Royal Mail plc
H1 2013-14 Results

27 November 2013

Forward-Looking Statements

This presentation contains various statements and graphic representations (together, “forward-looking statements”) that reflect management's current views and projections with respect to future events and financial and operational performance. The words “target”, “objective”, "growing", "scope", "platform", "future", “forecasts”, "expected", "estimated", "accelerating", "expanding", "continuing", "potential" and "sustainable" and similar expressions or variations on such expressions identify certain of these forward-looking statements. Others can be identified from the context in which the statements or graphic representations are made. These forward-looking statements, as well as those included in any other material discussed as part of this presentation involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond Royal Mail's control and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. All statements (including forward-looking statements) contained herein are made as of the date of this presentation and Royal Mail disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

Moya Greene
Chief Executive Officer

H1 2013-14 Overview

Key Messages

- Financial performance in line with our expectations
  - Low single digit revenue growth
  - Margin expansion
  - Growth in underlying cash flow
- Parcels now **51%** of Group revenue

Group Financials[1]

- Revenue up **2%,** operating costs after transformation costs **broadly flat**
- Operating profit margin after transformation costs improved to **5.2%**
  - 190bps improvement
- Underlying cash flow generation of **£103m** vs. £14m in H1 2012-13

[1] Adjusted for the impact of foreign currency movements in GLS and the difference in working days in UKPIL

Delivering Our Strategy

Being a Successful Parcels Business – UK

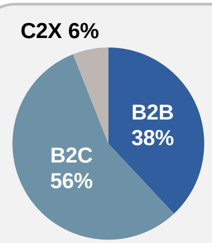
#1 in UK Parcels Market

- **>1/3**[1] market share in revenue terms
- **>50%**[1] market share in volume terms
- Handle over **1bn** parcels p.a.
- >90% parcel volume through core network

Market Trends

- E-retailing fuelling parcel volume growth
- UK is the largest e-retailing market in Europe with continued expected growth
- Highly competitive market

UK Parcels Market (Volume)[2]



- B2C + C2X growth forecast: 4.5%-5.5%
- B2B growth forecast: c.GDP

Key Strengths

- Strong track record – historical >10% revenue CAGR for UKPIL parcels over last 2 years
- Powerful brands
- Significant advantages from common core network
- Complementary express parcel network – Parcelforce Worldwide
- High delivery standards

[1] Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013
[2] Based on volume growth for calendar years 2009-2012, sourced from 2012 Triangle UK Fulfilment Market Measure

Delivering Our Strategy

Market Dynamics

	Market Developments	Royal Mail Response
Amazon	▪ Building own delivery network in key areas ▪ Introducing Sunday deliveries in London ▪ Using couriers for 'final mile'	▪ Existing volume based contracts ▪ Working closely to provide most economic and high quality service for Amazon parcels ▪ Ability to deliver Sunday service during Christmas period
eBay	▪ Trial with Argos for Click and Collect ▪ Purchase of Shutl 'same hour' courier to support eBay Now roll out	▪ Expanded Small Parcel size to target fastest growing categories ▪ Added 2C lowest cost services to eBay portal – lowest price for parcels under 1kg ▪ Launch of Local Collect
Retailers /e-retailers	▪ Click and Collect used to capture growth in online shopping and drive footfall in stores ▪ Pick Up Drop Off networks (ParcelShop, Collect+) used by pure play e-retailers	▪ Launch of Local Collect ▪ Tracked return service launched – growth in clothing and footwear sectors driving returns
Other parcel operators	▪ Notification of delivery services developed by many carriers e.g. DPD continue IT-driven changes ▪ Additional capacity being built by growing carriers e.g. Hermes increasing capacity	▪ New SMS & email delivery notification available for Special Delivery ▪ Parcelforce capacity expansion delivered on time ▪ Significant seasonal capacity now available in Royal Mail

Delivering Our Strategy

H1 2013-14 Strategy Implementation

Getting the Basics Right

- **Pricing**
  - Pricing by size for consumer and SME parcels to optimise delivery through most appropriate network according to size, value and urgency
  - Contributed to increased volumes in Parcelforce Worldwide of +9%
  - Some larger uneconomic items exited our networks
  - Expanded Small Parcel category
- **Customers**
  - Expanded account management to c.5,000 more customers to accelerate growth in smaller & medium customer base

Getting the Technology Right

- Biggest technology transformation in UK parcels market
- Roll out of handheld scanners complete for Christmas
- Progress on barcoding all parcels for track and trace

Expanding and Automating Our Networks

- Continued expansion of the Parcelforce network
  - Chorley processing centre open
  - 10 new/replacement/extended depots
- Continuing scoping work for parcels automation

Building on Royal Mail's Core Strengths with a Platform for Future Growth

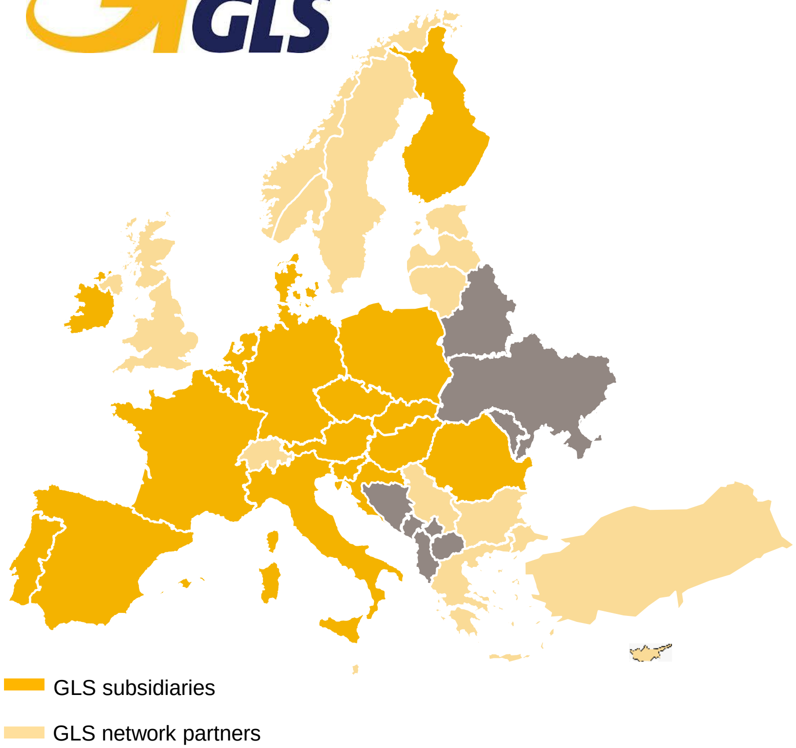
Delivering Our Strategy

Being a Successful Parcels Business – GLS

Europe-wide parcels

- A leading ground-based deferred parcel delivery network in Europe
- Presence in 37 countries, 18 covered through wholly-owned subsidiaries
- Handled c.380m parcels in 2012-13
- Well positioned
  - B2B focused – c.73% by volume
  - Broad customer base – no customer >1% of revenue
  - Technology focus – common cross-border IT platform
- c.70% of revenue from three main markets: Germany, France and Italy
- Sub-contractor driver model provides flexible delivery reach

GLS



Delivering Our Strategy

Being a Successful Parcels Business – GLS

H1 2013-14 – Update

- Germany:
  - Revenue growth driven by domestic volumes
  - Low unemployment driving higher subcontractor costs
  - Using larger transport companies to reduce costs and increase stability and flexibility
  - Healthy margins
- France:
  - Early stage in turnaround but progressing in line with expectations
  - Revenue up marginally, costs stabilised, losses reduced, but more to do

- Italy:
  - Gains from competitor disruption
  - Strong financial performance
  - Acquisition of franchisee
- Emerging European markets expansion – Croatia
- Export volumes growing strongly
- IT – development and roll out of ‘Flex Delivery’ service

Delivering Our Strategy

Managing the Decline in Letters

Royal Mail's Positioning

Expertise in forecasting rate of volume decline
c.4-6% p.a. estimated decline in addressed letter volume

Less dependent on letters than peers

Regulatory framework and growth initiatives to mitigate decline

Segmented Approach to Pricing

Building Customer Relationships

Enhancing Marketing Mail Offer

Adding Additional Value to Mail – Mailmark

Delivering Our Strategy

H1 2013-14 Update – Letters

H1 2013-14 Volume and Revenue

- Addressed letter volume decline moderated to 6%, in line with our medium term range
- Letter revenue declined by 4%
- Marketing Mail revenue declined by 3%
  - H1 2012-13 benefited from build up to Olympics and Diamond Jubilee

Direct Delivery Competition

- Monitoring developments in direct delivery competition
  - Regulator monitoring impact of direct delivery on sustainability of USO
- TNT direct delivery volumes reaching 1.2m items per week
  - Delivery services in Manchester started

Barcoding

- Early 2014 – Live trials of Mailmark, new letter barcoding
- £70m investment progressing to plan
- Mailmark
  - Provides new level of mailing data and visibility for business customers
  - Significantly increases customers ability to track consignments of addressed letters through our network
  - Ensures we are fairly paid for the mail we deliver
- Potential to be applied to 90% of machinable letters volume

Unique Customer ID (i.e. letter sent by utility)

Unique Item ID (i.e. item is a letter, no. 300 of 27k in consignment)

Post Code & Delivery Point (i.e. identifies address and letter box)

Note: All like-for-like percentage changes are adjusted for the difference in working days in UKPIL

Delivering Our Strategy

Being Customer Focused

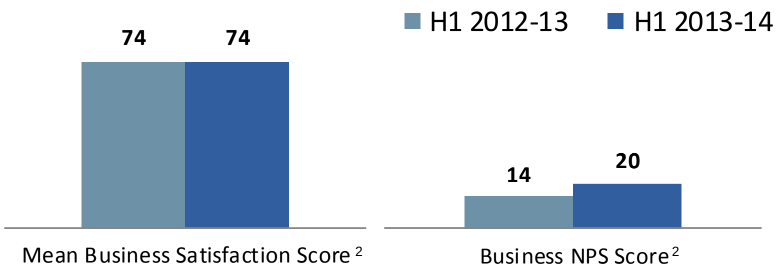
Quality of Service

- UK has the highest Universal Service specification of any major European country[1]
- In H1 2013-14, cumulatively we exceeded our targets:

	Target	Outcome
First Class	**93.0%**	**93.2%**
Second Class	**98.5%**	**98.8%**

- Continuing to react to customer needs and market developments
  - Expanded Small Parcel category
  - Launched tracked returns service
  - New SMS & email delivery notification available for Special Delivery

Customer Satisfaction



- Mean Business Customer Satisfaction Score[2] maintained
- Achieved our highest Net Promoter Score[2] for business customers of 20 in H1 2013-14
- Recent Which? survey found that regular post was the consumer's favourite way to have their online shopping delivered

[1] Germany, France, Spain and Italy
[2] Source: Business Customer CSI surveys (2011, 2012 & 2013)

Delivering Our Strategy

Industrial Relations

- Making good progress towards an important agreement
- Protections for our employees backed by protections for the company
- Common employer / union understanding
  - Business success is the best job security
- Optimistic that agreement can be reached with little or no disruption

Operations and Modernisation

- Three mail centres closed in the period, one closed since the end of H1, four more closures expected in H2 2013-14
- Begun modernising 1,000th Delivery Office out of total of c.1,400
  - Transformation activity impacted by current industrial relations environment
- Completed roll out of c.74,000 handheld scanners in time for Christmas

(YoY change)	2011-12	2012-13	H1 2013-14
Gross hours[1]	(3.1%)	(2.2%)	(3.3%)
Workload[1]	0.0%	(0.6%)	(1.7%)
Productivity[1]	**3.2%**	**1.7%**	**1.7%**

- Productivity improvement of 1.7% impacted by industrial relations environment and lower parcel volumes
- Workload down more than expected because of parcels: therefore greater hours reduction required to meet productivity target of 2-3%

[1] Represents processing, collections and delivery only

Matthew Lester
Chief Finance Officer

H1 2013-14 Value Drivers

Revenue	Operating costs	Transformation costs	Profit after transformation costs	Cash
UK parcels up 9% **UK letters** down 4% **UKPIL** up 1% **GLS** up 6%	**People costs** up 3% **Non-people costs** down 2%	**Transformation costs** £70m down £50m	**Profit after transformation costs** £283m **Margin** 5.2%	**EBITDA** £483m **Investment** £212m outflow
2% growth	**Flat**		**Up 190bps**	**£183m Free Cash Flow**
Low single digit revenue growth	*Past peak of transformation expenditure* *Net operating cost growth below rate of revenue growth*		*Drives margin expansion*	*Drives growth in underlying free cash flow*

H1 2013-14 Actual | Objective[1]

[1] See slide 1 on 'Forward Looking Statements'. These objectives do not represent any forecast, target or expectation as to future results or performance
All percentage changes are like-for-like and adjusted for the impact of foreign currency movements in GLS and the difference in working days in UKPIL

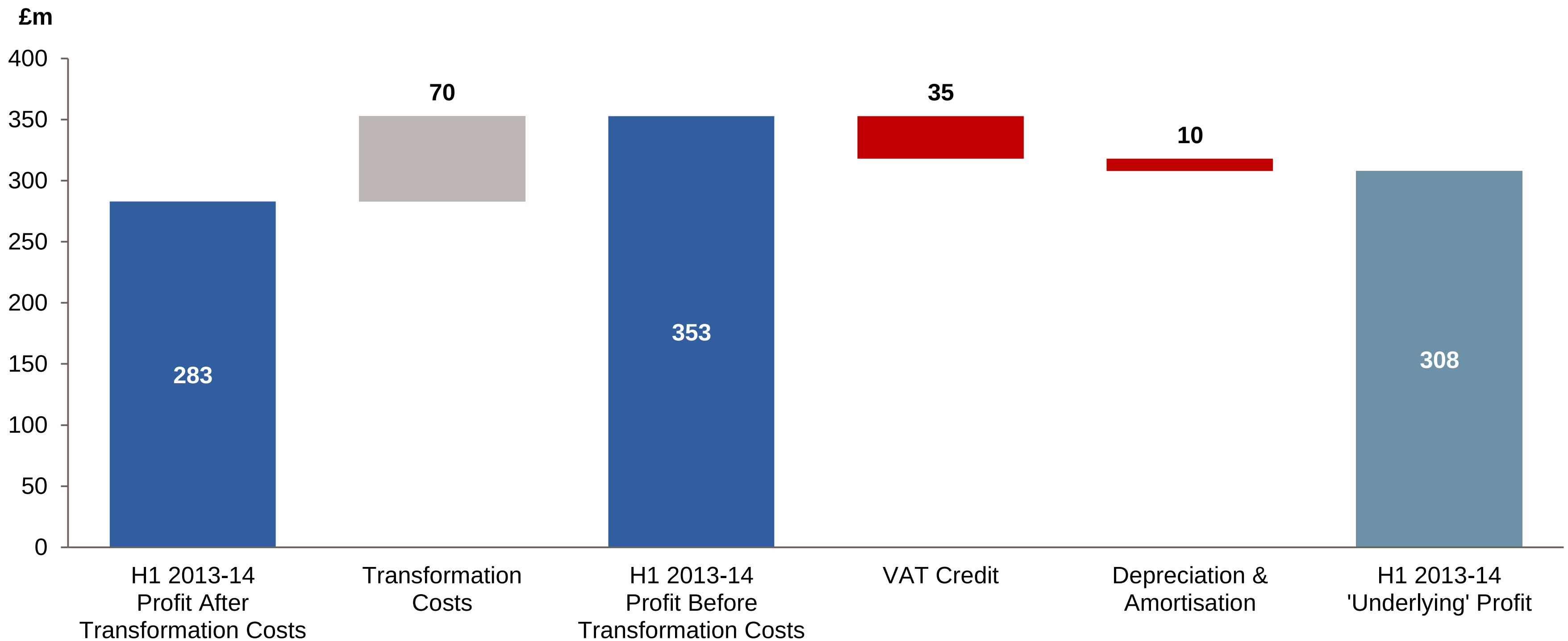
H1 2013-14 Financial Summary

£m	H1 2013-14	H1 2012-13	Change
Revenue			
UKPIL	**3,711**	3,636	1%
GLS	**801**	712	6%
Other	**8**	7	
Total	**4,520**	4,355	2%
Operating profit after transformation costs			
UKPIL	**224**	97	
GLS	**53**	45	
Other	**6**	2	
Total	**283**	144	
Operating profit margin after transformation costs			
UKPIL	**4.8%**	2.7%	+210bps
GLS	**6.6%**	6.3%	+30bps
Total	**5.2%**	3.3%	+190bps

- UKPIL delivered revenue growth and lower costs
  - Q1 revenue up 3%
  - Q2 impacted by slowdown in summer
- GLS continued trends seen in Q1
- Margin benefitted from £35m VAT credit and £10m lower depreciation and amortisation
  - Equivalent to 1 percentage point

Note: All like-for-like percentage changes are adjusted for the impact of foreign currency movements in GLS and the difference in working days in UKPIL. Like-for-like margin adjusted for the difference in working days in UKPIL

H1 Operating Profit ‘One-Offs’



H1 2013-14 impacted by:

- One-off VAT credit of £35m due to increased VAT recoverable rate for 2012-13
  - Regulation change in April 2012 increased scope of products attracting VAT leading to an increased recovery rate
- Depreciation and amortisation £10m lower year on year due to different mix in depreciable assets
  - H2 2013-14 depreciation and amortisation charge expected to be flat year on year

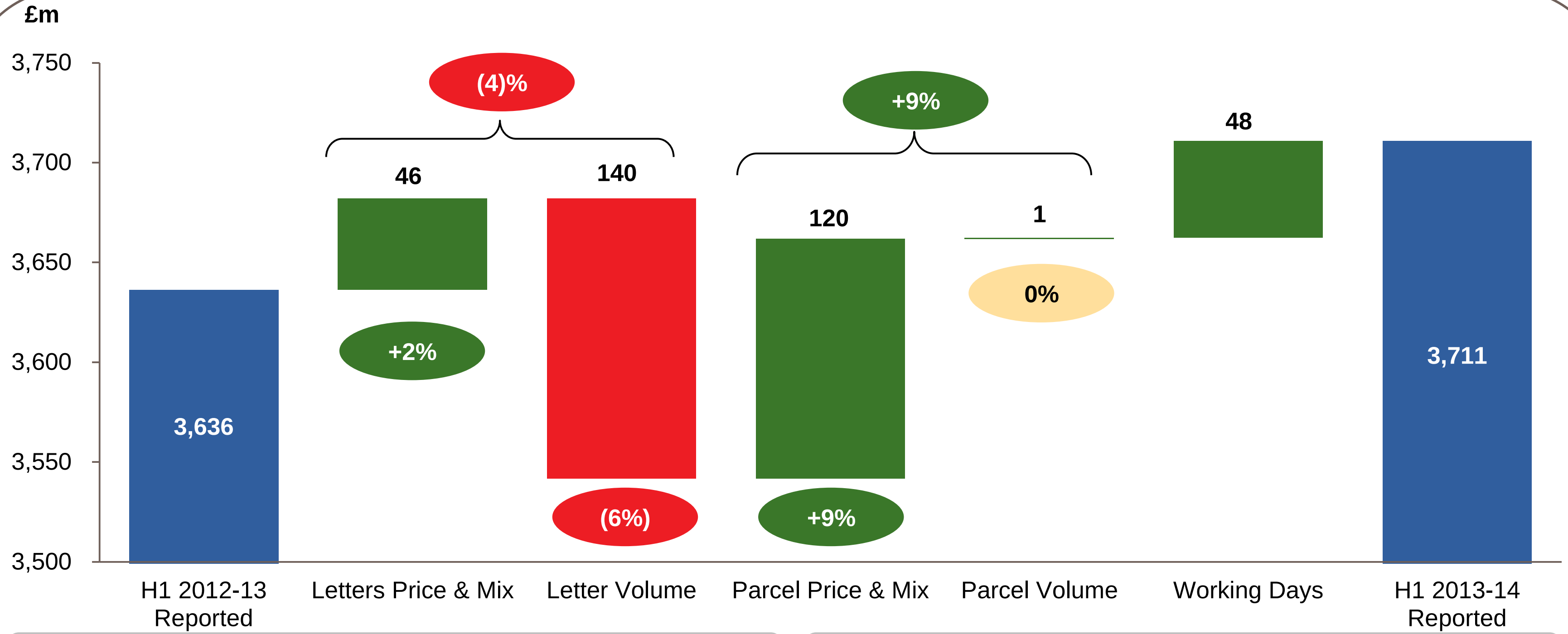
UKPIL Results

£m		H1 2013-14	H1 2012-13	Change
Revenue		**3,711**	3,636	1%
Net operating costs		**(3,417)**	(3,419)	0%
Transformation costs		**(70)**	(120)	(42%)
Net operating costs after transformation costs		**(3,487)**	(3,539)	(1%)
Operating profit after transformation costs		**224**	**97**	
Operating profit margin after transformation costs	- like-for-like	**4.8%**	2.7%	+210bps
	- reported	**6.0%**	2.7%	+330bps

- Revenue up 1%
- Net operating costs after transformation costs down 1%
- Operating profit margin up 210bps on a like-for-like basis

Note: All like-for-like percentage changes are adjusted for the difference in working days in UKPIL

UKPIL Revenue



Letters (£2,230m):

- Addressed letter volume decline moderated to 6%, in line with our medium term range
- Excluding impact of London 2012 philatelic sales in H1 2012-13, letter revenue was down 3%
- Marketing mail revenue of £545m – down 3% but strong comparator period due to Olympics and Diamond Jubilee build-up

Parcels (£1,481m):

- As expected, volume growth impacted by temporary slow-down in growth of e-retailing due to good summer weather and impact of size-based pricing
- Strong growth in account parcel/Parcelforce volumes offsetting lower volumes in consumer channels

Note: All like-for-like percentage changes are adjusted for the difference in working days in UKPIL

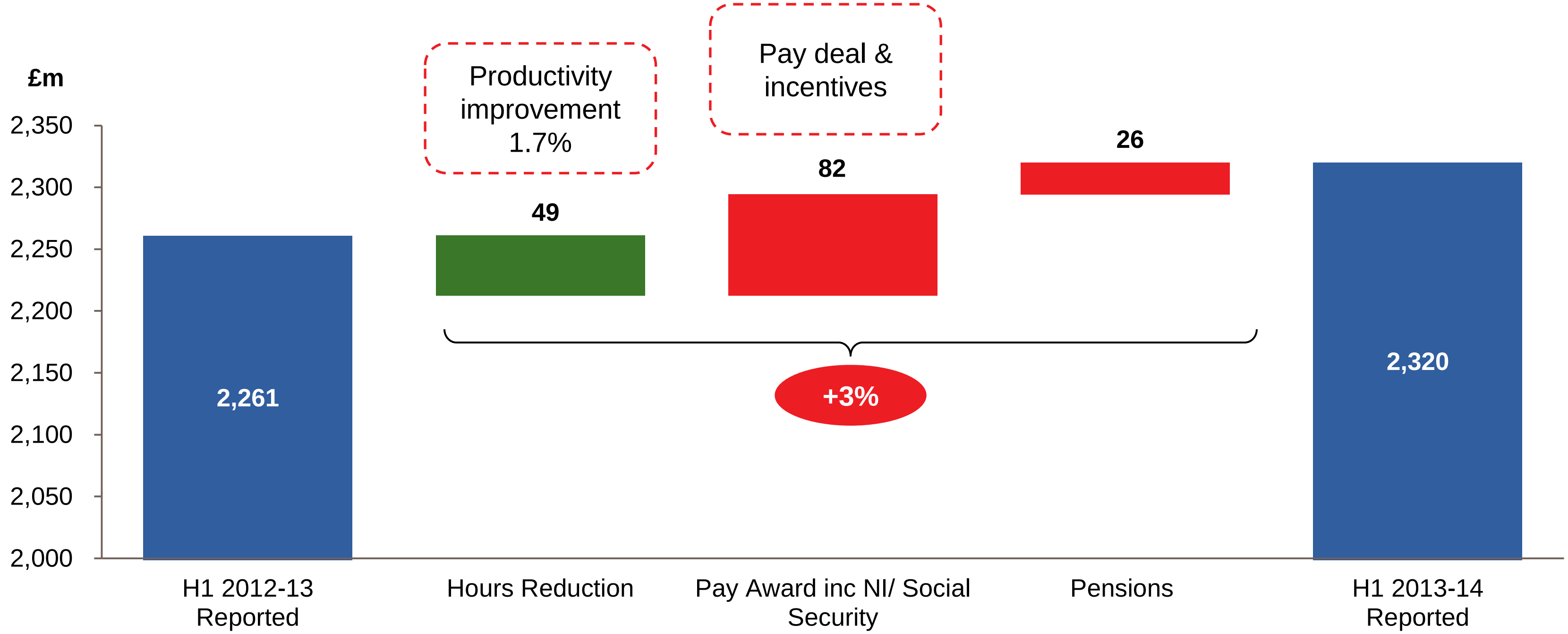
UKPIL Costs

£m	H1 2013-14	H1 2012-13	Change
People costs	**2,320**	2,261	3%
Distribution & conveyance costs	**387**	382	1%
Infrastructure costs	**452**	459	(2%)
Other operating costs	**258**	317	(19%)
Net operating costs	**3,417**	**3,419**	0%
Transformation costs	**70**	120	(42%)
Net operating costs after transformation costs	**3,487**	**3,539**	(1%)

- Net operating costs flat including a £35m one-off VAT benefit allocated across all cost categories
- People costs up 3%:
  - Increased pension charge
  - Accrual for pay deal and incentives
- Distribution and conveyance costs up 1%:
  - Vehicle related costs
  - Export payments (terminal dues)
- Infrastructure costs down 2%:
  - Reduced depreciation and amortisation costs
- Reduction in other operating costs mainly reflects strong procurement and other demand management

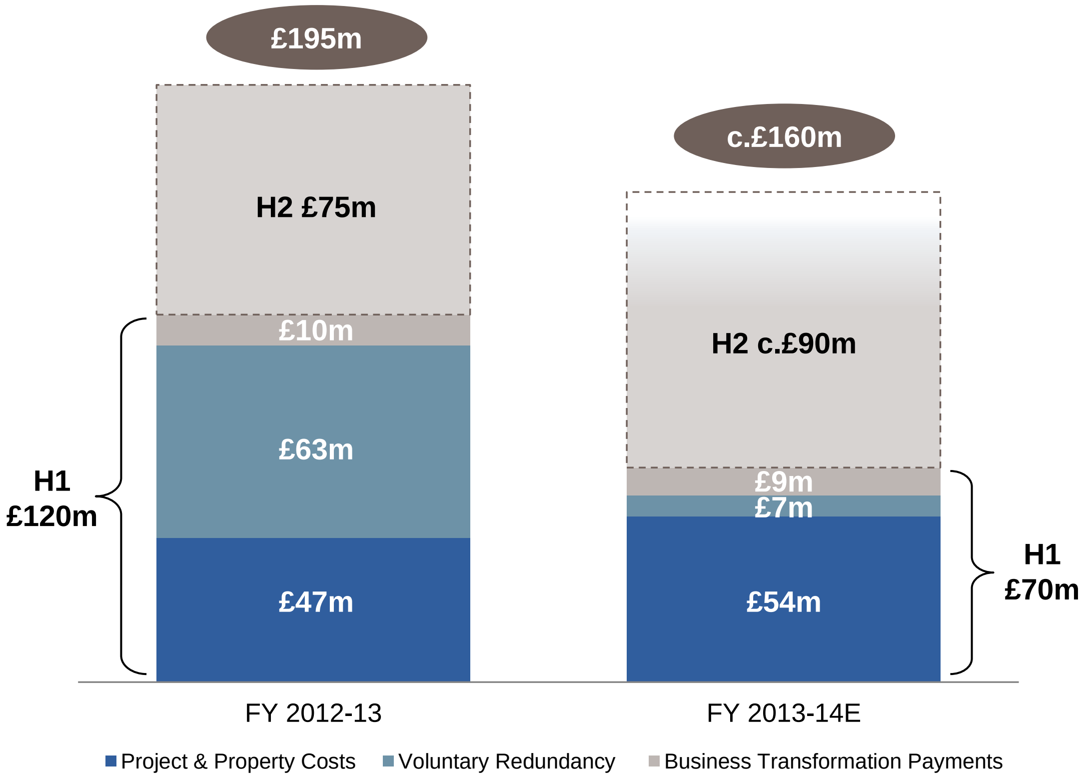
Note: All like-for-like percentage changes are adjusted for the difference in working days in UKPIL

UKPIL People Costs



- 68% of UK net operating costs
- Total UKPIL average FTEs down 2%
- Core processing and delivery hours down 3.3% due to productivity improvement and reduced workload (6% addressed letter volume decline and flat parcel volumes)
- People costs up 3%. Pensions charge increase equates to 1 percentage point

Transformation Costs – P&L



H1 2012-13

- Reflects voluntary redundancy provision for Mail Centre closures

H1 2013-14

- No further Mail Centre voluntary redundancies provided for
- Lower Delivery Office voluntary redundancy than expected partly due to industrial relations environment

H2 2013-14

- Project costs linked to Delivery Office revisions
- Lower business transformation payments
  - c.£15m now falls into 2014-15
- Voluntary redundancy expected to be higher than H1 2013-14 due to catch up in Delivery Office revision programme

GLS Results

£m	H1 2013-14	H1 2012-13	Change
Revenue	**801**	712	
Euro (m)	***940***	*886*	*6%*
Net operating costs	**(748)**	(667)	
Euro (m)	***(878)***	*(830)*	*6%*
Profit before transformation costs	**53**	45	
Euro (m)	***62***	*56*	*11%*
Operating profit margin	***6.6%***	*6.3%*	*+30bps*
Volume (m)	**193**	182	6%
Average £1 = €	**1.17**	1.24	(6%)

- Revenue growth well ahead of Eurozone GDP driven by volume increase
- Revenue growth achieved in all major countries
- Margin expansion
  - France operating loss reduced

GLS Revenue

- c.70% of GLS revenue generated in Germany, France and Italy
- Germany remains largest market; single digit revenue growth
- France revenue up marginally, with lower volumes compensated for by higher average prices, but losses reduced
- Double digit revenue growth in Italy aided by acquisitions
- Growth in developed / emerging European markets

GLS Costs

€m	H1 2013-14	H1 2012-13	Change
People costs	**209**	203	3%
Distribution & conveyance costs	**580**	544	7%
Infrastructure costs	**62**	60	4%
Other operating costs	**27**	23	19%
Net operating costs	**878**	**830**	6%

- Distribution and conveyance costs increased due to higher volumes and higher sub-contractor costs in Germany
- Infrastructure costs higher largely due to higher depreciation
- Other operating costs higher due to IT consultancy costs and turnaround-related costs in France

Group Profit After Tax

£m	Reported H1 2013-14	Reported H1 2012-13	Before Specific Items H1 2013-14	Before Specific Items H1 2012-13
Operating profit after transformation costs	**283**	144	**283**	144
Operating specific items & disposals	**1,328**	(18)	**0**	0
Net finance costs	**(50)**	(28)	**(50)**	(50)
Finance costs	**(52)**	(52)	**(52)**	(52)
Finance income	**2**	24	**2**	2
Profit before net pension interest & tax	**1,561**	98	**233**	94
Pension interest (non cash)	**19**	15	**0**	0
Profit before taxation	**1,580**	113	**233**	94
Current taxation	**(17)**	(26)	**(25)**	(26)
Deferred taxation	**(342)**	292	**(39)**	(5)
Profit after tax from continuing operations	**1,221**	379	**169**	63

- Interest of £52m payable on old borrowing facilities
  - Refinanced loans[1] and existing finance leases currently forecast to have blended interest rate of c.3.5% over life of facilities
- IAS19 pension interest credit of c.£50m[2] in H2 2013-14 due to increase in surplus after Pensions Reform
- Current tax:
  - Reflects tax in GLS
  - No current tax charge in the UK
- Deferred tax:
  - Principally due to effect of Pensions Reform

[1] Includes arrangement and commitment fees
[2] £100m on an annualised basis

Operating Specific Items

£m	H1 2013-14	H1 2012-13
Pensions Reform credit	**1,350**	-
Transaction related	**(32)**	(4)
- Transaction related costs	**(26)**	(4)
- Employee Free Shares costs	**(6)**	-
Business related costs	**(9)**	(17)
- Historical employment costs	**(15)**	-
- Impairments	**-**	(17)
- Potential industrial diseases claims	**6**	-
Operating specific items	**1,309**	**(21)**
Profit on disposal of property	**17**	3
Profit on disposal of business	**2**	-
Total operating specific items	**1,328**	**(18)**

- Pensions Reform: one-time non-cash credit, no economic value
- Transaction related costs – majority of costs in H1 2013-14
- Employee Free Shares Offer charge pro-rated over period of vesting[1]
  - 13 days worth of charge included in H1 2013-14
  - H2 2013-14 charge will be c.£80m
- Historical employment costs due to change in legislation
- Property – no further material disposals expected this year

[1] Calculated based on market capitalisation at Admission on 15 October 2013 of £4,890m at 10%, pro-rated over vesting period

Group Taxation - Overview

	Reported			Before Specific items		
£m	UK	GLS	Group	UK	GLS	Group
Profit before tax	1,530	50	1,580	179	54	233
Current tax for the period	0	17	17	8	17	25
Deferred tax for the period	339	3	342	36	3	39
Tax charge	**339**	**20**	**359**	**44**	**20**	**64**
Current tax rate	**0%**	**34%**		**4%**	**31%**	
Effective tax rate	**22%**	**40%**	**23%**	**25%**	**37%**	**28%**

- UK current tax rate is zero due to tax relief for the Employee Free Shares Offer and utilisation of some brought forward tax reliefs, including capital allowances
- Deferred tax charge principally on Pensions Reform credit. No economic impact
- High GLS effective rate reflects German statutory rate and no tax relief available against French losses

Group Free Cash Flow

£m	H1 2013-14	H1 2012-13
EBITDA before transformation costs	**483**	405
Pensions[1]	**36**	9
Working capital movements	**(170)**	(94)
	349	**320**
Total investment	**(212)**	(270)
Taxation[2]	**(13)**	(13)
Net finance costs paid	**(23)**	(23)
Dividends from associates	**2**	-
Underlying cash inflow	**103**	**14**
One-off working capital movements	**65**	215
Other operating specific items[3]	**(13)**	(18)
Property and business disposals	**28**	7
Free cash flow	**183**	**218**

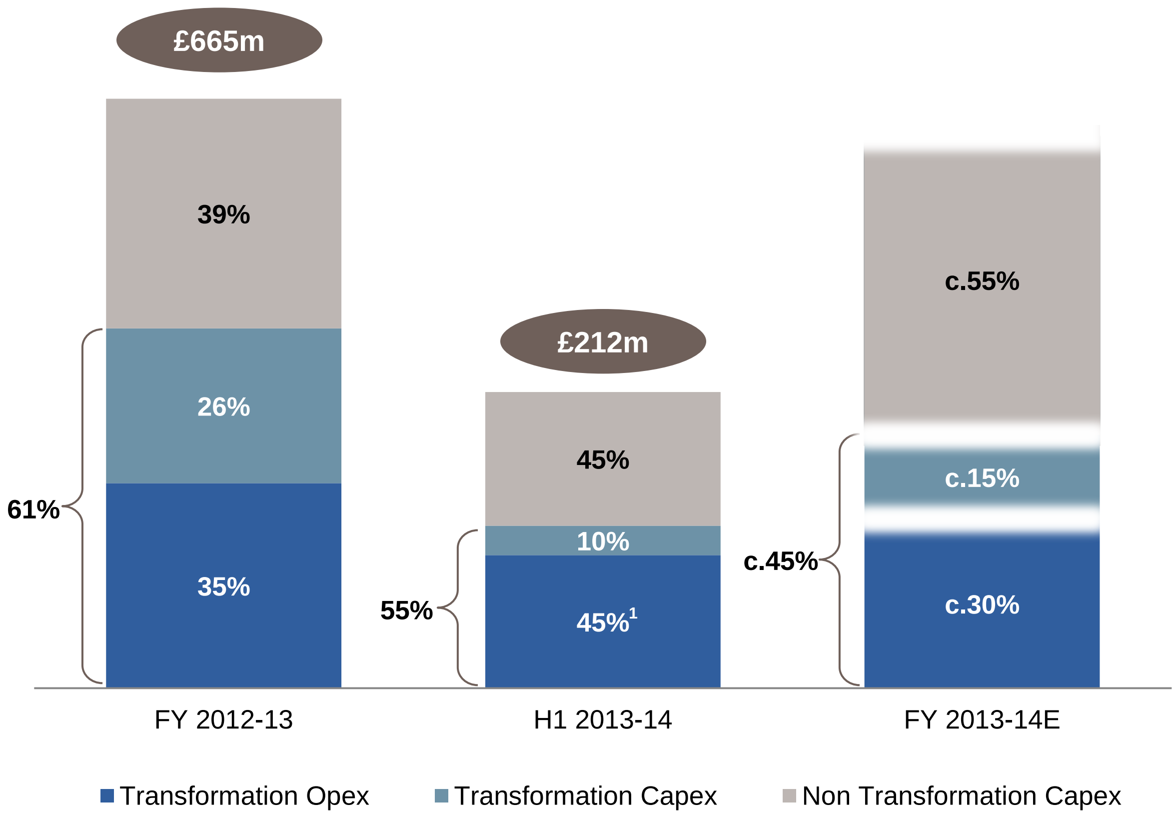
- H1 2013-14 and H1 2012-13 benefited from one-off working capital inflows:

£m	H1 2013-14	H1 2012-13
Pay deal accrual	65	-
Buy forward of stamps in April 2012	-	100
Impact of increase in VAT-rated products	-	75
Unwind of March 2012 pension prepayment	-	40
One-off working capital movements	**65**	**215**

- Total investment includes:
  - Transformation spend: £117m (2012-13 £206m)
  - Non-transformation spend: £95m (2012-13 £64m)
- Majority of FY 2013-14 planned property disposals completed
- H2 2013-14 benefits from unwinding of remaining c.£150m pension related prepayment partially offset by outflow from delayed pay award

[1] Total pensions cash cost of £209m, including £5m RMSEPP deficit payment vs. P&L pensions service charge of £245m, including £11m RMDCP
[2] Cash tax paid quarterly in arrears therefore different to P&L amount
[3] Including transaction related costs

Group Investment - Cash



H1 2013-14

- Non-transformation capex principally GLS, Parcelforce expansion, and Mailmark
- Past peak of transformation therefore lower transformation investment year-on-year

FY 2013-14E

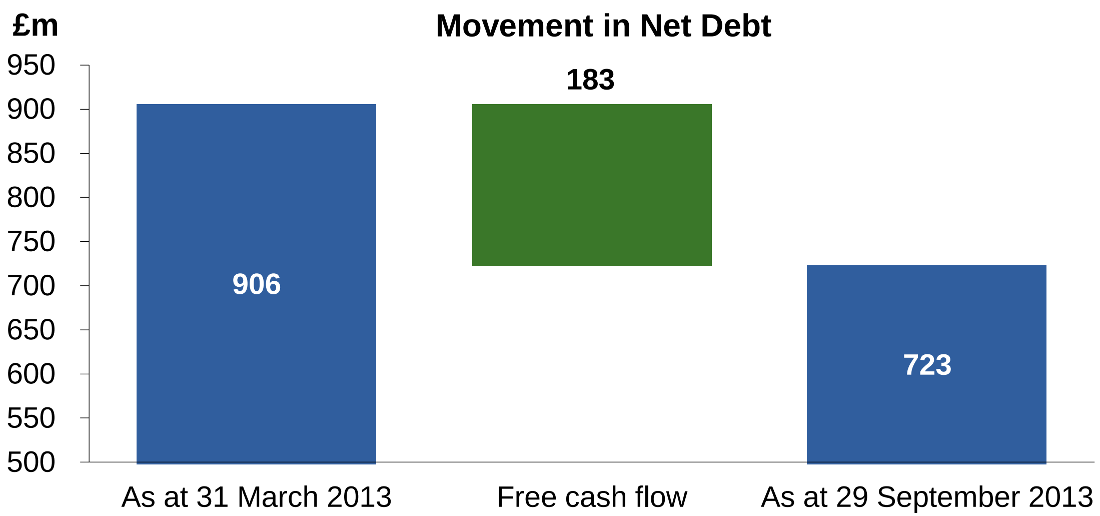
- Slightly lower than FY 2012-13
- Delayed transformation capex due to industrial relations environment

FY 2014-15 Onwards

- c.£100-120m step down vs. 2012-13 peak
- Majority of investment away from transformation

[1] H1 2013-14 Transformation Opex consists of voluntary redundancy (£30m); business transformation payments (£11m); and project and property costs (£55m)

Group Net Debt and Liquidity



Facility (as at 15 October 2013)	LIBOR Spread	Facility £m	Drawn £m	Facility End Date
Term Loan A	+1.00%	300	50	Sep 2018
Term Loan B	+0.90%	300	300	Sep 2016
Revolving loan facility C	+0.85%	800	250	Sep 2018
Total		**1,400**	**600**	

- Annualised FFO to net debt at H1 2013-14 of 51%; 38% for FY 2012-13
- Annualised FCF to net debt of 41% at H1 2013-14; 37% for FY 2012-13
- Targeting investment grade profile
- Loans previously provided by HM Government refinanced and replaced
  - New debt facilities

[1] Includes arrangement and commitment fees

Illustrative Impact of Operational Gearing in UKPIL

£m	FY 2012-13[1]
Group revenue	9,146
Group operating profit	403
± 1% change in UKPIL revenue[2]:	
- Impact on revenue	c. ± 75
- Impact on costs[3]	c. ± 7
Impact of operating profit	c. ± 68
Impact on Group operating profit	**c. ± 17%**

- High operational gearing:

1% change in UKPIL revenue

=

c.17% change in Group operating profit

[1] 52 week adjusted
[2] As set out in Royal Mail plc Prospectus (27 September 2013) p.144
[3] Cost impact assumed at mid-point of stated range of £5-9m in the immediate term

Update on FY 2013-14

- H1 2013-14 performance in line with our expectations

P&L FY 2013-14:

- Adverse revenue impact of customer reaction to industrial relations environment in H2 expected to offset profit benefit of VAT credit and lower depreciation and amortisation in H1
  - Expect significant growth in parcel revenue although, depending on strength of seasonal volume growth, parcel volumes may be flat in 9 months to December 2013
- Full year transformation costs now expected to be c.£35m lower than 2012-13 at c.£160m
- Effective tax rate of c.28% on group PBT excluding specific items expected to apply for full year

Cash flow FY 2013-14:

- Group cash investment slightly lower than FY 2012-2013, mix moving away from transformation
- Working capital benefits from unwind of c.£150m pension prepayment partly offset by delayed pay award of c.£65m

Note: see slide 1 on 'Forward-Looking Statements'. These objectives do not represent any forecast, target or expectation as to future results or performance

Moya Greene
Chief Executive Officer

Outlook

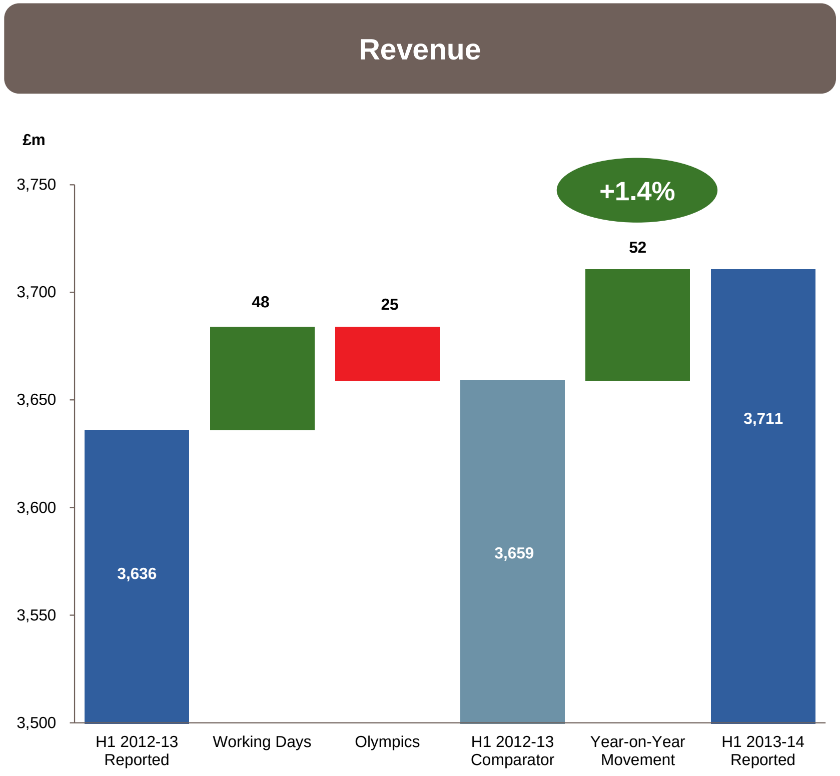
- Key medium term value drivers remain unchanged
  - Low single digit revenue growth
  - Targeting 2% - 3% p.a. productivity improvements
  - Targeting operating profit margin expansion (after transformation costs) in line with peers over next 3-5 years
- E-retailing continues to grow share of UK retail spending, driving parcel volumes
- Letters decline within expected range of -4% to -6% p.a.
- Moving towards resolving industrial relations situation
- Christmas is key
  - Royal Mail better prepared than ever to benefit from seasonal up tick

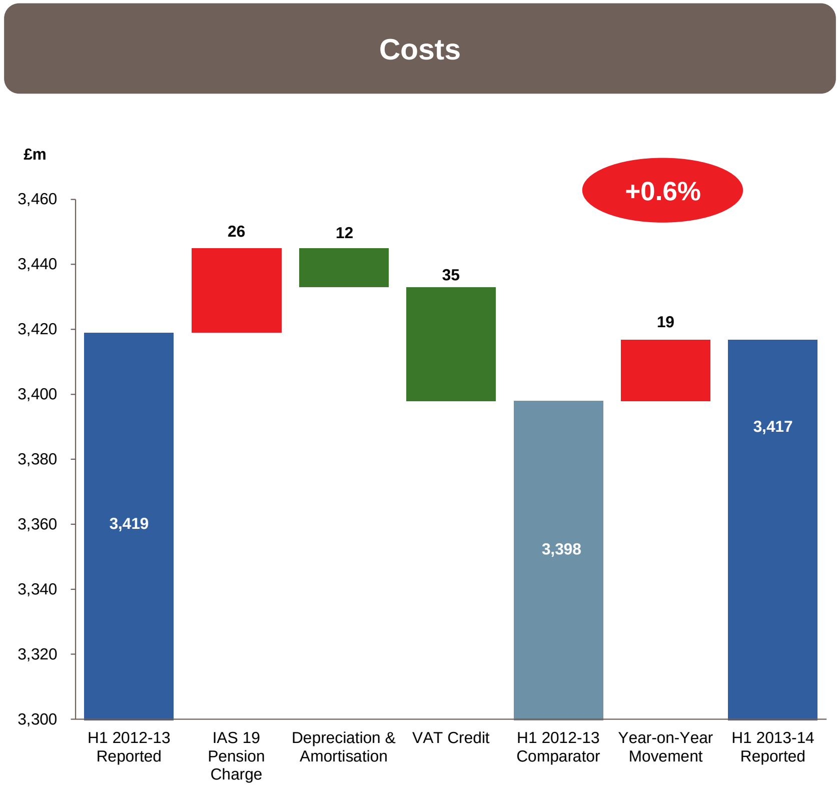
Note: see slide 1 on 'Forward-Looking Statements'. These objectives do not represent any forecast, target or expectation as to future results or performance

Q&A

Appendix

UKPIL Margin Evolution





- Adjusting for certain one-off and other items, revenue increase of 1.4% is c.80 basis points ahead of increase in costs before transformation costs of 0.6%

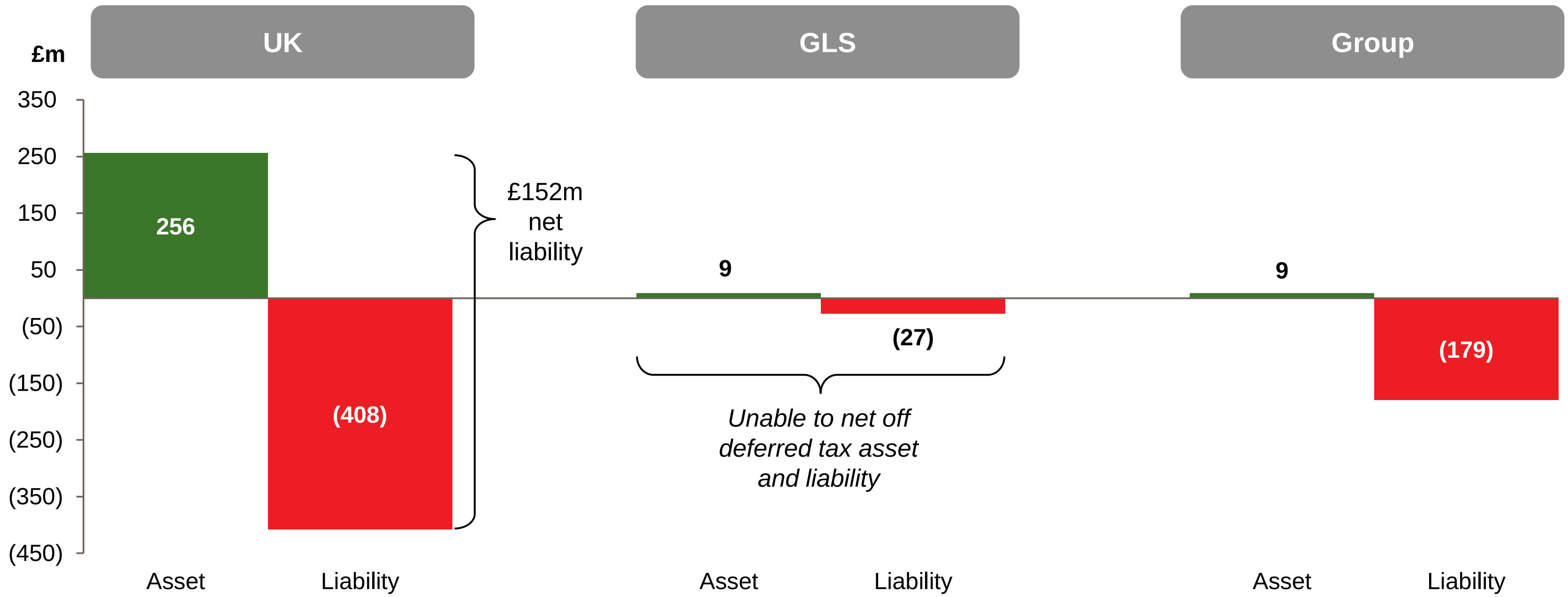
Specific Items – Tax Effects

£m	P&L Impact	Current Tax	Deferred Tax	Total
Transaction costs	(22)	-	-	-
Employee Free Shares costs	(6)	(8)	7	(1)
Pensions Reform	1,300	-	299	299
Pension subject to IFRIC 14	50	-	-	-
Potential industrial diseases claims	6	-	-	-
Historical employment costs	(15)	-	(3)	(3)
Profit on disposal of fixed assets	17	-	-	-
Profit on dispoal of associate undertaking	2	-	-	-
Pension interest	19	-	4	4
UK tax impact	1,351	(8)	307	299
GLS transaction costs[1]	(4)	-	-	-
Group tax impact pre rate change	1,347	(8)	307	299
Statutory rate change - Pensions Reform	-	-	(38)	(38)
- Other	-	-	34	34
Group tax impact	**1,347**	**(8)**	**303**	**295**

- Employee Free Shares Offer only item which impacts current tax
- Pensions Reform deferred tax charge by far most significant item
- Brought forward asset was offset by Pensions Reform impact leading to minimal impact from rate change

[1] Relates to real estate transfer tax on German property (due to insertion of Royal Mail plc)

Deferred Tax – Balance Sheet



- UK – £256m asset represents a deferred tax asset in relation to capital allowances and losses. Liability mainly relates to Pensions Reform
- GLS – can only net off deferred tax assets and liabilities within a tax jurisdiction
- Group – UK position netted and added to GLS deficit position. GLS asset remains

Update on Pensions

Actuarial Basis	31 March 2012	1 April 2012	31 March 2013	29 Sept 2013
DB Assets	£28.8bn	£2.4bn	£3.3bn	£3.5bn
DB Liabilities	£37.4bn	£2.5bn	£3.5bn	£2.0bn
Surplus/(Deficit)	(£8.6bn)	(£0.1bn)	(£0.2bn)	£1.5bn
Accounting Basis	**25 March 2012**	**1 April 2012**	**31 March 2013**	**29 Sept 2013**
DB Assets	£28.6bn	£2.4bn	£3.3bn	£3.5bn
DB Liabilities (Net of IFRIC 14 adj)	£31.3bn	£1.8bn	£2.5bn	£1.6bn
Surplus/(Deficit)	(£2.7bn)	£0.6bn	£0.8bn	£1.9bn
Ongoing P&L / Cash Flow	**FY 2012**		**FY 2013**	**29 Sept 2013**
EBIT P&L Expense	£400m		£434m	£245m
Cash Cost	£401m		£409m	£204m

- Almost all RMPP pension assets and liabilities transferred to HMG on 1 April 2012
- Royal Mail left with £2.4bn (of which £0.3bn for RMSEPP) assets to cover future liabilities, assuming salary growth at RPI+1%
- Trustee will use RPI salary growth assumptions to evaluate future liabilities from 1 April 2014

- IAS 19 accounting surplus of £1.9bn at 29 September 2013
- Accounting liabilities decreased by net c. £0.9bn at H1 2013-14 due to changes in assumptions and impact of Pensions Reform[1]
- Pensions Reform was implemented 26 September 2013, effective from 1 April 2014

DB Schemes - RMPP & RMSEPP

- RMPP closed to new members – March 2008
- c.108k active members still accruing benefits at 30 September 2013
- RMSEPP closed to future accruals December 2012

DC Schemes

- c.35k members at 30 September 2013 and average contribution rate of c.4% in UK

[1] Reduction in discount rate from 1.5% at 31 March 2013 to 1.3% results in an increase in liabilities of £0.5bn prior to Pensions Reform. Past service credit of £1.35bn due to Pensions Reform

Summary of Key Drivers

P&L Drivers

Revenue	**UKPIL parcels**	▪ Volume growth driven by B2C growth ▪ B2B volume growth slightly above GDP ▪ Pricing broadly in line with RPI
	UKPIL letters	▪ Estimate for addressed letter volume decline is c.4-6% p.a. ▪ Pricing broadly in line with RPI
	GLS	▪ Revenue growth broadly in line with Eurozone GDP growth
	Group	▪ Low single digit revenue growth objective

Operating Costs	▪ Increase broadly in line with RPI ▪ Productivity improvements of 2-3% p.a.	Objective to remain below revenue growth
Transformation Opex	▪ Past peak of transformation opex spending	
Profit Margin After Transformation	▪ Objective of profit margin expansion (post transformation costs) over the next 3-5 years to achieve margins in line with peers	
Tax (P&L)	▪ UKPIL effective tax rate expected to normalise going forward	

Cash Flow Drivers

Investment	▪ Past peak of transformation investment ▪ c.£100-120m step down vs. 2012-13 peak ▪ c.60%+ non-transformation capex for 2014-15 onwards
Pensions	▪ Pension costs c.£400m p.a. post Pensions Reform
Working Capital	▪ Underlying working capital trend broadly flat ▪ Unwinding of remaining c.£150m pension related prepayment in H2 2013-14
Tax (Cash)	▪ Low cash rate for next 3 years ▪ Trend towards normalised tax rate subsequently

Note: see slide 1 on ‘Forward-Looking Statements’. These objectives do not represent any forecast, target or expectation as to future results or performance