Royal Mail plc

Full Year 2013-14 Results

22 May 2014

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

FY 2013-14 Overview

Key Messages

- Good financial and operating performance
- Low single digit revenue growth of **2%** driven by:
  - UK parcel revenue growth of **7%**
  - Addressed letter volume decline of **4%,** at better end of forecast range
  - GLS revenue up **7%**
- Tight cost control resulted in 20bps improvement in operating profit margin before transformation costs
- Operating profit margin after transformation costs of **4.2%**
  - Reflects provision for management reorganisation programme
- Free cash flow increased to **£398m**
- Notional earnings per share excluding specific items of **26.3p**
- Recommended final dividend per share of **13.3p** as committed to at IPO

Note: Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs, and working days in UKPIL revenue

Delivering Our Strategy

Being a Successful Parcels Business – UK

UKPIL Parcels – Track Record

	2013-14	2012-13[1]	2011-12	2010-11
Revenue (£m)	3,162	2,933	2,604	2,348
Volume (m)				
Royal Mail Core Network	991	994	950	910
Parcelforce Worldwide	77	70	66	63
Total volume	**1,068**	**1,064**	**1,016**	**973**

- Royal Mail UK domestic parcels market share[2]
  - c.52% by volume
  - c.38% by revenue
- E-retailing continues to fuel parcel volume growth[3]
  - B2C + C2X growth forecast: 4.5% - 5.5%
  - B2B growth forecast: slightly above GDP

UKPIL Parcels – 2013-14 Performance

7% revenue growth

- Driven by size-based pricing
- UKPIL domestic AURs up more than the market

Volume flat as expected

- Size-based pricing introduced in April 2013
  - Some volume moved from core to Parcelforce
  - Large, uneconomic items exited our network, or exited market completely
  - Slightly higher volume reduction than expected in consumer, micro-SME and SME segments
- Impact of threatened industrial action in run up to Christmas
- Amazon roll-out of own-delivery capability towards end of 2013-14 and changes to order size for free delivery
  - Small impact on account parcels in 2013-14 but could be material in future
- Parcelforce volumes grew by 8%

[1] Adjusted 52 week basis [2] Triangle estimates at December 2013 based on latest competitor data and market insight and Royal Mail financial year end 2013-14 revenue and volume. Excludes international traffic
[3] Includes volumes from Amazon own-delivery

Delivering Our Strategy

2013-14 – Parcel Strategy Implementation

Getting the Basics Right

Pricing

- Size-based pricing for consumer and SME parcels aims to optimise delivery through most appropriate network according to size, value and urgency
- Expanded small parcel dimensions in October 2013

Service

- Delivered another successful Christmas
- Launch of Local Collect at c.10,500 Post Offices
- Roll-out of Delivery to Neighbour
- Increase in first time delivery

Customers

- Expanded account management to over 7,500 customers to help accelerate growth in SME customer base
- Increased focus on enabling the SME segment

Getting the Technology Right

- Completed roll-out of >74,000 handheld scanners by Christmas 2013
- Tracked returns enhancements / SMS and email notifications on Special Delivery and Parcelforce
- Progress on barcoding all core parcels

Expanding and Automating Our Networks

- Expansion of Parcelforce network completed
  - Chorley processing centre open
  - 11 new/upgraded depots
  - c.93m capacity in place
- Detailed planning for parcels systems upgrade and automation underway

Delivering Our Strategy

UK Parcel Market Dynamics

	Market Developments	Royal Mail Response
Retailers / e-retailers	• Amazon own-delivery network adds capacity equivalent to a new operator • Retailers continue to develop in-house Click & Collect and returns services • Third party Click & Collect continues to grow	• Exploiting network to extend parcel sizes we can deliver • Extending day/hours parcels can be received into network • Targeting faster growing segments in e-retailing • Rolling out Local Collect
Consumer / SMEs	• myHermes splits low weight parcel pricing 0-1kg and 1-2kg in response to RM pricing • DPD and Hermes announced Sunday deliveries • Yodel launches courier collection for online traders	• Reduced 1-2kg small parcel prices • Strong focus on SME accounts • Launch Sunday opening at c.100 Delivery Offices • Parcelforce to launch Sunday delivery service for online shoppers • Core network to trial Sunday deliveries within M25
Other parcel operators	• Electronic notification of delivery added by express carriers • Additional capacity at DPD and Hermes	• Parcelforce launched interactive notification service • Free SMS & email delivery notification on Special Delivery & RM tracked services

Delivering Our Strategy

Being a Successful Parcels Business – GLS

GLS – Track Record

	2013-14	2012-13	2011-12	2010-11
Revenue (€m)	1,957	1,837	1,808	1,746
Volume (m)	404	380	375	363

GLS – 2013-2014 Performance

- Revenue up **7%**, volume up **6%**
- c.70% of revenue from three main markets: Germany, France, and Italy
- Revenue growth achieved in all countries
  - Germany continues to face cost headwinds
  - France turnaround slightly ahead of plan
  - Good performance in Italy

Customer-Driven Approach

- Common strategy
- Deep customer focus
  - B2B over 70% by volume
  - Broad customer base
- Addressing requirements of B2C market
  - FlexDelivery provides consumers with more delivery options
- Focusing on SME segment and selective larger account acquisitions
- Maximising IT benefits
- Occupies space between incumbent Posts and international integrators
- Portfolio of businesses across Europe drives value

Delivering Our Strategy

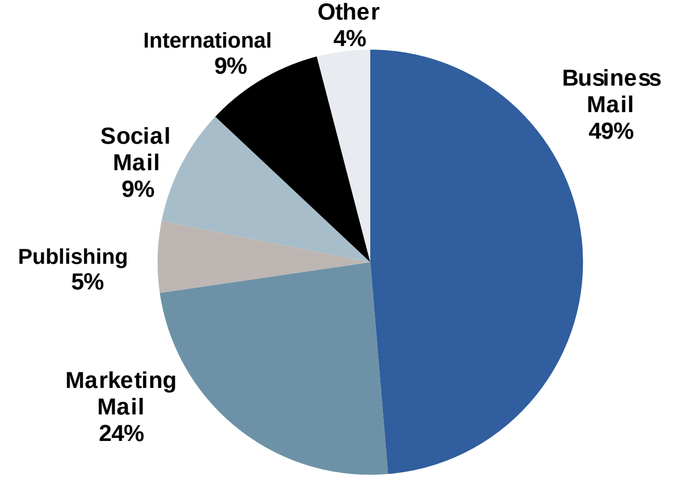
Managing the Decline in Letters

Letter Volumes

Volumes (bn)	2013-14	2012-13[1]
Non-access (eg USO and Retail)	5.6	6.0
Access	7.1	7.2
Addressed inland	**12.7**	**13.2**
International	0.6	0.7
Total addressed	**13.3**	**13.9**
Addressed letter volume decline	**(4%)**	**(8%)**
Unaddressed	3.1	3.3

- Addressed letter volume decline improved to **4%**, at better end of medium term forecast range of 4-6%
- Benefited from GDP growth, mailings from energy companies in H2 and stamped mail volumes in December

Total Letter Revenue – 2013-14



- Total letter revenue of £4.6bn, down **2%**
- Marketing mail revenue of £1.1bn, down 1%
- Mailmark™ – Launched
  - Value-added barcodes for addressed, machine readable business, marketing and publishing mail

[1] Adjusted 52 week basis Note: Like-for-like changes are calculated after adjusting for working days in UKPIL

Regulation

Ofcom's primary regulatory duty for Post is to secure the provision of the Universal Service

Access Mail

2014 Access tariff changes

- New tariff effective 31 March 2014
  - RPI-linked price increases
  - 0.25p price per item differential for 2 year volume forecasts[1] (suspended)
  - Zonal pricing changes reflective of relevant costs and market conditions (suspended)

Ofcom investigation

- TNT Post UK complaint in relation to price differential and zonal changes led to Ofcom investigation
- Relevant changes suspended pending outcome of investigation
- April 2014 – Ofcom announced investigation to be conducted under Competition Act
- We believe the complaint is unfounded; we will defend our position rigorously, whilst co-operating fully with Ofcom

Ofcom Access pricing policy review

- April 2014 – Ofcom announced policy review of access conditions; Ofcom aims to complete review by 2014
- We are proactively engaging with Ofcom on this

Direct Delivery

- TNT Post UK currently operating direct delivery competition in much of London, and Manchester and Liverpool and have stated plans to roll out network to cover c.42% of UK addresses by 2017
- Impact of TNT Post UK's stated plans could reduce Royal Mail revenue by over £200m in 2017-18
- Reasonable prospect that 5-10% EBIT margin for the reported business may never sustainably be achieved
- Effective regulatory action could take time to implement
- Meanwhile, Competition Act investigation and access policy review increase market uncertainty, combined with USO, limit commercial response

Royal Mail response:

- Raising issue with Ofcom and Government
- Preparing regulatory submission calling for immediate review of direct delivery and interventions needed to protect USO
- Seeking legislative amendment to require a review of direct delivery if Ofcom does not initiate one in a timely manner

[1] Based on national mailing profile across 86 local geographic districts

Delivering Our Strategy

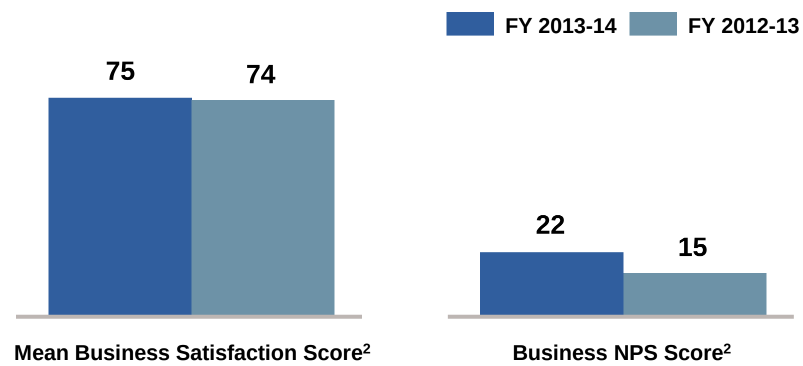
Being Customer Focused

Quality of Service

- Our regulated Quality of Service specifications are amongst the highest of any major European country[1]
- In 2013-14, cumulatively we exceeded key targets:

	Target	Outcome
First Class	93.0%	93.2%
Second Class	98.5%	98.9%
Composite parcel performance	95.1%	95.1%

Customer Satisfaction



- Mean Business Customer Satisfaction Score[2] improved
- Achieved our highest Net Promoter Score[2] for business customers of 22 in 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

Delivering Our Strategy

Ongoing Transformation

- Initial phase of transformation/modernisation largely completed
  - 8 Mail Centres closed in the year; now 40
  - 94% of Delivery Offices completed or commenced modernisation
- Management reorganisation programme announced March 2014
  - Net 1,300 reduction in group and operational management population
- New pay and conditions agreement with CWU being embedded
  - Sets up 'Agenda for Growth' at the pace required by the business
  - Protections for employees
  - Industrial stability for the good of our people and customers

Productivity[1]

	2013-14	2012-13	Target
Gross Hours (YoY change)	(2.9%)	(2.2%)	(c.2.5-3.5%)
Workload (YoY change)	(1.3%)	(0.6%)	(c.0.5-1.0%)
Productivity (YoY change)	**1.7%**	**1.7%**	**2-3%**

- Gross hours reduced by 2.9%
  - Workload impacted by size-based pricing
  - Hours reduction impacted by industrial relations environment
- Resulted in productivity of 1.7%, just outside target range

[1] Represents collections, processing and delivery only

Delivering Our Overall Strategy

Being a successful parcels business

Managing the decline in letters

Being customer focused

Our vision is to be recognised as the best delivery company in the UK and across Europe

Matthew Lester

Chief Finance Officer

FY 2013-14 Value Drivers

Revenue	Operating costs	Transformation costs	Profit after transformation costs	Cash
UK parcels up 7% **UK letters** down 2% **UKPIL** up 2% **GLS** up 7%	**People costs** up 4% **Non-people costs** Flat	**Transformation costs** £241m up £46m	**Profit after transformation costs** £430m up £27m **Margin** 4.2%	**EBITDA** £942m up £27m **Cash investment** Net £581m
2% Growth	**3% Growth**		**Down 20bps**	**Free cash flow £398m up £64m**
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***

2013-14 Actual | Objective[1]

[1] These objectives do not represent any forecast, target or expectation as to future results or performance

Note: Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs, and working days in UKPIL revenue

FY 2013-14 Financial Summary

£m	2013-14	2012-13[1]	Change
Revenue[2]	**9,456**	9,146	2%
Operating profit before transformation costs	**671**	598	
Operating profit after transformation costs	**430**	403	
Operating profit margin after transformation costs[2]	**4.2%**	4.4%	(20bps)
Profit before tax[3]	**363**	304	20%
Notional earnings per share[3]	**26.3p**	**21.0p**	
Free cash flow	**398**	334	£64m
Net debt	**(555)**	(906)	£351m
Dividend per share	**13.3p**		

- Operating profit before transformation costs up £73m
  - Operating profit margin before transformation costs up 20bps
- Operating profit margin after transformation costs impacted by management reorganisation programme provision
  - Depressed margins by c.1 percentage point
- Profit before tax benefited from lower interest due to refinancing of Government loans
- Net debt reduced by free cash flow
- Recommended final dividend of 13.3p per share
  - Equivalent to annualised dividend of £200m

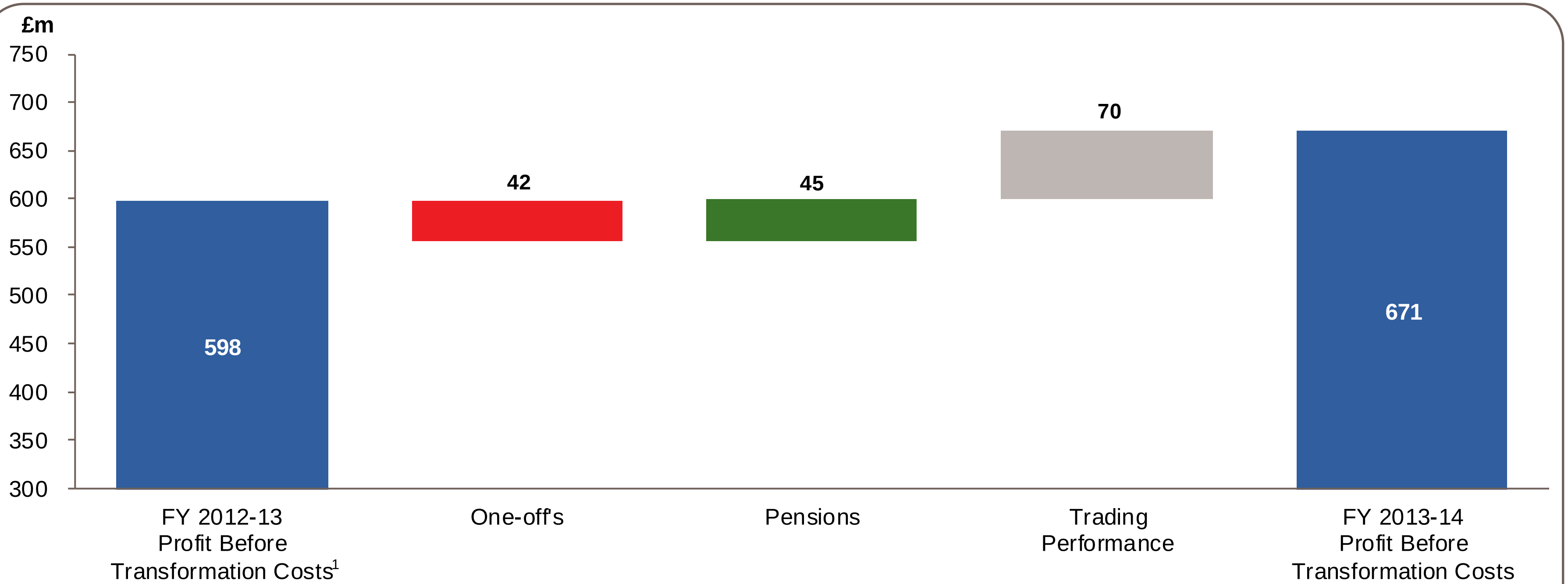
[1] Adjusted 52 weeks [2] Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs, and working days in UKPIL revenue
[3] Excluding specific items

FY 2013-14 Segmental Summary

£m	2013-14	2012-13[1]	Change
Revenue[2]			
UKPIL	**7,787**	7,633	2%
GLS	**1,651**	1,498	7%
Other	**18**	15	
Total	**9,456**	9,146	2%
Operating profit before transformation costs			
UKPIL	**550**	489	
GLS	**108**	101	
Other	**13**	8	
Total	**671**	598	
Operating profit after transformation costs			
UKPIL	**309**	294	
GLS	**108**	101	
Other	**13**	8	
Total	**430**	403	

[1] Adjusted 52 weeks [2] Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs, and working days in UKPIL revenue

‘Underlying’ Operating Profit



- One-off’s in 2013-14, will not repeat in 2014-15:
  - £35m VAT credit due to increased VAT recoverable rate in 2012-13
  - Depreciation & amortisation £7m lower due to different mix in depreciable assets. 2014-15 charge expected to be up £20m
- Pension charge increased £45m mainly due to expected increase in IAS 19 pension service charge
  - Expected to increase by further £70-80m[2] in 2014-15 mainly due to IAS 19 pension service charge rate increasing from 20.3% to 23.6%
- 2014-15: Targeting c.50bps expansion in profit margin before transformation costs, excluding VAT credit and increase in pension charge

[1] Adjusted 52 weeks [2] The expected increase is based on the current pensionable payroll and the final charge will be dependent on the level and mix of pensionable pay in 2014-15

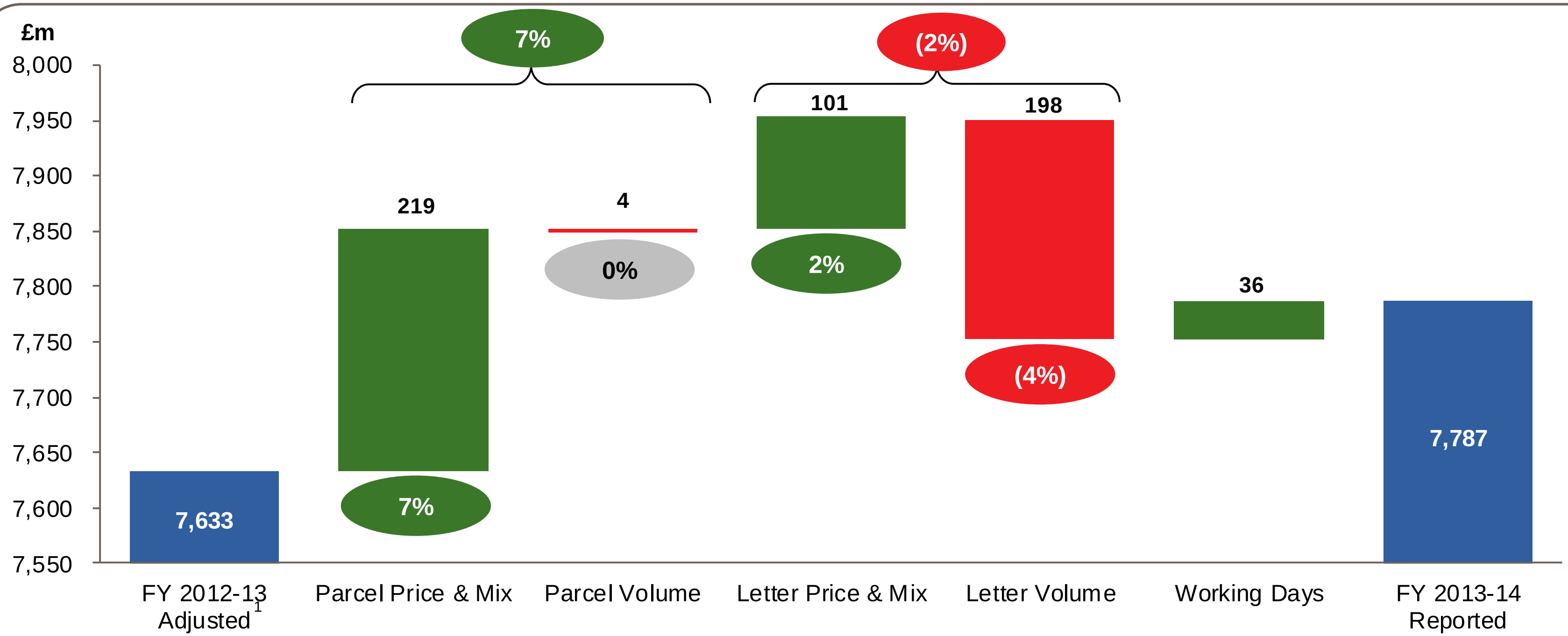
UKPIL Results

£m	2013-14	2012-13[1]	Change
Revenue[2]	**7,787**	7,633	2%
Operating costs	**(7,237)**	(7,144)	1%
Transformation costs	**(241)**	(195)	
- Management reorganisation costs	**(104)**	-	
- Other transformation costs	**(137)**	(195)	
Operating profit after transformation costs	**309**	**294**	
Operating profit margin after transformation costs[2]	**3.5%**	3.9%	(40bps)

- Revenue up 2%
- Operating costs before transformation costs up 1%, lower than revenue growth
  - Operating profit margin before transformation costs up 20bps
- Operating profit after transformation costs up £15m, including provision for management reorganisation programme
  - Margins impacted by management reorganisation programme

[1] Adjusted 52 weeks [2] Like-for-like changes in revenue and like-for-like margins are calculated after adjusting for working days in UKPIL revenue

UKPIL Revenue



Parcels (£3,162m):

- Parcels represent 41% of UKPIL revenue (2012-13: 38%)
- As expected, volume impacted by:
  - Size-based pricing
  - Threat of industrial action in run up to Christmas
  - Limited impact from Amazon roll-out of own-delivery in 2013-14

Letters (£4,625m):

- Addressed letter volume decline at the better end of forecast range of 4-6%
  - Main driver – better GDP growth
- Marketing mail revenue of £1.1bn, down 1%

[1] Adjusted 52 weeks Note: Like-for-like changes in revenue and like-for-like margins are calculated after adjusting for working days in UKPIL revenue

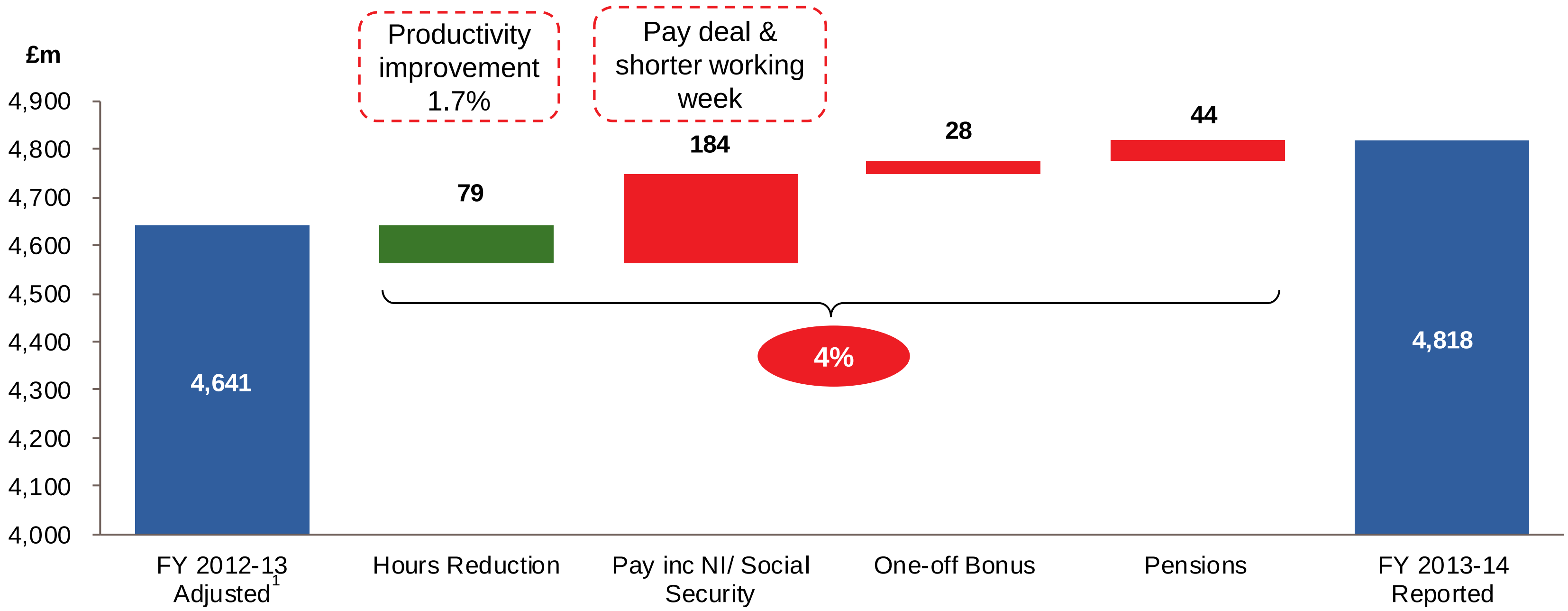
UKPIL Costs

£m	2013-14	2012-13[1]	Change
People costs	**4,818**	4,641	4%
Distribution & conveyance costs	**855**	850	1%
Infrastructure costs	**946**	951	(1%)
Other operating costs	**618**	702	(12%)
Operating costs	**7,237**	**7,144**	1%

- Operating costs before transformation costs up 1%
- People costs – productivity partially mitigates cost increases
- Non-people costs – tight cost control reduces total non-people costs, down 3%:
  - Increased costs of export
  - Higher IT costs
  - Mitigated by strong procurement and other cost management programmes
  - One-off VAT benefit equivalent to 1 percentage point

[1] Adjusted 52 weeks Note: Like-for-like changes in revenue and like-for-like margins are calculated after adjusting for working days in UKPIL revenue

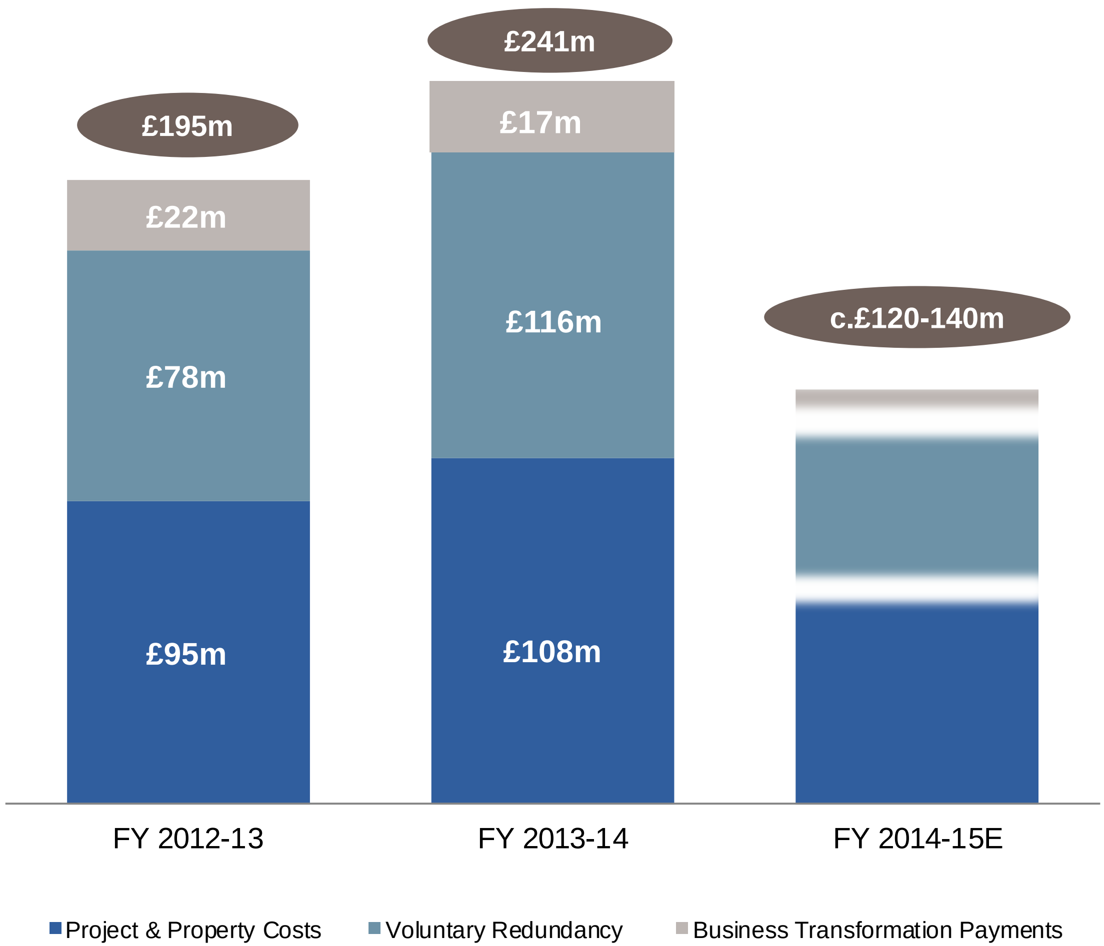
UKPIL People Costs



- 67% of UKPIL operating costs
- Core collections, processing and delivery hours down 2.9% due to productivity improvement and reduced workload
- Pay includes impact of 3% pay deal, IT insourcing and hourly rate increase due to shorter working week
- Increase in pension charge equivalent to 1 percentage point. IAS 19 pension service charge rate increased from 18.2% to 20.3%

[1] Adjusted 52 weeks

Transformation Costs – P&L



2012-13

- Reflects voluntary redundancy provision for Mail Centre closures announced in H1 2012-13

2013-14

- £104m provision in relation to management reorganisation programme, £102m relating to voluntary redundancy
- Project costs linked to Mail Centre closures and Delivery Office revisions

2014-15E

- Ongoing transformation costs of c.£120-140m, depending on level of voluntary redundancies
- Final business transformation payments of c.£10m

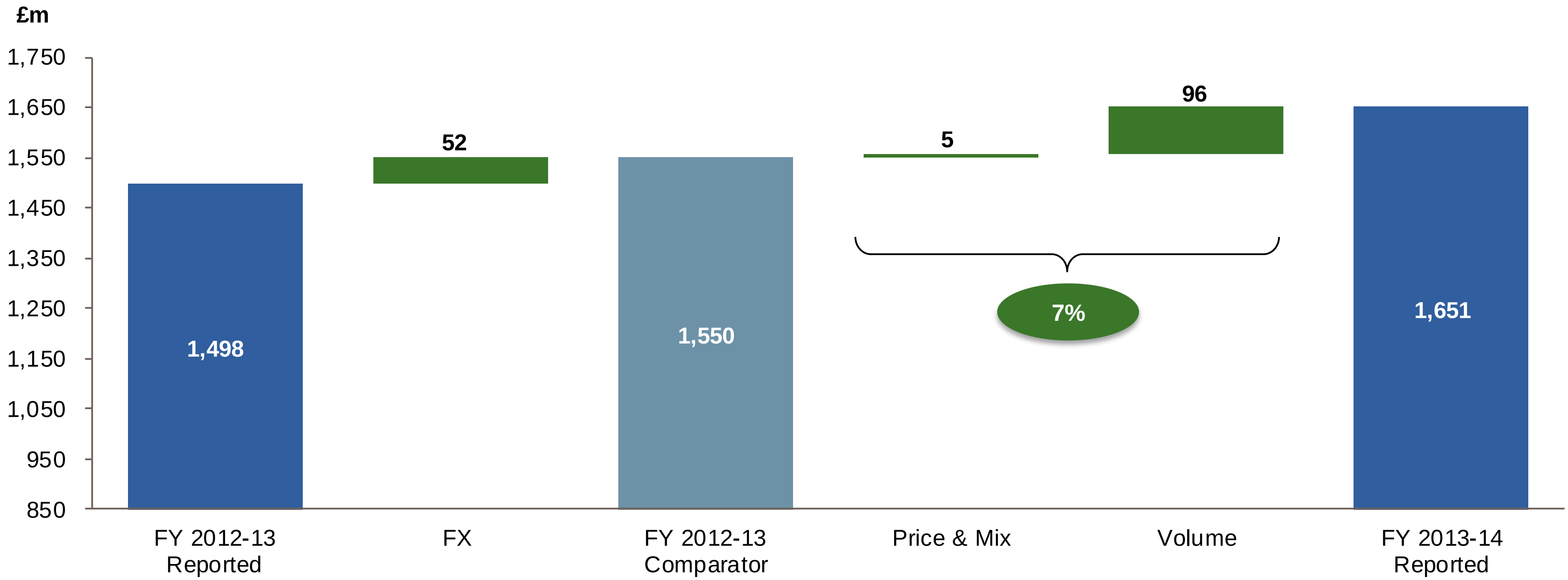
GLS Results

£m	2013-14	2012-13	Change
Revenue	**1,651**	1,498	
Euro (m)	***1,957***	*1,837*	*7%*
Operating costs	**(1,543)**	(1,397)	
Euro (m)	***(1,829)***	*(1,714)*	*7%*
Operating profit	**108**	101	
Euro (m)	***128***	123	*4%*
Operating profit margin	***6.5%***	*6.7%*	*(20bps)*
Volume (m)	**404**	380	6%
Average £1 = €	**1.19**	1.23	(3%)

- Revenue growth ahead of Eurozone GDP mainly driven by volume increase
- Revenue growth achieved in all countries
- Cost increases in H2 impacted FY margins. Predominantly driven by:
  - Sub-contractor rates in Germany continue to increase
  - Non-recurring indirect tax charge of €4m
- France operating loss reduced to €27m (2012-13: €30m) and turnaround continues

Note: Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs

GLS Revenue



- Germany remains largest market and revenue continues to grow, up 3%
- France revenue up 3%, with lower volumes compensated for by higher average prices
- Revenue growth in Italy of 16%. Rate of growth expected to continue at slower pace in 2014-15
- Revenue growth in all developed and emerging European markets

Note: Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs

GLS Costs

€m	2013-14	2012-13	Change
People costs	**435**	414	5%
Distribution & conveyance costs	**1,204**	1,129	7%
Infrastructure costs	**128**	123	4%
Other operating costs	**62**	48	29%
Operating costs	**1,829**	1,714	7%

- People costs increased as a result of additional people (e.g. Italy and IT)
- Distribution & conveyance costs increased due to higher volumes and increasing sub-contractor rates in Germany
- Infrastructure costs higher largely due to higher depreciation
- Other operating costs higher due to:
  - Non-recurring indirect tax charge
  - IT spend
  - Restructuring costs in France
- Expected profit improvement due to turnaround in France will be offset by increased IT investment across the network

Group Profit After Tax

£m	Reported 2013-14	Reported 2012-13[1]	Excluding Specific Items 2013-14	Excluding Specific Items 2012-13[1]
Operating profit after transformation costs	**430**	403	**430**	403
Operating specific items & disposals	**1,234**	(73)	-	-
Net finance costs	**(67)**	(77)	**(67)**	**(99)**
Finance costs	**(71)**	(104)	**(71)**	(104)
Finance income	**4**	27[2]	**4**	5
Pension interest	**69**	30	-	-
Profit before taxation	**1,666**	283	**363**	304
Current taxation	**(37)**	(38)	**(49)**	(38)
Deferred taxation	**(349)**	284	**(48)**	(52)
Profit after tax from continuing operations	**1,280**	529	**266**	**214**

- Interest of £52m charged on old borrowing facilities in 2013-14
- Refinanced loans[3] and existing finance leases of £342m currently forecast to have blended interest rate of c.3.5% over life of facilities

[1] Adjusted 52 weeks [2] Includes £22m release of gains held in equity on disposal of RMPP escrow investment (non-operating specific item) [3] Includes arrangement and commitment fees

Specific Items

£m	2013-14	2012-13[1]
Pensions Reform credit	**1,350**	-
Transaction-related costs	**(28)**	(10)
Employee Free Shares costs[2]	**(94)**	-
Business-related costs	**(15)**	(67)
Operating specific items	**1,213**	**(77)**
Profit on disposal of property	**19**	4
Profit on disposal of business	**2**	-
Disposals	**21**	**4**
Total operating specific items & disposals	**1,234**	**(73)**
RMPP escrow investments	**-**	22
Pension interest	**69**	30

- Pensions Reform: one-off non-cash credit, no economic value
- Employee Free Shares Offer charge pro-rated over period of vesting[2]
  - 2014-15 charge expected to be c.£170m
- Non-cash pension interest credit increase due to Pensions Reform
  - 2014-15 credit expected to be c.£75m

[1] Adjusted 52 weeks [2] Calculated based on value of Free Shares of £490m pro-rated over the period of vesting, adjusted for good leavers

Group Taxation – 2013-14 Overview

£m	Reported			Excluding Specific items		
	UK	GLS	Group	UK	GLS	Group
Profit before tax	1,559	107	1,666	252	111	363
Current tax for the period	1	36	37	13	36	49
Deferred tax for the period	344	5	349	43	5	48
Tax charge	**345**	**41**	**386**	**56**	**41**	**97**
Current tax rate	**0%**	**34%**	**2%**	**5%**	**32%**	**13%**
Effective tax rate	**22%**	**38%**	**23%**	**22%**	**37%**	**27%**

- UK current tax is minimal mainly due to tax relief available from the Employee Free Shares Offer, utilisation of brought forward losses and capital allowances
- Deferred tax charge:
  - Reported: principally due to Pensions Reform credit
  - Excluding specific items: mainly due to brought forward trading losses and capital allowances. Expected to normalise by 2016-17
- GLS effective rate high due to no deferred tax asset being recognised in relation to French losses
- Group effective rate expected to reduce over the next few years as the UK Statutory Rate declines and France losses reduce

Group Free Cash Flow

£m	2013-14	2012-13[1]
EBITDA before transformation costs	**942**	915
Trading working capital movements	**(57)**	(60)
Pensions[2]	**58**	(3)
	943	**852**
Total investment	**(617)**	(665)
Taxation[3]	**(38)**	(37)
Net finance costs paid	**(33)**	(44)
Dividend from associate	**2**	-
Underlying cash inflow	**257**	**106**
One-off working capital movements	**140**	202
Operating specific items[4]	**(35)**	(26)
Property and business disposals	**36**	52
Free cash flow	**398**	**334**

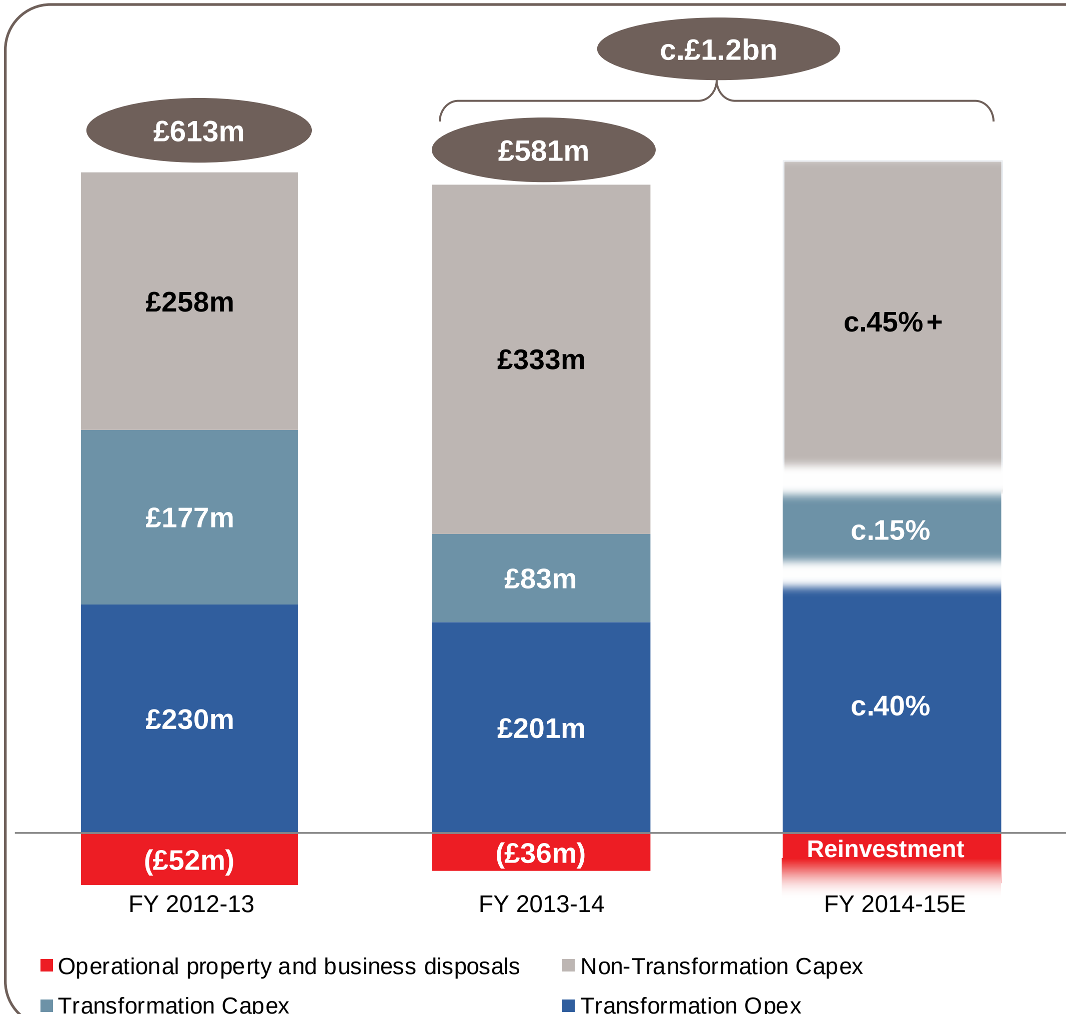
- Total investment includes:
  - Transformation spend: £284m (2012-13 £407m)
  - Non-transformation spend: £333m (2012-13 £258m)
- Net investment of £581m as proceeds from operational property disposals are invested back into the business
- 2013-14 and 2012-13 benefited from one-off working capital inflows:

£m	2013-14	2012-13
Buy forward of stamps	**20**	87
Unwind of prior year buy forward of stamps	**(30)**	-
Impact of increase in VAT-rated products	**-**	75
Unwind of March 2012 pension prepayment	**150**	40
One-off working capital movements	**140**	**202**

- 2014-15 expected to have one-off working capital benefit of c.£45m due to timing of payroll payments for monthly paid staff

[1] Non-GAAP basis [2] P&L pension costs less cash pension costs, including RMPP deficit payment [3] Cash tax paid quarterly in arrears therefore different to P&L amount [4] Including transaction-related costs

Group Investment – Cash



FY 2013-14

£m	2013-14	2012-13
Business transformation payments	**19**	55
Voluntary redundancy	**71**	75
Project and property costs	**111**	100
Transformation opex	**201**	**230**

- Non-transformation capex principally GLS, Parcelforce expansion and Mailmark™

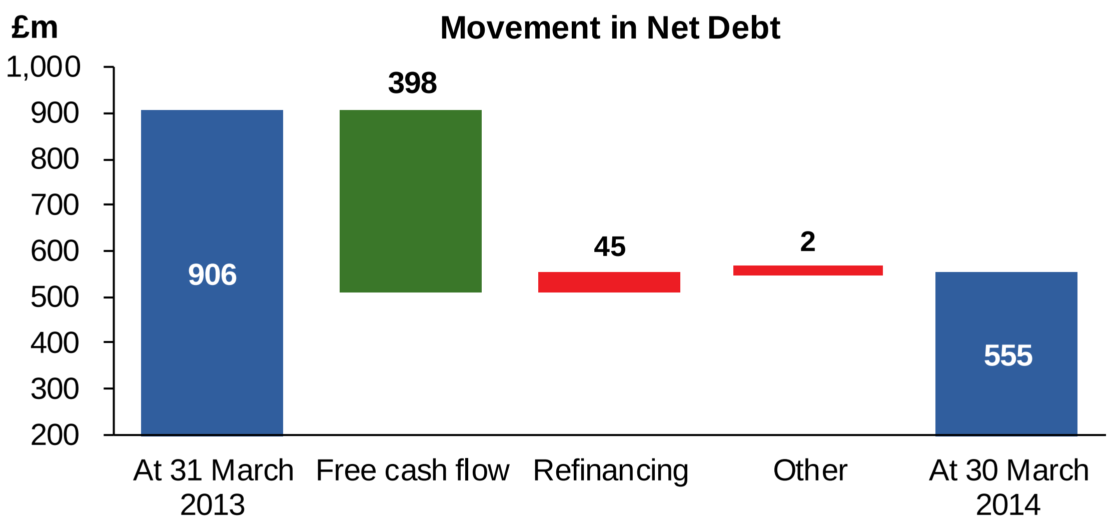
FY 2014-15E

- Cash impact of management reorganisation programme impacts transformation opex
- Final business transformation payments of c.£10m
- Cumulative cash investment over 2013-14 and 2014-15 expected to remain at c.£1.2bn net of proceeds from operational asset disposals

Outlook

- Ongoing maintenance capex of c.£250-300m p.a.
- Investment projects in addition to this
- c.£100m step down in 2015-16 vs. 2012-13 peak

Group Net Debt and Liquidity



Facility	LIBOR Spread	Facility £m	Drawn £m	Facility End Date
Term Loan A	+1.00%	300	300	2018
Term Loan B	+0.90%	300	300	2016
Revolving loan facility C	+0.85%	800	0	2018
Total		**1,400**	**600**	

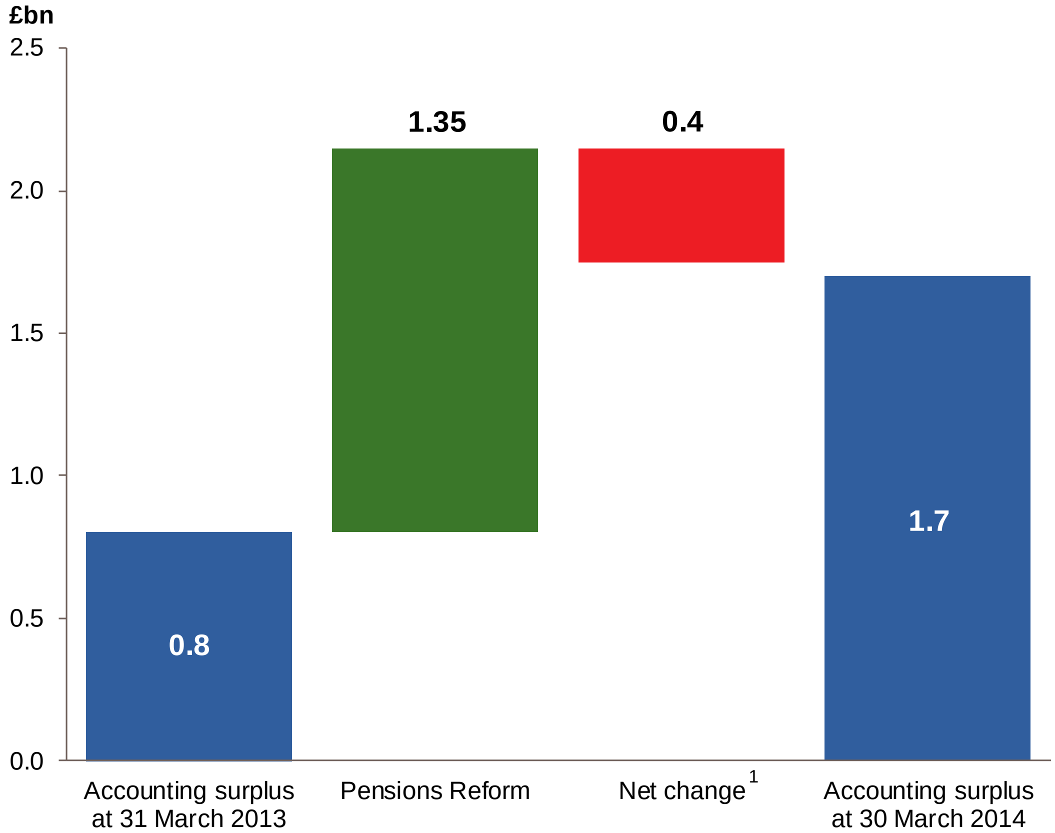
- FFO[1] to adjusted net debt:
  - 2013-14: 44%
  - 2012-13: 33%
- FCF to net debt:
  - 2013-14: 72%
  - 2012-13: 37%
- Targeting investment grade profile
- Loans previously provided by HM Government replaced and refinanced
- Refinancing includes 2013-14 interest on old 12% facility and one-off costs of new loan arrangement
- Net debt:

£m	
Drawn loans	(600)
Finance leases	(342)
Cash and cash equivalents[2]	367
Pension escrow (RMSEPP)	20
Net debt as 30 March 2014	**(555)**

[1] Funds From Operations [2] Includes short term deposits of £1m

Pensions

Accounting Basis



Actuarial Basis

- Actuarial surplus of c.£1.4bn at 30 March 2014
- Surplus generated following Pensions Reform will be used over time
- Actuarial valuation estimated ongoing contributions of c.£700m p.a.
- Following Pensions Reform company contributions maintained at c.£400m p.a.

[1] Assets movement of £0.5bn offset by liabilities movement of £0.9bn

Moya Greene

Chief Executive Officer

Outlook & Dividend

- Key value drivers remain the objectives for the Group for 2014-15
- Increasing challenges in UK letters and parcels markets
  - Strategies to address regulatory uncertainties
  - Strategies to address changing dynamics in parcels market
- Intend to pursue progressive dividend policy having regard to normalised earnings progression of the Group
- As regulatory position on direct delivery becomes clearer, expect to provide more clarity on our dividend policy

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

Appendix

Group Property

Development Properties

Site	Acres	Project Status
Nine Elms	13.9	▪ Planning consent: **granted** ▪ Development plan: residential units and ancillary accommodation ▪ Mail Centre demolished ▪ Delivery Office remains operational ▪ Vacate site: Mid 2017
Mount Pleasant	8.6	▪ Planning consent: **pending** ▪ Development plan: residential units and offices ▪ Planning application has been called in for determination by Mayor of London ▪ Two sites: Phoenix Place and Calthorpe Street ▪ Vacate site: Phoenix Place potentially by 2015, Calthorpe Street to follow
Paddington	1.1	▪ Planning consent: **granted, subject to signing a legal agreement with Westminster Council** ▪ Development plan: residential units and offices ▪ To be occupied by Crossrail - Statutory obligation ▪ Crossrail expected to vacate site in December 2018

Aim to optimise value for shareholders in the longer term

Pensions

Profit and Loss Account

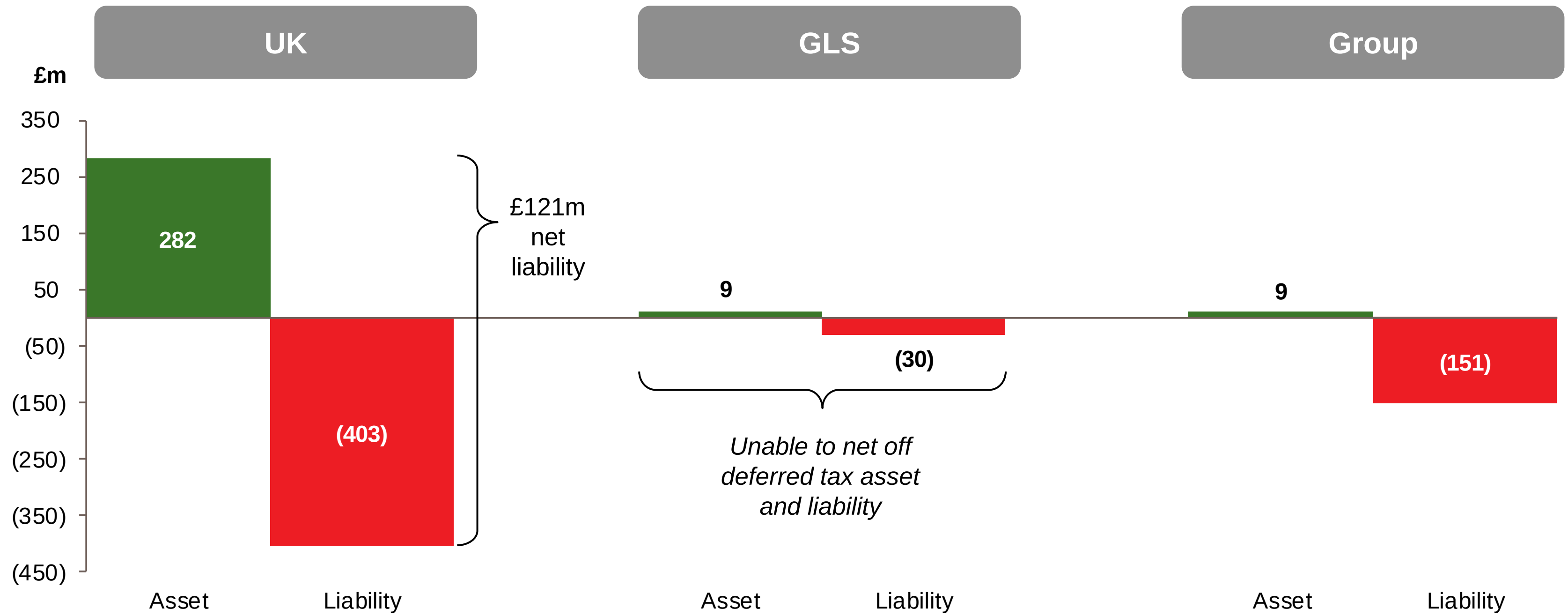
£m	2013-14	2012-13
RMPP	(448)	(411)
RMSEPP	-	(1)
RMDCP	(25)	(17)
GLS	(6)	(5)
People costs	**(479)**	**(434)**
Pension costs relating to voluntary redundancy	(34)	(11)
Total EBIT pension costs	**(513)**	**(445)**
Pension interest credit[1]	69	30
Total net PBT pension costs[2]	**(444)**	**(415)**
Pensionable payroll (£bn) - RMPP	2.2	2.3
P&L rate (%) - set based on year end bond rates and RPI		
RMPP	20.3	18.2
RMSEPP	N/A	37.6

Cash Flow

£m	2013-14	2012-13
RMPP	(380)	(387)
RMSEPP	-	(1)
RMDCP	(25)	(16)
GLS	(6)	(5)
RMSEPP deficit	(10)	(28)
Cash contributions	**(421)**	**(437)**
Pension payments relating to voluntary redundancy	(17)	(19)
Total cash payments	**(438)**	**(456)**
Pensionable payroll (£bn) - RMPP	2.2	2.3
Cash rate (%) - set at Triennial Valuation as at March 2012		
RMPP	17.1	17.1
RMSEPP	N/A	35.9[3]

[1] Non-operating specific item [2] Excluding specific item credit of £1,350m in relation to Pensions Reform [3] Contributions made until 31 December 2012, when plan closed to future accrual

Deferred Tax – Balance Sheet



- UK deferred tax assets arise due to brought forward tax losses and capital allowances
  - Expected to mostly reverse in the medium term
- Total deferred tax liability of £433m comprises future tax charges in respect of:
  - Employee Free Shares Offer, £65m - full tax relief was recognised in 2013-14 and is reversed over the vesting period
  - Pensions, £338m – mainly due to Pensions Reform. Expected to reverse over a longer period as the surplus reduces
  - GLS, £30m – mainly due to goodwill