit
- Negligible foreign exchange impact on profit

Note: Adjusted results exclude specific items
[1] Change reflects period on period movement between figures as presented

GLS revenue



- Revenue up 14.1% including acquisitions
  - significant contribution from Dicom
- Revenue up 8.9% excluding acquisitions
  - positive impact of higher volumes, targeted price increases and customer mix effects
- Germany, Italy and France accounted for 54.9% of total revenue
- Continued good performance in Germany up 10.8% driven by international volumes and improved pricing
- Continued strong performance in Eastern Europe

Note: Adjusted results exclude specific items

GLS costs

£m	Adjusted H1 2019-20	Adjusted H1 2018-19	Change[1]
People costs	**353**	318	**11.0%**
Non-people costs	**1,094**	952	**14.9%**
Distribution & conveyance costs	**959**	841	**14.0%**
Infrastructure costs	**96**	78	**23.1%**
Other operating costs	**39**	33	**18.2%**
Total costs	**1,447**	1,270	**13.9%**

Adjusted operating costs up 13.9%

- Up 9.0% excluding acquisitions

People costs up 11.0%

- Up 5.6% excluding acquisitions
  - pay inflation: c.3%
  - semi-variable costs linked to volume: c.2%

Non-people costs up 14.9%

- Up 10.1% excluding acquisitions
- Distribution & conveyance costs up 14.0% driven by volume growth and higher subcontractor rates
- Infrastructure costs up 23.1% driven by higher property and IT costs
- Other operating costs up 18.2% primarily driven by compensation and other costs

Note: Adjusted results exclude specific items
[1] Change reflects period on period movement between figures as presented

Adjusted Group profit after tax

£m	Adjusted H1 2019-20	Adjusted H1 2018-19
Operating profit	**165**	190
Finance costs[1]	**(23)**	(10)
Finance income	**4**	3
Net finance costs	**(19)**	(7)
Profit before tax	**146**	183
Tax charge	**(35)**	(47)
Profit for the period	**111**	136
Earnings per share (basic)	**11.1p**	13.6p

Expected FY Group effective tax rate 24-25%

Note: Adjusted results exclude specific items and are after the pension charge to cash difference adjustment
[1] Includes interest on €500m bond of £6m and interest on leases capitalised under IFRS 16 of £12m

Specific items and pension adjustment

£m	H1 2019-20	H1 2018-19
Regulatory fine	**(51)**	-
Impairment relating to US businesses	**-**	(68)
Accounting impact of RMSEPP buy-in	**-**	(64)
Employee Free Shares charge	**(4)**	(17)
Amortisation of acquired intangible assets	**(10)**	(10)
Legacy/other credits/(costs)	**4**	(1)
Total operating specific items	**(61)**	(160)
Profit on disposal of property, plant & equipment	**88**	5
Net pension interest	**43**	39
Total non-operating specific items	**131**	44
Pension charge to cash difference adjustment	**(43)**	(34)
Total specific items and pension charge to cash difference adjustment	**27**	**(150)**

£m	H1 2019-20 Reported	H1 2019-20 Adjusted
Profit before tax	173	146
Profit after tax	153	111
Earnings per share (basic)	15.3p	11.1p

- £51m regulatory fine in relation to historic complaint
- Prior period impacted by £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 £4m
  - expected to be c.£5m for FY and not material thereafter
- Profit on disposal of property, plant & equipment £88m reflecting completion of sale of Plots B & D and C of Nine Elms
- Higher pension interest credit due to higher pension surplus
  - expected to be £86m for FY
- Pension charge to cash difference higher, reflecting increase in the pension charge rate for the DBCBS
  - expected to be c.£85m for FY

Group in-year trading cash flow

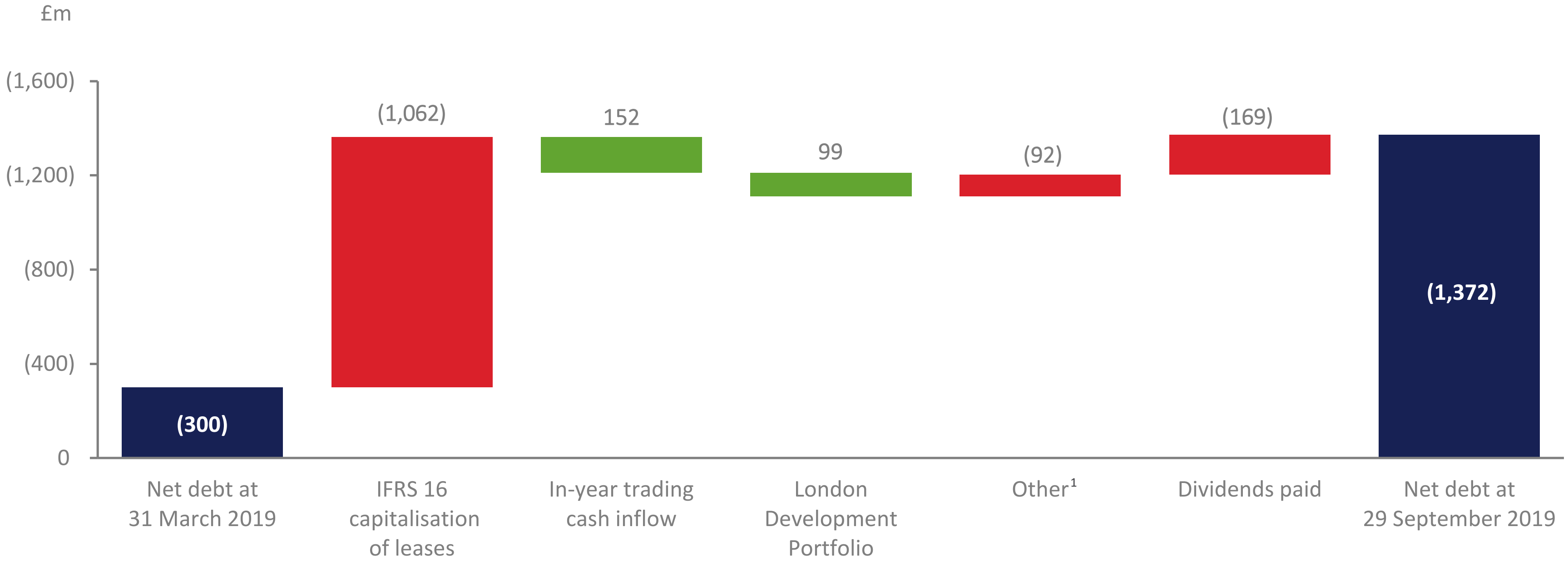
£m	H1 2019-20	Re-presented[1] H1 2018-19
Adjusted operating profit	**165**	190
Depreciation & amortisation	**252**	167
Adjusted EBITDA	**417**	357
Trading working capital movements	**(105)**	(267)
Share-based awards (LTIP/DSBP) charge	**3**	4
Gross capital expenditure	**(113)**	(137)
Net finance costs paid	**(24)**	(10)
Research & development expenditure credit	**3**	2
Income tax paid	**(29)**	(49)
In-year trading cash flow	**152**	(100)

- Depreciation higher largely due to IFRS 16 (£72m)
- Trading working capital outflow lower than prior period reflecting £101m 2017-18 frontline pay award in prior period and no bonus payment in H1 2019-20
- Growth capex £83m of which GLS capex £40m
- Net finance costs higher largely due to IFRS 16 (£12m)
- Cash tax £20m lower largely due to 2018-19 pension escrow payments not eligible for tax relief

£m	H1 2019-20	H1 2018-19
Growth capex	**(83)**	(88)
Replacement capex	**(30)**	(49)
Gross capex	**(113)**	(137)

[1] Re-presented to reflect transformation costs incorporated within relevant UKPIL operating cost categories

Uses of cash/net debt



- London property cash inflows of £123m in relation to Nine Elms plot sales partially offset by infrastructure and enabling works at Nine Elms and Mount Pleasant
- Free cash flow of £245m
- Net debt increased by £1,072m largely due to adoption of IFRS 16

Strong balance sheet

[1] Other comprises IFRS 16 lease obligations movement (-£62m), foreign exchange movement (-£21m), other working capital movements (-£9m), operating asset disposals (£5m), purchase of own shares (-£3m), operating specific items (-£1m) and acquisition of business interests (-£1m)

Summary

Maintain Group operating profit target for FY 2019-20, challenges remain

H1 performance

- Pleased with H1 performance – absorbed some significant challenges
- Strong revenue growth – UKPIL and GLS
- Best Quality of Service for several years

H2 tailwinds/ headwinds

- Benefit of General Election
- Investing to protect service
- Challenges remain – lower letter volumes, GDP, business uncertainty, industrial relations environment

Outlook

- Maintain Group operating profit target for FY 2019-20
- Confident GLS margin hits 6-7% FY 2019-20
- Journey 2024 plan ambitions unchanged

Appendix

IFRS 16

- Impact on H1 2019-20 results:

Income statement

		IFRS 16 Impact
Non-people costs		
Depreciation	⬆	£72m
Operating lease costs	⬇	£79m
Operating profit	⬆	**£7m**
Net finance costs	⬆	£12m
Profit before tax	⬇	**£5m**

Balance sheet at transition

		IFRS 16 Impact
Property, plant & equipment	⬆	£1,045m
Less existing prepayments	⬇	(£20m)
Total assets	⬆	**£1,025m**
Obligations under lease contracts	⬆	£1,062m
Less existing accruals	⬇	(£38m)
Total liabilities	⬆	**£1,024m**
Net assets/reserves	⬆	£1m

- Principal impact is that majority of leases (property and vehicles) previously classified as operating leases have been capitalised on the balance sheet as assets
- A liability representing the present value of contractual lease payments has also been recognised
- We stated that we would continue to implement and refine procedures and processes to apply the requirements of IFRS 16 and that there could be changes to the impact we originally estimated. There are options available as to how leases are capitalised and our experience applying IFRS 16 led us to change the methodology used which changed the impact we originally estimated. This could be further impacted by any material new lease agreements that are entered into in the second half

FY impact of IFRS 16 on operating profit expected to be c.£10-20m

UKPIL data

Parcels	H1 2019-20	Re-presented[1] H1 2018-19
Volumes (m)		
Royal Mail	564	535
Parcelforce	49	48
Total	**613**	**583**
Change	*5%*	*6%*
Revenue (£m)	**1,726**	**1,634**
Change	*5.6%*	*5.9%*

Letters	H1 2019-20	Re-presented[1] H1 2018-19
Volumes (m)		
Addressed	4,912	5,171
Unaddressed	1,244	1,381
Total	**6,156**	**6,552**
Change	*(6%)*	*(9%)*
Revenue (£m)	**1,923**	**1,951**
Change	*(1.4%)*	*(6.3%)*

[1] Re-presented to reflect new methodology of allocating UKPIL letter and parcel revenue and volume

Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
Euro bond[1]	2.5%	443	443	2024
Revolving credit facility	LIBOR +0.475%	925	-	2024
Total		**1,368**	**443**	

Net debt[2]

£m	29 Sep 2019	31 March 2019
Loans/bonds	**(443)**	(431)
Leases[3]	**(1,171)**	(125)
Cash and cash equivalents[4]	**222**	236
Pension escrow (RMSEPP)	**20**	20
Net debt	**(1,372)**	**(300)**

- S&P investment grade rating of BBB stable outlook
- On 8 October 2019, Royal Mail issued a €550m bond with maturity date of 8 October 2026
- An amended £925m RCF replaced the existing £1,050m RCF in September 2019 with an end date of 2024
- Net debt increased by £1,072m largely due to adopting IFRS 16

[1] €500m liabilities net of discount and fees at spot rate £1/€1.125 revalued at balance sheet date [2] Net debt excludes £189m related to RMPP pension escrow investments which are not considered to fall within definition of net debt [3] Includes £1,062m leases in H1 2019-20 following adoption of IFRS 16 [4] Includes GLS client cash of £29m (31 March 2019: £20m)

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 & D: Sale to Greystar completed
			  • £101m received in July 2019
			  • £30m being re-invested in infrastructure associated with these plots
			• Plot C: Sale to Galliard Homes completed
			  • £22m received in June 2019
			• 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 • Remainder to be paid in staged payments over 2019-20 to 2020-21 and final lump sum payments in 2024 • Separation and enabling works on track to complete in 2021 and expected to cost c.£100m

	2014-15	2015-16	2016-17	2017-18	2018-19	H1 2019-20
Total proceeds	111	-	-	43	41	123
Total investment	(11)	(23)	(34)	(33)	(34)	(24)
Net cash position	100	(23)	(34)	10	7	99
Cumulative	100	77	43	53	60	159

2019-20 onwards

Nine Elms proceeds expected from further plot sales

Staged payments and lump sum payments for Mount Pleasant

Nine Elms additional investment only if further sales

Pensions

Income statement

£m		H1 2019-20	H1 2018-19
RMPP		**(5)**[1]	(6)[2]
DBCBS		**(184)**	(181)
RMDCP[4]		**(47)**	(39)
GLS		**(4)**	(4)
PSE[5]		**(88)**	(85)
People costs		**(328)**	(315)
RMSEPP buy-in[6]		-	(64)
Total EBIT pension costs		**(328)**	(379)
Pension interest credit[7]		**43**	39
Total net PBT pension costs		**(285)**	(340)
Pensionable payroll (£bn)	DBCBS	**0.9**	1.0
Income statement rate	RMPP	**N/A**	41.0%
	DBCBS[8]	**19.6%**	18.9%
	RMDCP[9]	**8.5%**	8.0%
Number of active members	DBCBS	**c.80,000**	c.84,000
	RMDCP	**c.52,000**	c.46,000

Cash flow

£m		H1 2019-20	H1 2018-19
RMPP		-	(5)[2,3]
DBCBS		**(146)**	(147)
RMDCP[4]		**(47)**	(39)
GLS		**(4)**	(4)
PSE[5]		**(88)**	(85)
RMSEPP deficit		-	(1)
Cash contributions		**(285)**	(281)
Pensionable payroll (£bn)	DBCBS	**0.9**	1.0
Cash rate	RMPP	**N/A**	17.1%
	DBCBS	**15.6%**	15.6%
	RMDCP[9]	**8.5%**	8.0%

[1] Comprises pension administration costs only [2] Includes 1 week of RMPP costs to 31 March 2018 [3] Includes £2m pension related accruals timing difference [4] Excludes £4m insurance premium costs (H1 2018-19: £5m) which are included in people costs [5] Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay [6] Operating specific item [7] Non-operating specific item [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

Group tax

£m	Reported H1 2019-20			Adjusted H1 2019-20		
	UKPIL	GLS	Group	UKPIL	GLS	Group
Profit before tax	95	78	173	64	82	146
Income statement tax credit/(charge)	2	(22)	(20)	(12)	(23)	(35)
Effective tax rate	n/a	n/a	n/a	**18.8%**	**28.0%**	**24.0%**
Cash tax payments	(9)	(20)	(29)	n/a	n/a	n/a

Income statement tax

UKPIL

- **Adjusted:** broadly in line with prior period (H1 2018-19: 19.3%) and the UK statutory rate. One-off recognition of deferred tax assets matches a reduced amount recognised for technology claims.
- **Reported:** impacted due to no tax charge arising on profits on property disposals offset by reinvestment relief, non-taxable net pension interest income, a one-off deferred tax asset recognition and a non-deductible regulatory fine.

GLS

- **Adjusted:** higher rate in the prior year (H1 2018-19: 35.1%) due to derecognising brought forward US deferred tax assets.
- **Reported:** broadly same as adjusted.

Cash tax

UKPIL

- Cash tax lower than prior year (H1 2018-19: £33m) largely because there was no tax relief in 2018-19 on payments made to the pension escrow in prior years. There was also a receipt in H1 2019-20 in respect of an overpayment relating to prior years.

GLS

- Cash tax higher than prior year (H1 2018-19: £16m). Mainly due to making an up front lump sum payment in Italy rather than spreading, and increased profits in Germany. In the prior period there were no payments for the Canadian business.

Journey 2024

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