Royal Mail plc
Half Year 2014-15 Results

19 November 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

H1 2014-15 Overview

Key Messages

- We have delivered 2% revenue growth together with margin expansion as we expected
- We are pre-eminent in the UK parcels market and intend to remain so – parcel volumes grew by 2%
- Our letters performance was better than expected with a 3% volume decline
- GLS performed strongly and better than expected with revenue and volume growth of 7% in a flat European economy
- Tight cost control resulted in flat UKPIL operating costs

Note: Movements in revenue, costs and margins are shown on an underlying basis. Movements in revenue and costs and underlying margins are calculated after adjusting for foreign exchange movements in GLS' revenue and costs, working days in UKPIL revenue as well as any non-recurring or distorting items that have impacted the reporting periods. For volumes, underlying movements are adjusted for working days in UKPIL. For comparison purposes all underlying adjustments are made to the prior period

Delivering Our Strategy – the competitive environment

UK parcel delivery market total volume c.1.7bn[1] items
Annual growth of c.4%[2] medium term

Account

- Impact of Amazon own-delivery reduces addressable market for carriers
- Exacerbated by new capacity at some carriers
- Creates price pressure in already competitive environment
- Innovation has continued with introduction of Sunday collection and delivery services

Consumers /SMEs

- Increased competition for consumer/SME collection, drop-off and returns
- Parcel shop networks continue to expand or be introduced
- More promotional offers putting pressure on price

Export

- Growth potential of cross-border e-commerce is encouraging development of international services at other carriers
- Export volumes impacted to some extent by strong Pound

We estimate UK addressable market growth rate of c.1%-2%[3] annually for c.2 years
AURs under pressure due to competitive environment

[1] Defined as individually addressed parcels and packets weighing up to 30kg, that do not require special handling and comprise goods that have been ordered based on Triangle Management Services/RMG Fulfilment Market Measure (July 2014). Excluding international [2] Internal estimate based on historic growth trends (Triangle Management Services/RMG Fulfilment Market Measure, July 2014) and forecast data (Verdict UK E-retail Survey) [3] Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (July 2014), Verdict UK E-retail survey and RMG market insight. B2C/C2X market growth of c.4.5%-5.5% and B2B market growth broadly tracking GDP. Estimated impact of own-delivery reduces B2C/C2X market volume growth by c.4%-5%

Delivering Our Strategy – we have acted quickly

Royal Mail – the pre-eminent UK parcels delivery company

Strategy	Initiatives	Benefits
Targeting more of the market	• Collecting and delivering 7 days a week • Targeting fastest growing sectors • Increasing RM service availability	• Increased volumes from customers • New fashion and other growth sector customers • RM option offered on more 3rd party web channels
Making our services better	• Local Collect for SMEs • Introduction of one larger small parcel format • Seasonal price promotion for small parcels • Better tracked return services • Sunday delivery	• c. 20k customers now have access to the service • Bigger sizes for same low price • Benefits consumers/SMEs sending/selling gifts over festive period • Tracked returns now integrated into eBay • Attractive for e-retailers and convenient for consumers
Making us easier to do business with	• International product simplification • New easy interfaces to RM shipping systems • Later cut-offs for collection • Longer and later opening at Post Offices and Enquiry Offices • Increasing first time delivery with Delivery to Neighbour and Local Collect	• International services now complement UK portfolio • Customer integration reduced from months to days • Opening up new volume to RM by collecting later • Makes it easier for consumers to send/collect their parcels • More convenient for recipients and more efficient for RM

Delivering Our Strategy – delivering change

Increasing our pace of change to keep us ahead

Next generation handheld devices

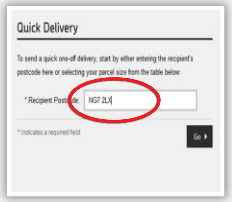
- Provider selected for roll-out of next generation handhelds
- Will enable increased functionality e.g. improved tracking capability

Smart barcodes on more parcels

- Over next year aiming to have 2D barcodes on most core network parcels
- Will enable tracking, improved reporting and automatic sortation over coming years

Parcels automation

- Tender for equipment to inform business case



'Click and Drop' service

- Simple 3 step journey from purchase to print for consumers/SMEs
- Integration with online traders' eBay accounts:
  - Bulk printing of labels
  - Instant despatch of sold items
- Payment via PayPal

Tracked returns

- eBay's worldwide mandated returns service launched, Royal Mail providing returns option

Delivering Our Strategy

Being a Successful Parcels Business – UK

UKPIL Parcels – H1 2014-15 Performance

	H1 2014-15	H1 2013-14
Revenue (£m)	1,461	1,481
Change	*(1%)*	
Volume (m)		
Royal Mail Core Network	459	454
Change	*2%*	
Parcelforce	39	36
Change	*9%*	
Total volume	498	490
Change	*2%*	

Volume

- Account customer growth and wins largely offsetting Amazon impact
- Impact of sized-based pricing in consumer/SME channel still unwinding
- International import volumes higher than expected but export affected by competition and strong Pound
- Continued good volume growth in Parcelforce

Revenue

- Pricing pressure has affected AURs
- Revenue impacted by change in mix as competitors focus on consumer and export sectors
- Mix impacted by growth in lower AUR imports

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Delivering Our Strategy

GLS – Being a Successful Parcels Business

GLS Performance

	H1 2014-15	H1 2013-14
Revenue (€m)	1,008	940
Volume (m)	208	193

Revenue up 7%

- Better than expected
- Volume driven
- Revenue growth achieved in all major countries

Volume up 7%

- Better than expected domestic and export volumes
- Strong growth in Italy

	Market Developments	GLS Developments
Germany	• Market growth driven by B2C • Domestic competitors chasing volume to fill networks • Price increases challenging in current market • Minimum wage expected to increase cost pressures	• Revenue growth, but lower margins • Sub-contractor costs stabilised, but minimum wage expected to impact from January 2015 • Offering Evening and Saturday deliveries in selected cities
France	• Difficult economic and political environment • B2B market stagnating – GDP flat • B2C market offers opportunities	• Turnaround plan on track • Rolling out FlexDeliveryServices for B2C • Focusing on top line growth from new and existing customers
Italy	• Market growth driven by B2C	• Continued good performance • Selective acquisition strategy • Continue integration of franchisee acquisitions • Maintain competitive position with high quality, focusing on SMEs and increasing exports

Delivering Our Strategy

Managing the Decline in Letters

Letter Volumes

Volumes (bn)	H1 2014-15	H1 2013-14
Non-access (e.g. USO and Retail)	2.8	2.7
Access	3.5	3.5
Addressed inland	**6.3**	**6.2**
International	0.2	0.3
Total addressed	**6.5**	**6.5**
Addressed letter volume decline[1]	**(3%)**	**(6%)**
Unaddressed	1.6	1.5

- Addressed letter volume decline of 3%[1], better than medium term forecast range of 4%-6%[1]
- Total letter revenue of £2.2bn, up 1%
  - Primarily driven by elections traffic in Q1, impact will diminish over the year
- Marketing mail revenue of £571m, up 5%

H1 2014-15 Developments

Mailmark™

- Value-added barcodes for addressed, machine readable business, marketing and publishing mail

Marketing mail

- Helps SMEs and larger businesses promote their goods and services
- Addressed marketing mail proven to have more impact than email alone
- MarketReach works with customers to help improve return on investment from multi media advertising campaigns

Keep me posted

- Partnership of over 70 leading UK charities, consumer organisations, trade unions and businesses
- Aims to ensure consumers are offered choice without penalty of receiving statements and utility bills by mail

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Short-term Cost Actions

H1 2014-15 UKPIL underlying operating costs flat

People Costs up 2%

H1 2014-15

- Productivity improvements of 2.1%[1], within target range, partially offset pay increases
  - Gross hours reduced by 2.3%
  - Workload broadly flat

	H1 2014-15	FY 2013-14	Target
Gross Hours	(2.3%)	(2.9%)	
Workload	(0.2%)	(1.3%)	
Productivity	**2.1%**	**1.7%**	**2.0%-3.0%**

- Standardising processing and delivery. e.g. Delivery to Neighbour
- Continuing Delivery Office revisions

H2 2014-15

- Management reorganisation programme on track to deliver cost savings of at least £25m
- £28m one-off bonus in H2 2013-14 not repeated

Non-people Costs down 4%

H1 2014-15

- Number of short-term actions have controlled underlying costs
  - Improved fleet management
  - Reduced property spend
  - Tight control in discretionary spend
- Benefits of procurement and cost saving actions in prior periods coming through
- Some impact from lower variable costs
  - Terminal dues impacted by lower value volume and mix
  - Lower POL commission

H2 2014-15

- 'Cost conscious culture' in place

FY 2014-15 UKPIL underlying operating costs expected to be flat

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2015-16 Cost Actions

Targeting flat or better UKPIL underlying operating cost performance in 2015-16

People Costs

- Productivity improvements in targeted range of 2%-3%[1]
- Management reorganisation programme expected to deliver c.£20m p.a. more cost savings than originally anticipated
- Local resourcing and workload review
- Collection from post boxes on delivery routes

Distribution & Conveyance Costs

- Logistics review
  - Vehicle fleet, e.g. vehicle types, utilisation, driver behaviour
  - Fleet maintenance and fuel
  - Air/rail network optimisation
- Optimising international distribution

Infrastructure Costs

- Continued savings from optimising property portfolio and management
- Further network optimisation

Other Costs

- Tight management of discretionary costs, e.g. consultancy and marketing
- Continued benefits from better procurement

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Delivering Our Strategy

Being Customer Focused

Customer Satisfaction

- Mean Business Customer Satisfaction Score[1] improved to 76 from 74 in H1 2013-14
- Achieved a Net Promoter Score[1] for business customers of 26 in H1 2014-15 (score was 20 in H1 2013-14)

Customer Service Points

- 45 Enquiry Offices undergoing upgrade to customer service points resulting in higher customer satisfaction
- Introduction of new customer IT system in over 100 Enquiry Offices resulting in reduction in complaints
  - Aim to improve retrieval time of parcels

Quality of Service

	Target	H1 2014-15
First Class	93.0%	93.3%
Second Class	98.5%	98.9%
Composite parcel performance	95.1%	95.4%

Before

After

Strong customer satisfaction supports strong brands in core markets

[1] Source: Business Customer CSI survey

Delivering Our Strategy

- Initiatives in place to maintain our pre-eminent position in UK parcels market
- Promoting the value of letters to businesses and consumers
- Seeking further regulatory reform
- Continued tight cost control
- Increasing GLS scale and footprint

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

Matthew Lester

Chief Finance Officer

H1 2014-15 Financial Summary

£m	H1 2014-15	H1 2013-14	Underlying change[1]
Revenue	**4,525**	4,520	2%
Operating profit before transformation costs	**279**	353	
Operating profit margin before transformation costs	**6.2%**	6.0%[1]	+20bps
Operating profit after transformation costs	**232**	283	
Operating profit margin after transformation costs	**5.1%**	4.4%[1]	+70bps
Profit before tax[2]	**218**	233	
Earnings per share[2]	**16.3p**	16.8p	
Free cash flow	**117**	183	
Net debt	**570**		
Dividend per share	**6.7p**		

- Period-on-period comparisons impacted by certain non-recurring or distorting items:

	H1 2013-14	
	Reported	Underlying[1]
Operating profit margin before trans. costs	7.8%	6.0%
Change in margin	**(160bps)**	**+20bps**
Operating profit margin after trans. costs	6.3%	4.4%
Change in margin	**(120bps)**	**+70bps**

- Interim dividend determined by dividend policy c.1/3 of notional full year dividend of 20p

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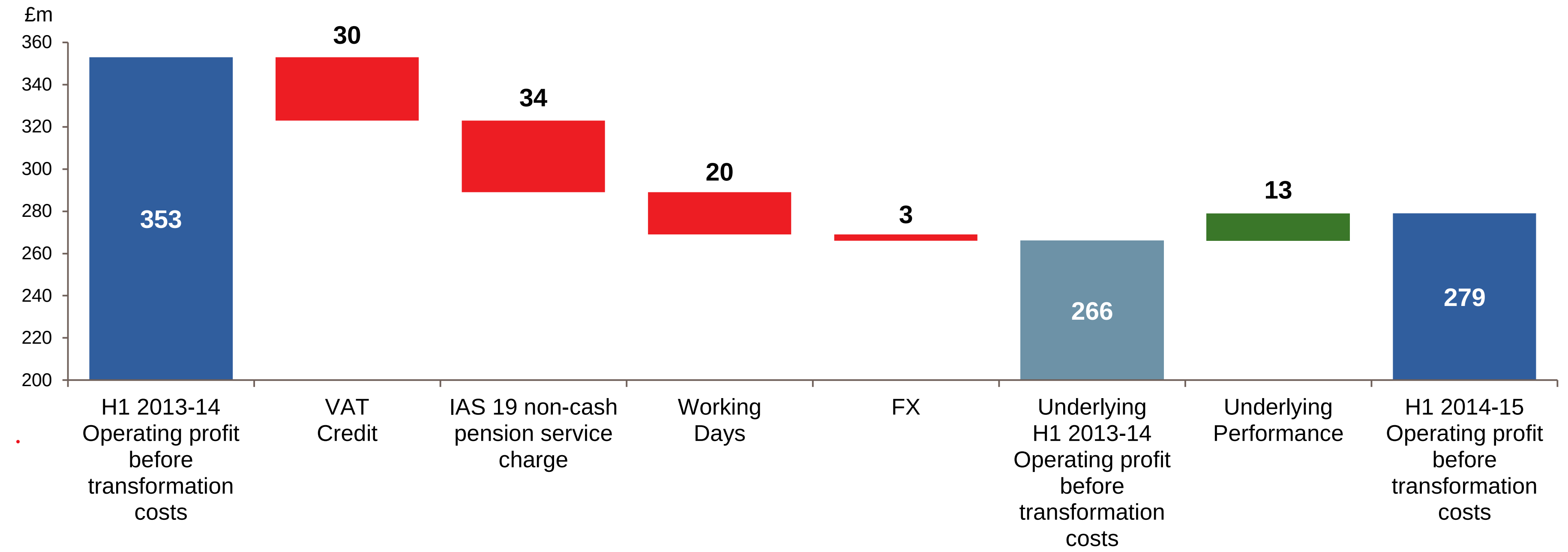
Underlying Operating Profit



Period-on-period comparison distorted by:

- VAT credit of £35m in H1 2013-14. Year-on-year change is £30m due to £5m credit received in H1 2014-15
- Pension charge increased by £40m of which £34m due to increase in IAS 19 non-cash pension service charge rate from 20.3% to 23.6%
  - If market conditions remain unchanged IAS 19 pension service charge rate expected to increase to 25.5%[1] for FY 2015-16 equivalent to a further increase of c.£40m-£45m
- £20m working day impact due to c.1 less working day in H1 2014-15

[1] Actual rate for 2015-16 will be determined by the discount rate at the end of March 2015 (based on long term RPI and appropriate AA corporate bond rates at that time)

Segmental Summary

£m	H1 2014-15	H1 2013-14	Underlying change[1]
Revenue			
UKPIL	**3,703**	3,711	Flat
GLS	**813**	801	7%
Other	**9**	8	
Total	**4,525**	**4,520**	**2%**
Operating profit before transformation costs			
UKPIL	**219**	294	
GLS	**56**	53	
Other	**4**	6	
Total	**279**	**353**	
Operating profit after transformation costs			
UKPIL	**172**	224	
GLS	**56**	53	
Other	**4**	6	
Total	**232**	**283**	

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UKPIL Results

£m	H1 2014-15	H1 2013-14	Underlying change[1]
Revenue	**3,703**	3,711	Flat
Operating costs	**(3,484)**	(3,417)	Flat
Operating profit before transformation costs	**219**	294	
Operating profit margin before transformation costs	**5.9%**	**5.7%[1]**	+20bps
Transformation costs	**(47)**	(70)	
Operating profit after transformation costs	**172**	224	
Operating profit margin after transformation costs	**4.6%**	**3.8%[1]**	+80bps

- Revenue flat
- Operating costs before transformation costs flat
- Period-on-period comparisons impacted by certain non-recurring or distorting items:

	H1 2014-15	H1 2013-14
Operating profit before trans. costs	219	294
VAT credit		(30)
IAS 19 non-cash pension service charge increase		(34)
Working days		(20)
Underlying[1] operating profit before trans. costs	219	210
Margin	**5.9%**	**5.7%[1]**
Reported margin	**5.9%**	**7.9%**

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UKPIL Revenue

Parcels (£1,461m):

- Impacted by:
  - Mix due to relative performance of account channel and import vs. consumer/SME channels
  - Parcelforce good volume growth but prices under pressure due to competitive environment

Letters (£2,242m):

- Addressed letter volume decline better than our expected range of 4%-6% decline
  - Main driver, improvement in UK economic conditions

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UKPIL Costs

£m	H1 2014-15	H1 2013-14	Underlying change[1]
People costs	**2,400**	2,320	2%
Distribution & conveyance costs	**367**	387	(8%)
Infrastructure costs	**440**	452	(5%)
Other operating costs	**277**	258	6%
Non-people costs	**1,084**	1,097	(4%)
Operating costs	**3,484**	**3,417**	**Flat**

- People costs up 2%, as productivity improvements partially offset pay increases
- Non-people costs down 4%, due to continued focus on cost management
- Operating costs before transformation costs flat

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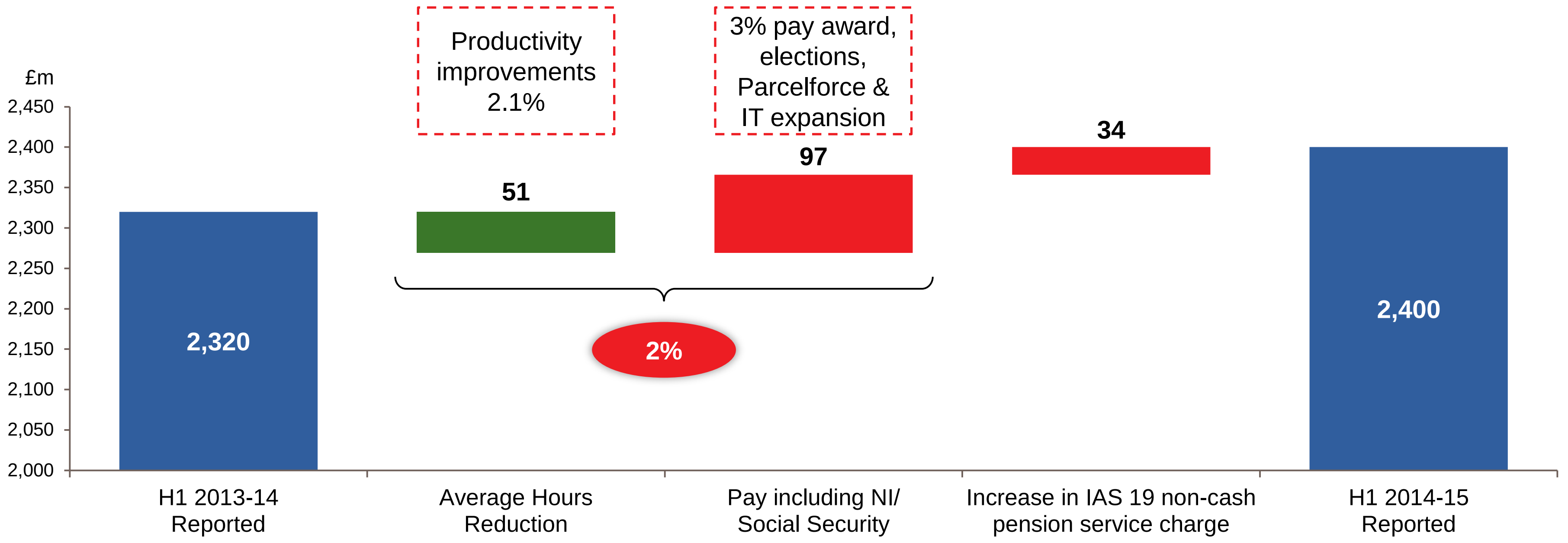
UKPIL People Costs



- Productivity improvements of 2.1%[1], in line with our target range
  - Increased pay costs due to 3% pay award, elections supplement and headcount expansion in Parcelforce and IT
- Increase in pension charge equivalent to c.1 percentage point
  - IAS 19 non-cash pension service charge rate increased from 20.3% to 23.6%

- Underlying people costs up 2%, of which:
  - Pay increases partially offset by productivity improvements c.1%
  - Elections c.0.5%
  - Increased Parcelforce/IT headcount c.0.5%

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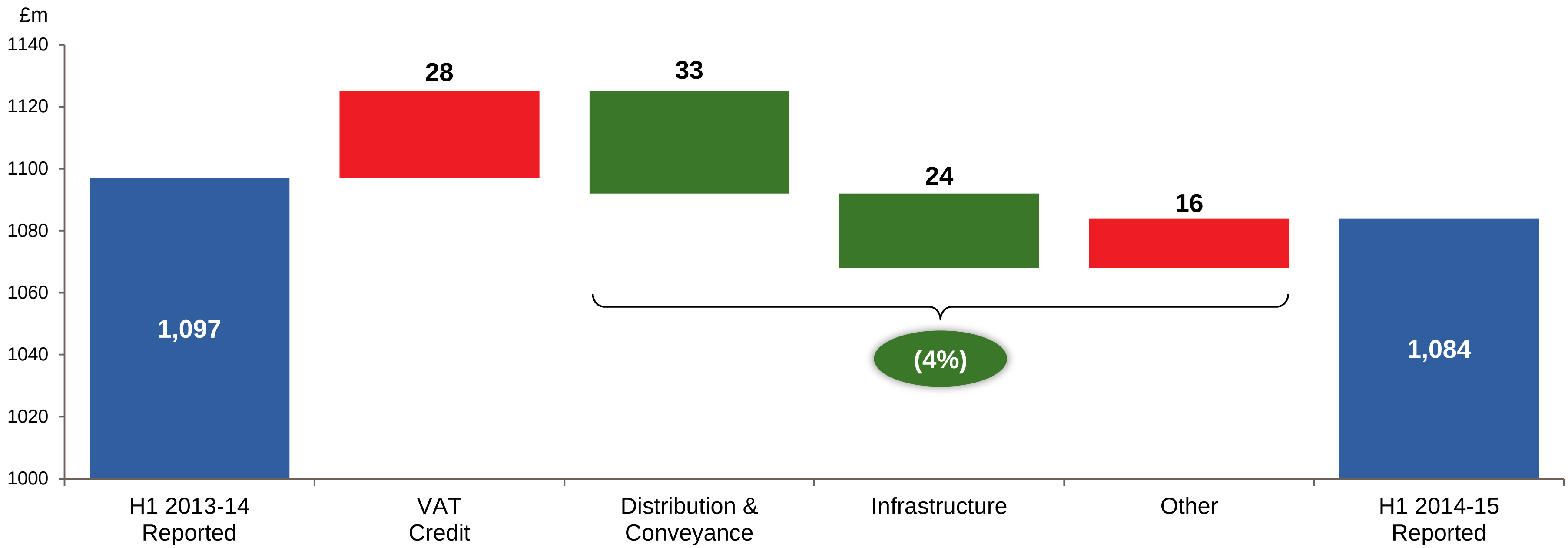
UKPIL Non-people Costs



Distribution & conveyance costs, down 8%

- Lower terminal dues due to change in export mail volume mix
- Improved fleet management

Infrastructure costs, down 5%

- Savings from better property management and lower POL related costs

Other costs, up 6%

- Ceased cost recovery from POL post separation
- Partially offset by reductions in discretionary costs, e.g. consultancy and marketing

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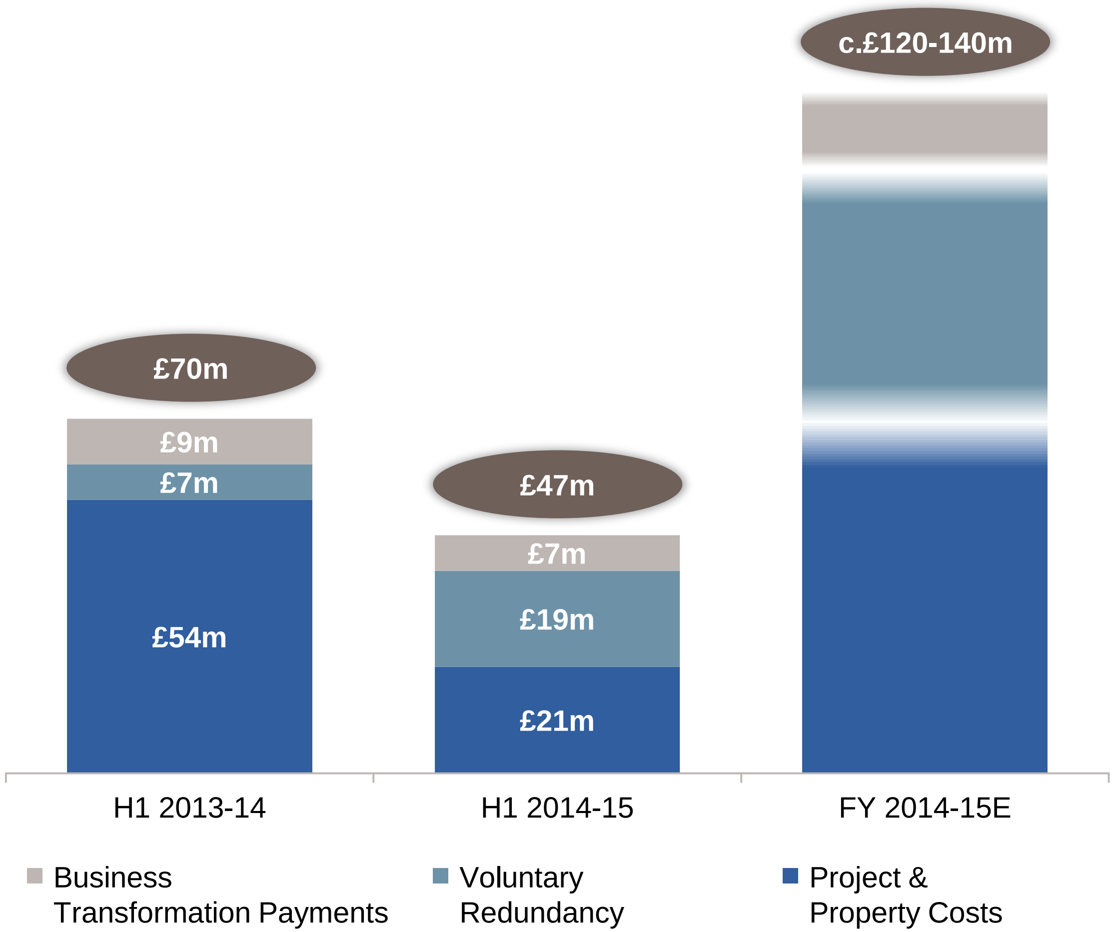
Transformation Costs – P&L



H1 2014-15

- Business transformation payments of £7m, out of c.£10m expected for FY 2014-15
- Voluntary redundancy costs in the prior period impacted by threat of industrial action
- Lower project and property costs due to larger Mail Centre transformation projects in prior period

Ongoing

- Transformation costs of c.£120-140m p.a.
  - Outcome for FY 2014-15 will depend on timing of projects in H2 2014-15

GLS Results

£m	H1 2014-15	H1 2013-14	Underlying change[1]
Revenue	**813**	801	
Euro (m)	***1,008***	*940*	*7%*
Operating costs	**(757)**	(748)	
Euro (m)	***(939)***	*(878)*	*7%*
Operating profit	**56**	53	
Euro (m)	***69***	*62*	
Operating profit margin	***6.9%***	***6.6%***	*+30bps*
Volume (m)	**208**	193	7%
Average £1 = €	**1.24**	1.17	6%

- Good revenue growth, better than expected
- Revenue growth achieved in all major countries
- Cost increases predominantly driven by volumes
- France operating loss reduced to €9m (H1 2013-14: €13m) and turnaround continues
- Reported results impacted by strength of Pound

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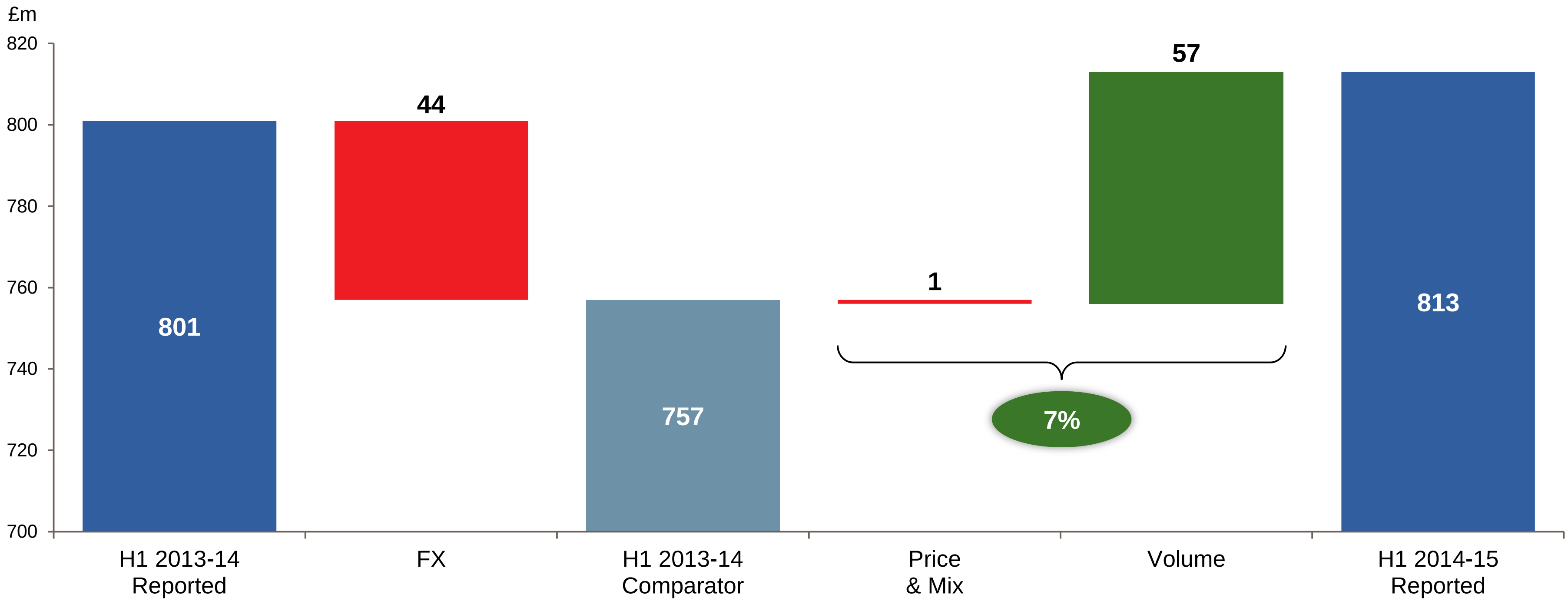
GLS Revenue



- Germany remains largest market and revenue continues to grow
- France revenue shows progressive growth, driven by higher volumes
- Continued strong revenue growth in Italy
- Revenue growth in majority of developed and emerging European markets

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GLS Costs

€m	H1 2014-15	H1 2013-14	Underlying change[1]
People costs	**226**	209	8%
Distribution & conveyance costs	**620**	580	7%
Infrastructure costs	**65**	62	4%
Other operating costs	**28**	27	3%
Operating costs	**939**	**878**	7%

- People costs up 8% due to:
  - Semi-variable costs linked to volume c.3%
  - Pay inflation/other c.3%
  - Acquisitions c.2%
- Distribution & conveyance costs up 7% due to higher volumes
  - German sub-contractor rate increase stabilised
  - Impact of German minimum wage legislation in 2015-16
- Infrastructure costs higher largely due to higher depreciation
- Other operating costs higher mainly due to accelerated IT spend

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Group Profit After Tax

£m	Reported		Excluding Specific Items	
	H1 2014-15	H1 2013-14	H1 2014-15	H1 2013-14
Operating profit after transformation costs	**232**	283	**232**	283
Operating specific items and disposals	**(89)**	1,328	-	-
Finance costs	**(16)**	(52)	**(16)**	(52)
Finance income	**2**	2	**2**	2
Net finance costs	**(14)**	(50)	**(14)**	(50)
Pension interest	**38**	19	-	-
Profit before taxation	**167**	1,580	**218**	233
Taxation	**(42)**	(359)	**(55)**	(64)
Profit after tax from continuing operations	**125**	**1,221**	**163**	**169**

Specific Items

£m	H1 2014-15	H1 2013-14
Pensions Reform credit	-	1,350
Transaction-related costs	-	(26)
Employee Free Shares costs	**(91)**	(6)
Business-related costs	**(25)**	(9)
Operating specific items	**(116)**	**1,309**
Profit on disposal of property	**27**	17
Profit on disposal of business	-	2
Disposals	**27**	19
Total operating specific items and disposals	**(89)**	**1,328**
Pension interest	**38**	19

- Employee Free Shares costs for FY 2014-15 charge expected to be c.£180m[1] due to accelerated good leavers
- Business-related costs includes:
  - Provision for French competition authority investigation of £18m. Amount of any fine not expected to be determined until H2 2015-16
  - Movement in provision for potential industrial disease claim due to reduction in discount rate
- Profit on disposal of property from operational asset disposals
  - Profit on sale of Paddington reflected in H2 2014-15
- Increase in IAS 19 non-cash pension interest credit due to Pensions Reform
  - 2014-15 credit expected to be c.£75m

[1] Calculated based on value of Employee Free Shares of £510m (including national insurance) pro-rated over the period of vesting, adjusted for good leavers

Group Free Cash Flow

£m	H1 2014-15	H1 2013-14
EBITDA before transformation costs	**416**	483
Trading working capital movements	**(152)**	(155)
Pensions[1]	**69**	36
	333	**364**
Investment	**(249)**	(212)
Taxation[2]	**(6)**	(13)
Net finance costs paid	**(9)**	(23)
Dividend from associate	**0**	2
In-year trading cash inflow	**69**	**118**
Other working capital movements	**16**	50
Operating specific items[3]	**(2)**	(13)
Property and business disposals	**34**	28
Free cash flow	**117**	**183**

- Working capital outflows in H1 in line with normal trend
- Excluding VAT credit and management reorganisation programme, free cash flow broadly flat

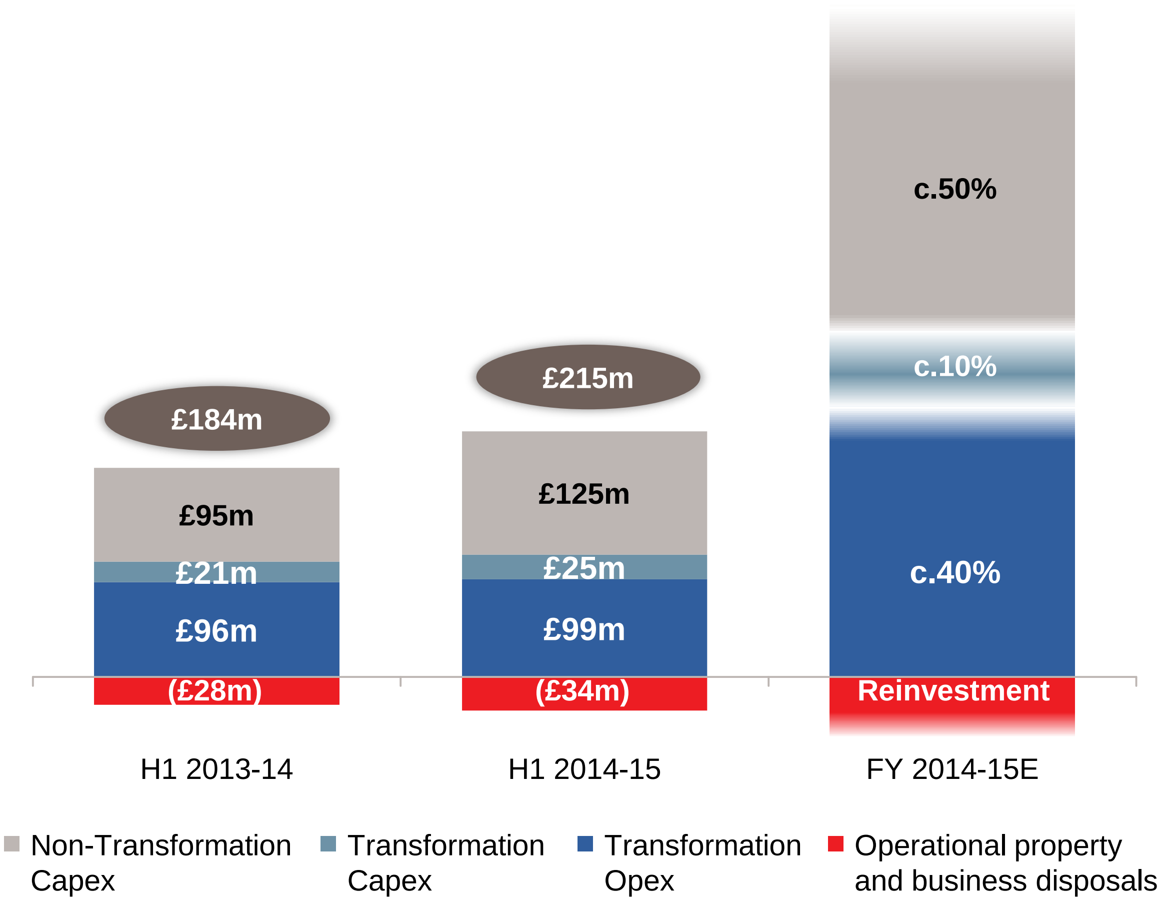
	H1 2014-15	H1 2013-14
Reported free cash flow	**117**	183
VAT credit	**(5)**	(35)
Management reorganisation programme	**39**	-
	151	**148**

FY 2014-15

- Trading working capital expected to be broadly flat for FY 2014-15
- Other working capital benefit of c.£45m due to timing of March 2015 payroll payments for monthly paid staff

[1] Including RMSEPP deficit payment of £5m [2] Cash tax paid quarterly in arrears therefore different to P&L amount [3] Including transaction-related costs

Group Investment – Cash



£m	H1 2014-15	H1 2013-14
Business transformation payments	**7**	11
Voluntary redundancy – MRP	**39**	-
Voluntary redundancy – Other	**29**	30
Project and property costs	**24**	55
Transformation opex	**99**	**96**

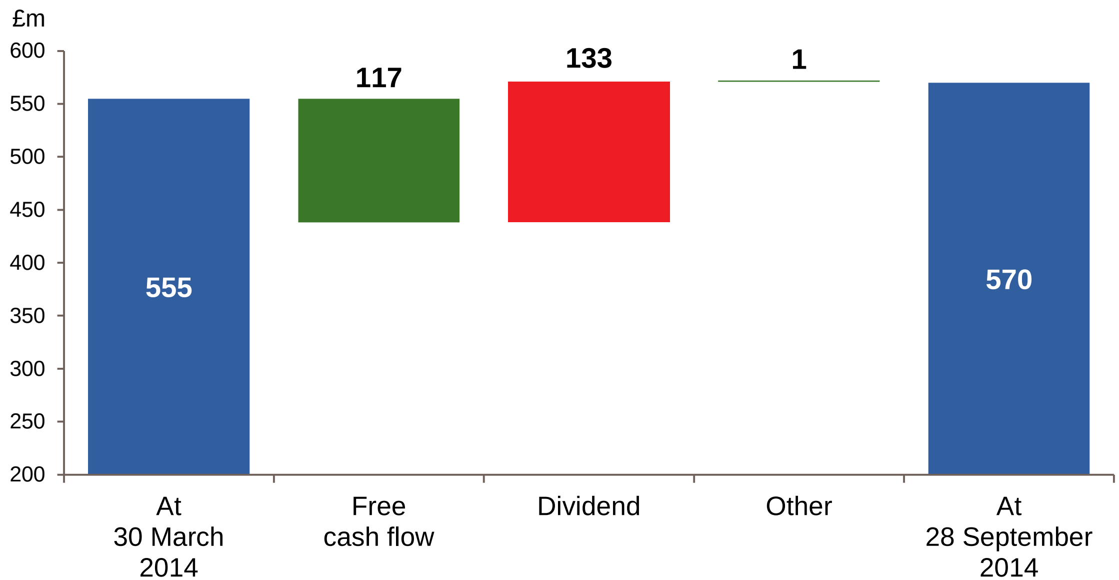
- Increase in investment reflects cash outflow in relation to voluntary redundancy payments under management reorganisation programme
  - c.£60m expected in H2 2014-15 due to timing of payments

Outlook

- Cumulative cash investment over 2013-14 and 2014-15 expected to remain at c.£1.2bn net of proceeds from operational asset disposals
- Ongoing maintenance capex of c.£250-300m p.a.
- Investment projects in addition to this
- c.£550-£600m p.a. going forward, net of proceeds from operational asset disposals

Group Net Debt and Liquidity

Movement in Net Debt



Facility	Rate	Facility £m	Drawn £m	Facility End Date
Euro Bond[3]	2.5%	389	389	2024
Term Loan A[4]	LIBOR +0.9%	250	250	2018
Revolving loan facility[4]	LIBOR +0.75%	800	0	2018
Total		**1,439**	**639**	

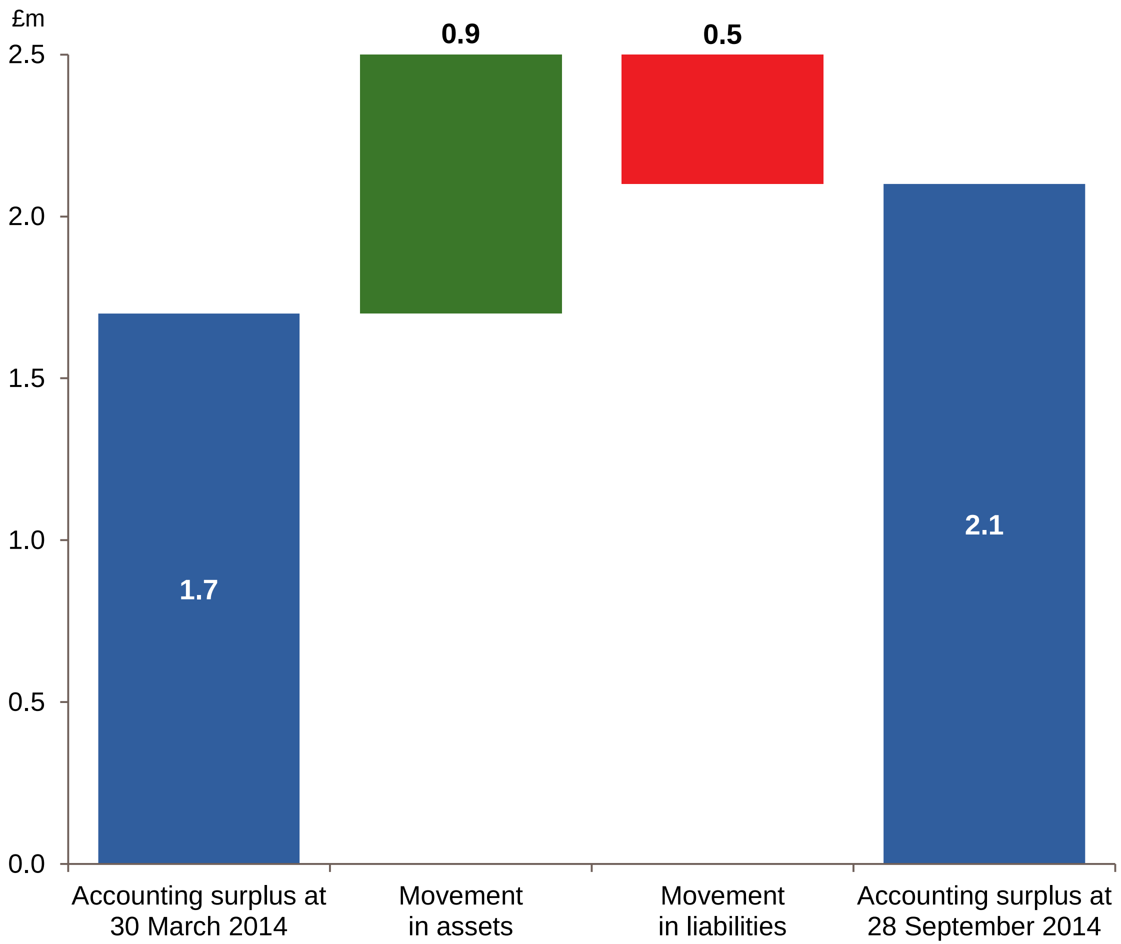
- S&P investment grade rating: BBB stable outlook
- Issue of €500m 2.375% Senior Fixed Rate Notes due July 2024
- Blended interest rate on gross debt for the second half of year expected to be c.3%[1]
- Net debt:

£m	
Loans/Bonds	**(639)**
Finance leases	**(304)**
Cash and cash equivalents[2]	**353**
Pension escrow (RMSEPP)	**20**
Net debt at 28 September 2014	**(570)**

[1] Includes arrangement/commitment fees and finance leases [2] Includes short term deposits [3] €500m liabilities net of discount and fees at spot rate €/£0.78, revalued at balance sheet date [4] Linked to LIBOR and reduced by 0.10% following the initial implementation period. Rate now linked to Group leverage ratio (Net Debt/EBITDA)

Pensions

Accounting Basis



Actuarial Basis

- Actuarial surplus of c.£1.6bn at September 2014 vs. £1.4bn at March 2014
- Following Pensions Reform company contributions maintained at c.£400m p.a.

- Surplus has increased on both accounting and actuarial basis, primarily due to liability hedging strategy put in place by RMPP Trustee
- Liabilities projected to accrue to March 2017 have been hedged in advance against movements in interest rates and inflation rates
- Surplus expected to reduce over time

Property

UK Property Strategy

- Manage property costs tightly
- Provide fit-for-purpose processing and delivery centres
- Realise surplus value in the real estate portfolio – sale of Paddington for £111m

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 • Actively marketing site, evaluating options – out-right sale or co-develop
Mount Pleasant	8.6	• Planning consent: **granted, subject to finalising agreements setting out financial contributions payable to local authorities** • Development plan: residential units and offices • Next step: complete design work for separating operations from redevelopment scheme

Moya Greene

Chief Executive Officer

FY 2014-15 Outlook

Performance remains in line with our expectations for the full year

Tight cost control expected to deliver flat underlying costs in UKPIL

Full year outcome dependent on our performance over Christmas trading period

See slide on 'Forward-Looking Statements'. These objectives do not represent any forecast, target or expectation as to future results or performance Note: Movements in revenue, costs and margins are shown on an underlying basis. Movements in revenue and costs and underlying margins are calculated after adjusting for foreign exchange movements in GLS' revenue and costs, working days in UKPIL revenue as well as any non-recurring or distorting items that have impacted the reporting periods. For volumes, underlying movements are adjusted for working days in UKPIL. For comparison purposes all underlying adjustments are made to the prior period

Appendix

Regulation

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

Access Mail

Ofcom Access Pricing Policy Review

- April 2014 – Ofcom announced policy review of access conditions
- Due to complete by end 2014 (consultation yet to begin)

Ofcom Competition Act investigation

- Whistl complaint in relation to zonal pricing and price differential
- Changes suspended pending outcome of investigation
- April 2014 – Ofcom announced investigation to be conducted under Competition Act
- Decision on whether to proceed expected in Autumn/Winter 2014

VAT exemption

- 2012 – Whistl challenged VAT exemption on access services and brought a claim against HMRC
- October 2014 – UK High Court ruled in favour of HMRC
- Decision may be subject to appeal

Direct Delivery

- Whistl currently operating direct delivery competition in much of London, all of Manchester and Liverpool
- As per our submission to Ofcom, Whistl achieving its stated plans could reduce Royal Mail revenue by over £200m in 2017-18
- Whistl has re-stated its plans to roll out direct delivery network to cover c.42% of UK addresses by 2019 (previously 2017) – subject to satisfactory regulatory outcomes
- Absent intervention from Ofcom, ability to reach a 5-10% EBIT margin for the reported business sustainably in the future would be undermined
- June 2014 – Formal evidence submission made to Ofcom calling for an immediate review of direct delivery and the interventions needed to protect USO
  - Currently awaiting response from Ofcom

Need a long-term sustainability framework for the Universal Service

H1 2014-15 Value Drivers

Revenue	Operating costs	Transformation costs	Profit after transformation costs	Cash
UK parcels down 1% **UK letters** up 1% **UKPIL** Flat **GLS** up 7%	**People costs** up 2% **Non-people costs** Flat	**Transformation costs** £47m down £23m	**Profit after transformation costs** £232m **Margin** 5.1%	**EBITDA** £416m down £67m **Cash investment** net £215m up £31m
2% Growth	**1% Growth**		**Up 70bps**	**Free cash flow £117m down £66m**
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 free cash flow***

H1 2014-15   Objective[1]

[1] These objectives do not represent any forecast, target or expectation as to future results or performance Note: Movements in revenue, costs and margins are shown on an underlying basis. Movements in revenue and costs and underlying margins are calculated after adjusting for foreign exchange movements in GLS' revenue and costs, working days in UKPIL revenue as well as any non-recurring or distorting items that have impacted the reporting periods. For volumes, underlying movements are adjusted for working days in UKPIL. For comparison purposes all underlying adjustments are made to the prior period

Other Working Capital Movements

£m	H1 2014-15	H1 2013-14
Stamps used but purchased in prior periods	**(29)**	(15)
Timing of payroll payments for monthly paid staff	**45**	-
2013 Pay award accrued but not paid	**-**	65
Other working capital movements	**16**	**50**

Pensions

Profit and Loss Account

£m	H1 2014-15	H1 2013-14
RMPP	**(265)**	(231)
RMDCP	**(17)**	(11)
GLS	**(3)**	(3)
People costs	**(285)**	**(245)**
Pension costs relating to voluntary redundancy	**7**	(4)
Total EBIT pension costs	**(278)**	**(249)**
Pension interest credit[1]	**38**	19
Total net PBT pension costs[2]	**(240)**	**(230)**
Pensionable payroll (£bn) – RMPP	**1.1**	1.1

P&L rate (%) – set based on year end bond rates and RPI

	H1 2014-15	H1 2013-14
RMPP	**23.6%**	20.3%
RMDCP[3]	**5%**	4%

Cash Flow

£m	H1 2014-15	H1 2013-14
RMPP	**(192)**	(190)
RMDCP	**(16)**	(11)
GLS	**(3)**	(3)
RMSEPP deficit	**(5)**	(5)
Cash contributions	**(216)**	**(209)**
Pension payments relating to voluntary redundancy	**(11)**	(8)
Total cash payments	**(227)**	**(217)**
Pensionable payroll (£bn) – RMPP	**1.1**	1.1

Cash rate (%) – set at Triennial Valuation as at March 2012

	H1 2014-15	H1 2013-14
RMPP	**17.1%**	17.1%
RMDCP[3]	**5%**	4%

[1] Non-operating specific item [2] Excluding specific item credit of £1,350m in H1 2013-14 in relation to Pensions Reform [3] Average employer contribution rate for the period

Group Taxation

£m	Reported			Excluding Specific Items		
	UK	GLS	Group	UK	GLS	Group
Profit before tax	128	39	167	161	57	218
P&L tax charge	23	19	42	36	19	55
Effective tax rate	**18%**	**49%**	**25%**	**22%**	**33%**	**25%**
Cash tax payments/(receipts)	(6)	12	6	n/a	n/a	n/a
Cash tax rate	**(5%)**	**31%**	**4%**	n/a	n/a	n/a

P&L tax

UK

- Excluding specific items: broadly in line with UK Statutory Rate
- Reported:
  - Lower rate mainly due to profits made on operational property disposals offset by reinvestment relief
  - Expected to incur tax on property disposals if there are insufficient reliefs to shield profits

GLS

- Excluding specific items: higher than weighted European rate due to no deferred tax asset being recognised in relation to French losses
- Reported: no relief assumed for the French competition authority investigation provision

Group

- Group effective rate expected to reduce over the next few years as the UK Statutory Rate declines and France losses reduce

Cash tax

UK

- £6m repayment from HMRC as a result of prior year overpayments
- Low tax payments in the UK mainly due to utilisation of brought forward losses and capital allowances. Expected to normalise by 2017-18

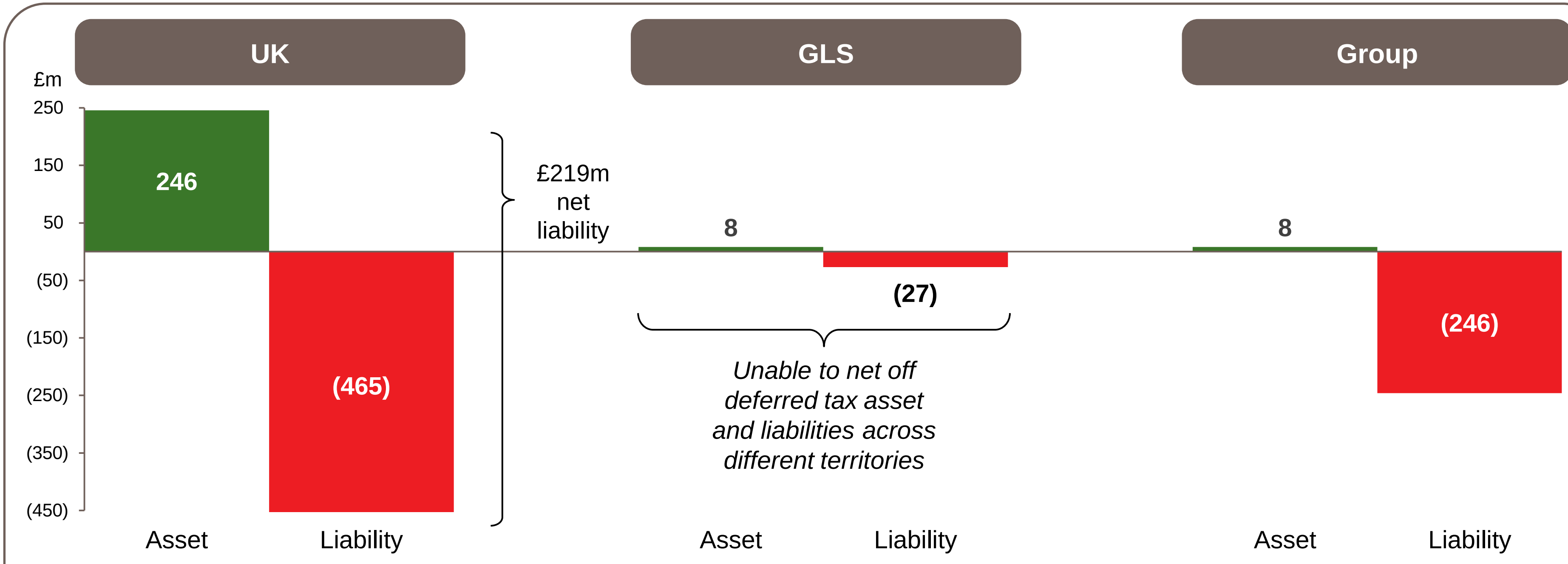
GLS

- Cash tax rate lower than P&L rate due to timing of tax payments in Europe

Group

- Group tax payments in the half year were £6m

Deferred Tax – Balance Sheet



- UK deferred tax assets arise due to brought forward tax losses and capital allowances
  - Tax losses are expected to reverse in the short term and capital allowances in the medium term
- Gross deferred tax liability of £492m comprises future tax charges in respect of:
  - Employee Free Shares Offer – full tax relief was recognised in 2013-14 and will reverse over the vesting period
  - Pensions – mainly due to Pensions Reform. Expected to reverse over a longer period as the surplus reduces
  - GLS – mainly due to goodwill