Royal Mail plc

Full Year 2014-15 Results

21 May 2015

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 2014-15 Results Overview

Implementing change and innovation at pace in response to a challenging environment

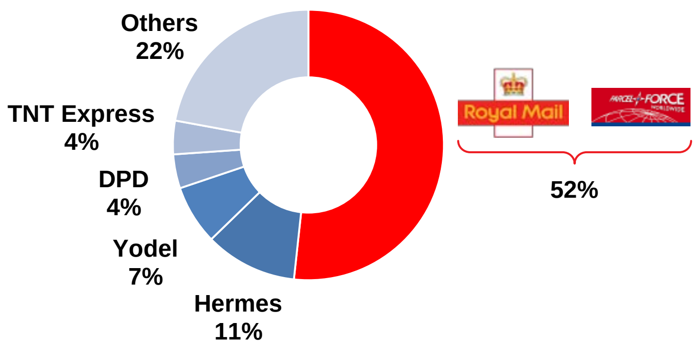
- Tight cost control delivered Group profit in line with our expectations, despite lower than anticipated UK parcel revenue
- Group revenue up 1%
- UKPIL revenue flat
  - Parcel volumes up 3% and revenue up 1% in challenging environment
  - Addressed letter volume decline of 4% – at better end of forecast range – and 1% decline in total letter revenue
- UKPIL underlying operating costs down 1%
- GLS revenue up 7%
- Free cash flow of £453m, supporting dividend of 21.0p for the full year, up 5%

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and excludes elections in letter volumes

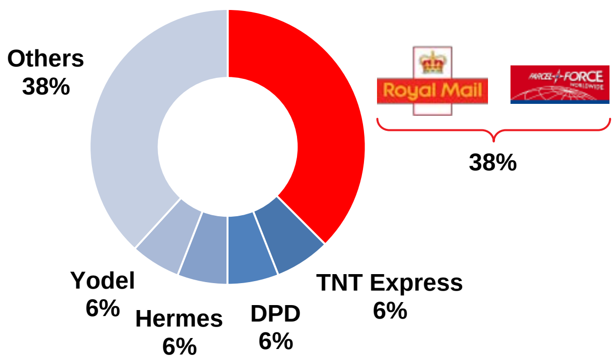
UK Parcels Market – highly competitive environment

UK Parcels Market Share[1]

Volume



Revenue



Current trends

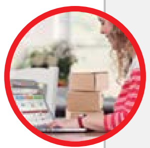
- E-retail continues to drive market growth: faster growing segments include clothing and footwear
- B2C/C2X market volume growth c.4.5-5.5%; B2B market volume growth to track or be slightly above GDP
  - Estimated blended market volume growth c.4%
- Amazon own delivery network reduces annual volume growth in addressable market to c.1-2%[2]
- Market sorting capacity expanding faster than demand despite City Link exit
- Capacity expansion combined with reduced addressable market growth puts pressure on prices across the industry
- More choice for customers

UK addressable market[3] growth rate of c.1-2%[2] annually in short term
AURs under pressure due to competitive environment

[1] Sources: Triangle Management Services, Fulfilment Market Measure (2013); Royal Mail 2013-14 results (UKPIL domestic parcels only) [2] Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (December 2014), Verdict UK E-retail survey and RMG market insight [3] 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 Fulfillment Market Measure. Excluding International

Maintaining our Pre-eminent Position

Adding value by continually improving our products and services



- 'Click & Drop' online tool for consumers/SMEs and marketplace traders
  - StoreFeeder acquisition improves our ability to deliver online shipping tools
- Local Collect: largest single 'click-and-collect' network in UK with c.10,500 Post Office branches
- Improved international product offering
- New returns portal to enable online retailers to manage returns better
- Parcelforce Select service improves end-customer's control of their parcel delivery
- Price cut for Second Class medium parcels
- Small parcels: new larger format and maintained price promotion

Maintaining our pre-eminent position while seeking new areas of growth

- Targeting growth sectors and being more flexible about size and shape of parcels we can deliver
- Extending weekday/weekend access to our network for large business customers
- One of the few delivery providers for eBay's 'click-and-collect' service with Argos
- Introduced tracked returns for eBay buyers
- Royal Mail shop front on Alibaba's Tmall Global e-marketplace
  - Provides Chinese consumers the opportunity to buy authentic, high quality British products
  - Parcelforce is the UK shipper

Initiatives for the Future

Next steps in parcels transformation programme

2D barcodes on more parcels

- Accelerated migration of customers
- Developed a range of shipping and labelling systems for all sizes of customer, including online tools and APIs

Scanning

- Next generation handheld devices
- Acceptance and delivery scans
- Will deliver technology to scan significantly more parcels in Mail Centres and on the doorstep

Tracking

- Increased delivery and tracking capability
- Enables new service developments
- Data used to improve operational efficiencies and further enhance service quality

Parcels automation

- Begin rolling out to c.20 of our busiest Mail Centres
- Finger scanners to be introduced in Mail Centres

Winning in new segments

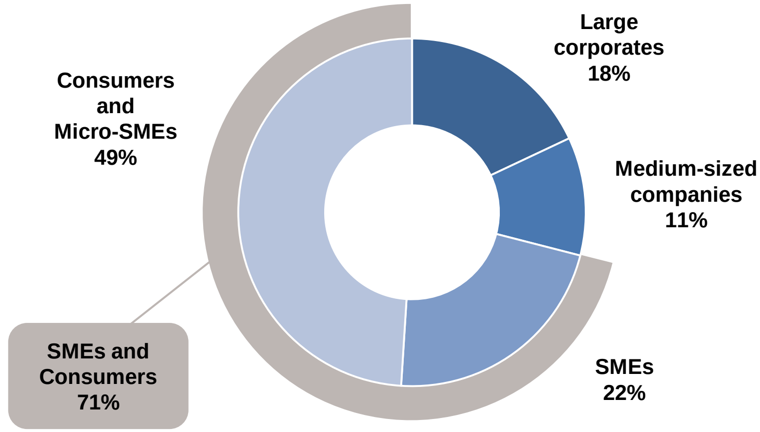
- Addressing opportunities in faster growing clothing and footwear segments

Being a Successful Parcels Business – UK

Responded to competitive market conditions and achieved volume and revenue growth

	2014-15	2013-14
Revenue (£m)	3,190	3,162
YoY change	*1%*	*7%*
Volume (m)		
Royal Mail core network	1,015	991
YoY change	*3%*	*(1%)*
Parcelforce	86	77
YoY change	*12%*	*8%*
Total volume	1,101	1,068
YoY change	*3%*	*Flat*

Share of revenue[1]



Volume

- Growth in low AUR import parcels and impact of initiatives in account parcels
- Offset decline in higher AUR consumer/SME volumes
- Parcelforce strong volume growth

Revenue

- Broad customer base
  - Largest parcel customer accounts for c.6% of UKPIL parcel revenue
- Pricing pressure affecting AURs across the industry
- Mix impacted by:
  - Uptrading to tracked services in account parcels
  - Competition in higher AUR consumer/export channels

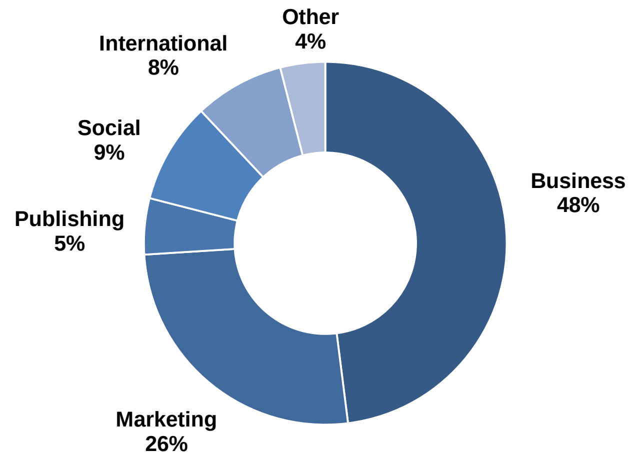
Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and excludes elections in letter volumes [1] Analysis of domestic Royal Mail core network customers based on UKPIL parcels revenue for 2014-15 excluding Parcelforce Worldwide and International

Managing the Decline in Letters

UKPIL Letters 2014-15 performance

	2014-15	2013-14
Revenue (£m)	4,567	4,625
YoY change	*(1%)*	*(2%)*
Volumes (m)		
Non-access (e.g. USO and Retail)	5,429	5,577
Access	7,035	7,122
International	545	643
Total addressed	**13,009**	**13,342**
YoY change	*(4%)*	*(4%)*
Unaddressed	3,157	3,143

Total letter revenue



Volume

- Addressed letter volume decline of 4%, better end of medium term forecast range of 4-6% p.a. decline
  - Primarily due to favourable economic conditions

Revenue

- Impact of elections diminished over course of year
- Estimated direct delivery impact of c.£20m in 2014-15
- Marketing mail revenue of £1,167m, up 5%, driven by:
  - Improvement in economic conditions
  - Impact of MarketReach initiatives

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and excludes elections in letter volumes

Promoting the Value of Mail

Adding value to mail

Mailmark®

- Formally launched August 2014
- Targeting 90% of relevant addressed business, marketing and publishing mail by 2017-18 (over 17% in 2014-15)
- Customer benefits: cheaper postage rates, better understanding of delivery performance, transparent billing
- Royal Mail benefits: increased visibility of supply chain, better management information, revenue protection

Keep me posted

- Over 70 leading UK charities, consumer organisations, trade unions and businesses
- Ensure consumers have choice without penalty to receive statements and utility bills by mail
- Research shows people are more likely to understand information and make better financial decisions when they receive information by post

Meet the Mailmen

- Campaign benefits entire UK mail market and helps improve the long term future of mail
- UK marketing mail volume decline is the lowest in any major European economy including Germany and France
- Direct mail linked to GDP growth
- The 'Private Life of Mail' survey highlights the benefits of mail

Regulation

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

Ofcom Access Pricing Review

- Responded to consultation on 24 February 2015
- Decision awaited

Ofcom Competition Act investigation

- Royal Mail believes the Competition Act investigation is unfounded
- Provisional decision awaited

Ofcom ongoing reviews

- Number of reviews including efficiency and parcels underway
- Expected to conclude in 2015-16

VAT exemption

- October 2014 – UK High Court ruled in favour of HMRC
- Whistl has recently been granted leave to appeal with a date for the hearing awaited

Being a Successful Parcels Business – GLS

Better than expected performance

Performance

	2014-15	2013-14
Revenue		
€m	2,100	1,957
YoY change	*7%*	*7%*
£m	1,653	1,651
Volume (m)[1]	436	404
YoY change	*8%*	*6%*

	2014-15	Going forward
Group (GLS General Logistics Systems)	• Revenue growth in all markets • Strong growth in international volumes • Growing domestic volumes but growth rate varies between countries	• Profitability impacted by German minimum wage legislation • Reported results impacted by FX
Germany	• Continued impact of competitive environment and labour market issues • Sub-contractor costs stabilised pre minimum wage impact • Offering evening and Saturday deliveries for consumers in 8 cities	• Minimum wage legislation: – Impacts own labour and distribution and conveyance costs – Introducing operational and commercial responses • Sale of DPD SL to DPD GeoPost
France	• Turnaround ahead of plan, losses reduced to €16m • Revenue growth from existing and new customers • FlexDeliveryServices for B2C rolled out	• Targeting to break-even by 2016-17
Italy	• Continued strong growth driven by market share gains and acquisitions	• Rate of growth expected to slow

Note: The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations
[1] Includes volumes from DPD SL (2014-15: 45m, 2013-14: 44m)

Cost Actions

Short term cost actions delivered a better than expected UKPIL cost performance
UKPIL underlying operating costs down 1%

People costs up 1%

- Management reorganisation programme delivered cost savings of £42m
  - Expected to deliver c.£80m cost savings p.a.
- c.5,500 net employees left the business (2013-14: c.1,500)

	Leavers	Joiners	Net
Natural attrition/joiners	c.8,400	c.5,600	
Voluntary redundancy	c.1,300		
Management reorganisation programme	c.1,400		
	c.11,100	**c.5,600**	**c.5,500**

- c.75% joiners were part-time: improves flexibility
- Productivity improvements of 2.5%[1], within target range

	2014-15	2013-14	Target
Gross hours	(2.3%)	(2.9%)	
Workload	(0.1%)	(1.3%)	
Productivity	**2.5%**	**1.7%**	**2.0-3.0%**

- c.3% pay increase in accordance with 2013 pay deal

Non-people costs down 4%

Distribution and conveyance

- Improved fleet management
  - Improvements to air network with a view to reducing costs
  - Improved fuel efficiency
  - Fewer vehicles hired
- Terminal dues impacted by change in geographic mix of export parcel volumes

Infrastructure

- Reduced property spend
- Improved facilities management

Other

- Tight control in discretionary spend

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance [1] Collections, processing and delivery in UKPIL core network

Continuous Transformation

Optimisation of networks, standardisation of processes

People

Union agreement has enabled us to deliver change at pace

- 2015-16: Pay award of 2.8%, final year of 2013 pay deal
- ‘Collection on delivery’ for low volume postboxes
- Scanning and tracking through new handhelds
- Streamlined revision process for Delivery Offices agreed with CWU
- Consistent deployment of core standards throughout the operation
- Delivery to Neighbour: introducing ‘Nominate a Neighbour’ to increase convenience and first time delivery rate
- Parcels automation
- Standardising equipment/processes

Non-people

Logistics review

- Optimising routes to determine most efficient road network
- Reviewing air transportation to reduce overall transport costs
- Changing driver behaviour: improved fuel efficiency, reduced accidents and minimising vehicle wear and tear
- Tracking HGV fleet to improve driver efficiency
- Reviewing logistics between Mail Centres and Delivery Offices

Other

- Roll-out of ‘booking in tool’ to further Enquiry Offices to improve customer experience
- Energy usage strategy

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

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group’s underlying performance

Being Customer Focused

Driving strong customer satisfaction to increase customer loyalty in core markets

Consistently providing a high quality service

- Christmas 2014 delivered one of our highest ever quality of service performances for parcel delivery
- Mean Business Customer Satisfaction Score[1] of 76 (2013-14: 75)
- Net Promoter Score[1] for business customers of 29 in 2014-15 (2013-14: 22)

	Target	2014-15	Achieved
First Class	93.0%	93.0%	✓
Second Class	98.5%	98.9%	✓

Being flexible and providing services our customers want

- Expecting to offer parcel tracking as standard
- Trialing Sunday delivery
- Extended opening hours in c.100 Enquiry Offices
- Chosen as partner for GOV.UK identity verification programme

Improving customer experience and reducing customer complaints

- Roll-out of 'booking in tool' to over 200 Enquiry Offices
- Improved redirection service

[1] Source: Business Customer CSI survey

Matthew Lester

Chief Finance Officer

2014-15 Financial Summary

£m	Adjusted 2014-15	Adjusted 2013-14	Underlying change
Revenue	**9,424**	9,456	1%
Operating profit before transformation costs	**740**	729	6%
Operating profit margin before transformation costs	**7.9%**	7.7%	+40bps
Operating profit after transformation costs	**595**	488	5%
Operating profit margin after transformation costs	**6.3%**	5.2%	+20bps
Profit before tax	**569**	421	
Earnings per share	**42.8p**	30.8p	
Free cash flow	**453**	398	
Net debt	**(275)**	(555)	
Dividend per share	**21.0p**	20.0p[1]	5%

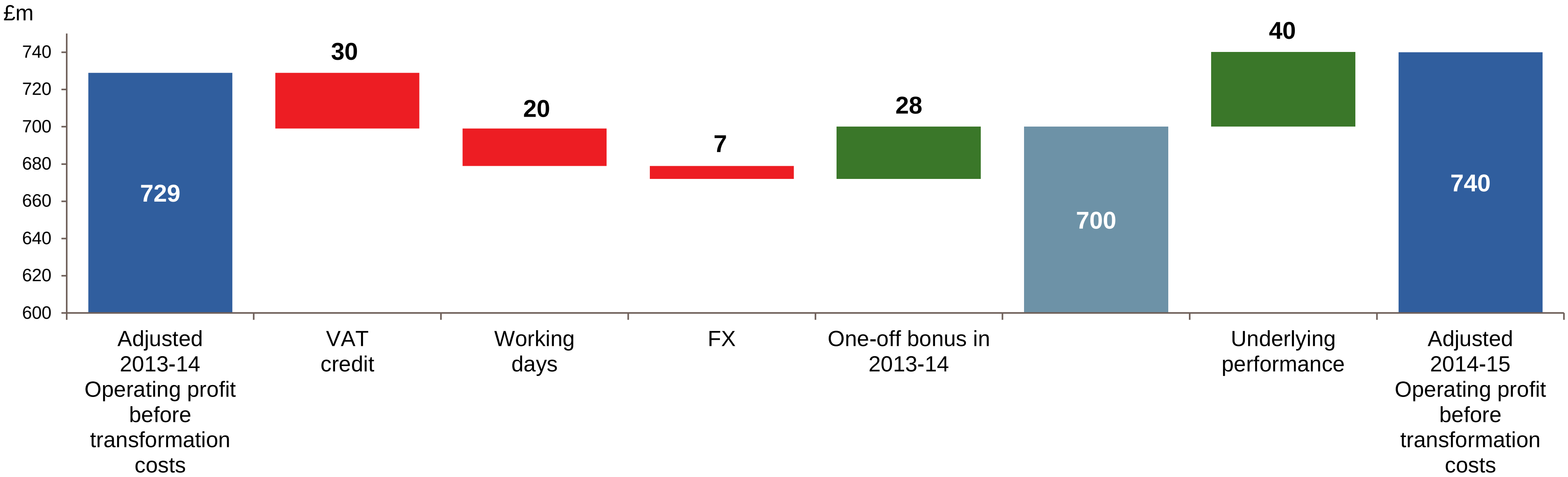
- From 2014-15 results presented on adjusted basis with difference between income statement pension charge and total pension cash cost treated as a specific item

	2014-15	
	Reported	Adjusted
Operating profit margin before trans. costs	6.5%	7.9%
Operating profit margin after trans. costs	4.9%	6.3%

- Significant reduction in net debt due to strong in-year cash flow and Paddington disposal proceeds
- Final dividend of 14.3p
  - Total 21.0p for 2014-15, up 5%

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance [1] Notional 2013-14 full year dividend

Underlying Movement in Operating Profit



Period-on-period comparison distorted by:

- VAT credit of £35m in 2013-14. Year-on-year change is £30m due to £5m credit received in 2014-15
- £20m working day impact due to c.1 less working day in 2014-15
- £28m one-off bonus in H2 2013-14 not repeated
- Adverse foreign exchange impact of £7m. Average £1 = €1.27 (2013-14: €1.19)
  - Adjusting 2014-15 to year end spot rate of €1.37 would have reduced profits by c.£8m

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance

UKPIL Results

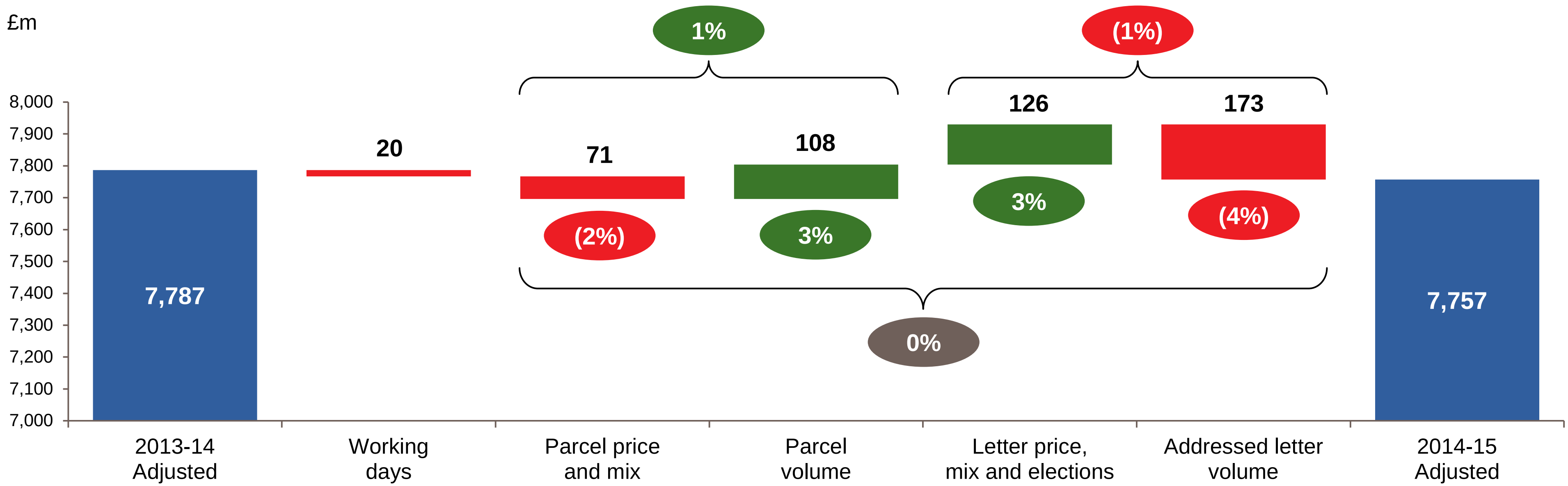
£m	Adjusted 2014-15	Adjusted 2013-14	Underlying change
Revenue	**7,757**	7,787	Flat
Operating costs	**(7,142)**	(7,179)	1% lower
Operating profit before transformation costs	**615**	608	5%
Operating profit margin before transformation costs	**7.9%**	**7.8%**	+40bps
Transformation costs	**(145)**	(241)	
Operating profit after transformation costs	**470**	367	3%
Operating profit margin after transformation costs	**6.1%**	**4.7%**	+20bps

- Revenue flat
- Operating costs before transformation costs down 1%, better than expected
- Adjusted profit reflects difference in income statement pension charge to cash. Underlying movements adjusted for distorting items:

	Adjusted 2014-15	2013-14
Operating profit before trans. costs	615	608
VAT credit		(30)
One-off bonus		28
Working days		(20)
	615	**586**
Transformation costs	(145)	(131)[1]
	470	**455**

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance [1] Adjusted for the movement in management reorganisation programme provision of £110m

UKPIL Revenue



Parcels, £3,190m

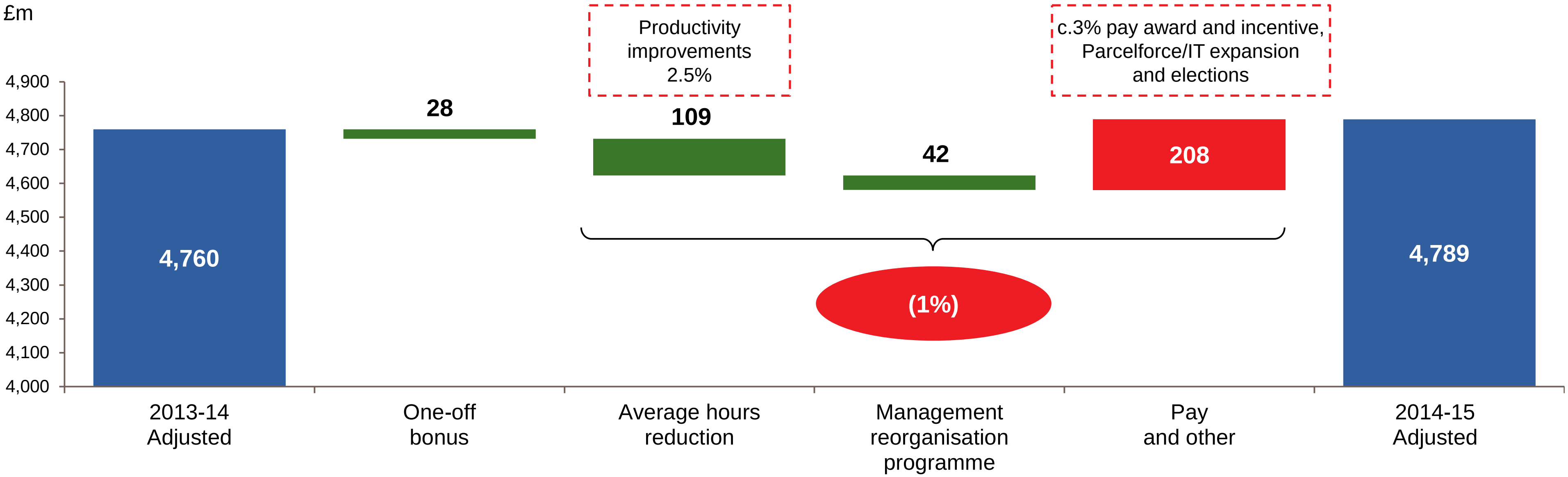
- Change in mix due to:
  - Impact of initiatives in account parcels
  - Growth in low AUR imports offsetting decline in higher AUR exports/consumer/SME volumes
- Parcelforce strong volume growth driven by existing customers and new business wins including City Link customers
  - Prices remain under pressure due to competitive environment

Letters, £4,567m

- Addressed letter volume decline 4%
- Good performance from marketing mail, up 5%
- Impact of elections more than offset estimated direct delivery impact of c.£20m in 2014-15

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and excludes elections in letter volumes

UKPIL People Costs



2014-15

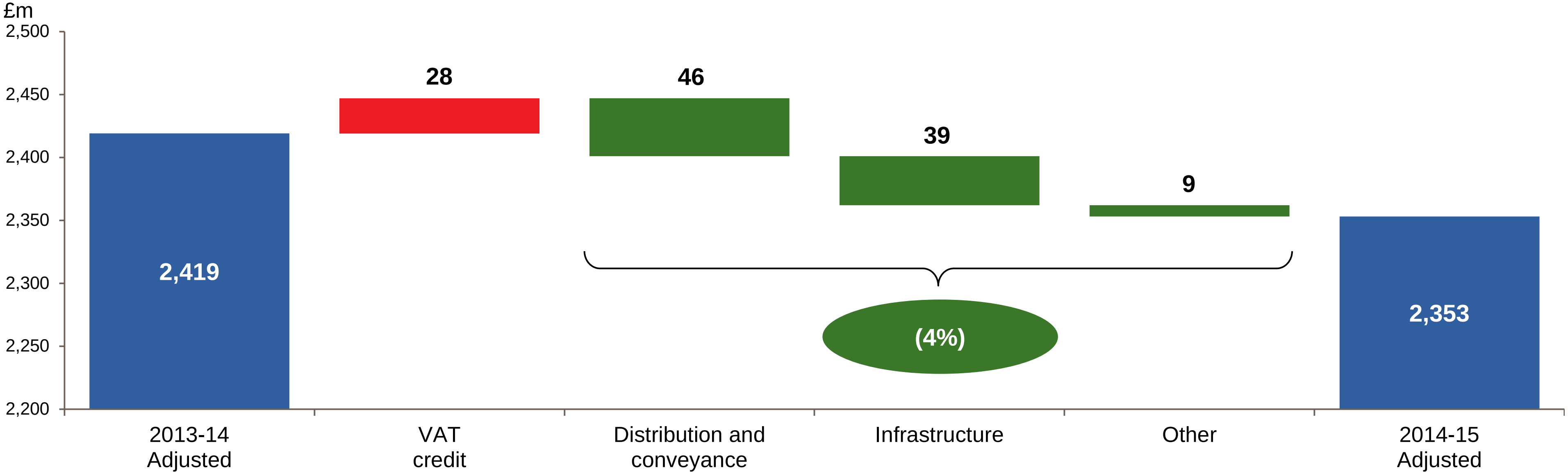
- Productivity improvements of 2.5%[1], in line with our target range
- Management reorganisation programme savings of £42m
- People costs increased by 1%, of which:
  - Pay and incentives partially offset by productivity improvements c.1.5%
  - Parcelforce/IT headcount expansion and elections c.0.5%
  - Management reorganisation programme (c.1.0%)

2015-16

- Pay award of 2.8%, final year of 2013 pay deal
- c.£80m benefit from management reorganisation programme (c.£40m year-on-year impact)
- Targeting 2-3% productivity improvement

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance [1] Collections, processing and delivery in UKPIL core network

UKPIL Non-people Costs



Distribution and conveyance costs, £821m, down 5%

- Lower terminal dues due to change in the geographic mix of export mail volume
- Improved fleet management – vehicle maintenance, fuel savings

Infrastructure costs, £919m, down 4%

- Savings from better property management

Other costs, £613m, down 1%

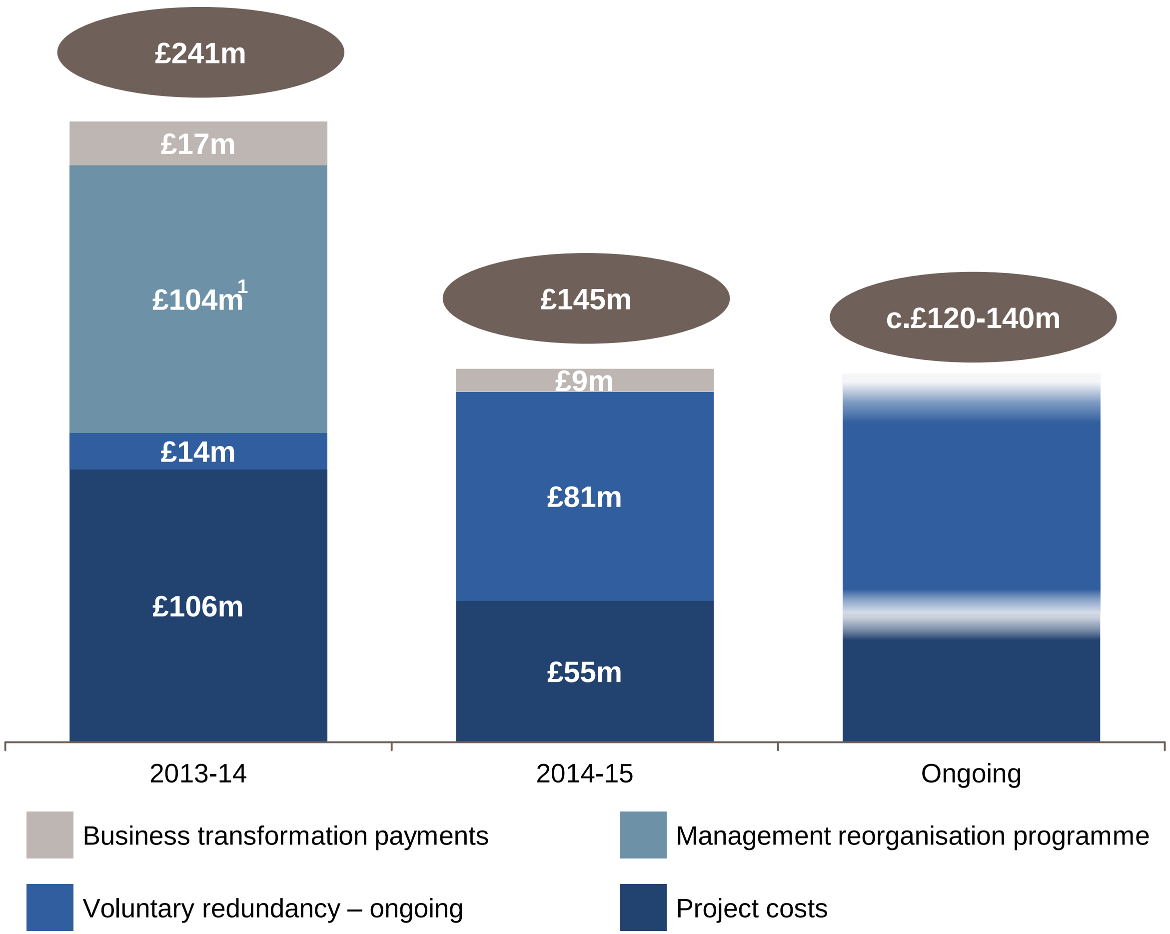
- Cost control across all categories

2015-16

- Continue to target non-people costs in a structured manner

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance

Transformation Costs – Income Statement



2013-14

- £102m voluntary redundancy in relation to management reorganisation programme
- Ongoing voluntary redundancy impacted by threat of industrial action
- Project costs included larger Mail Centre transformation projects

2014-15

- Business transformation payments diminishing, minimal going forward
- Higher ongoing voluntary redundancy costs due to increased uptake in H2
- Project costs mainly relate to Delivery Office revisions

Ongoing

- Transformation costs of c.£120-140m p.a. depending on level of voluntary redundancies announced in-year

[1] Includes £2m of project costs

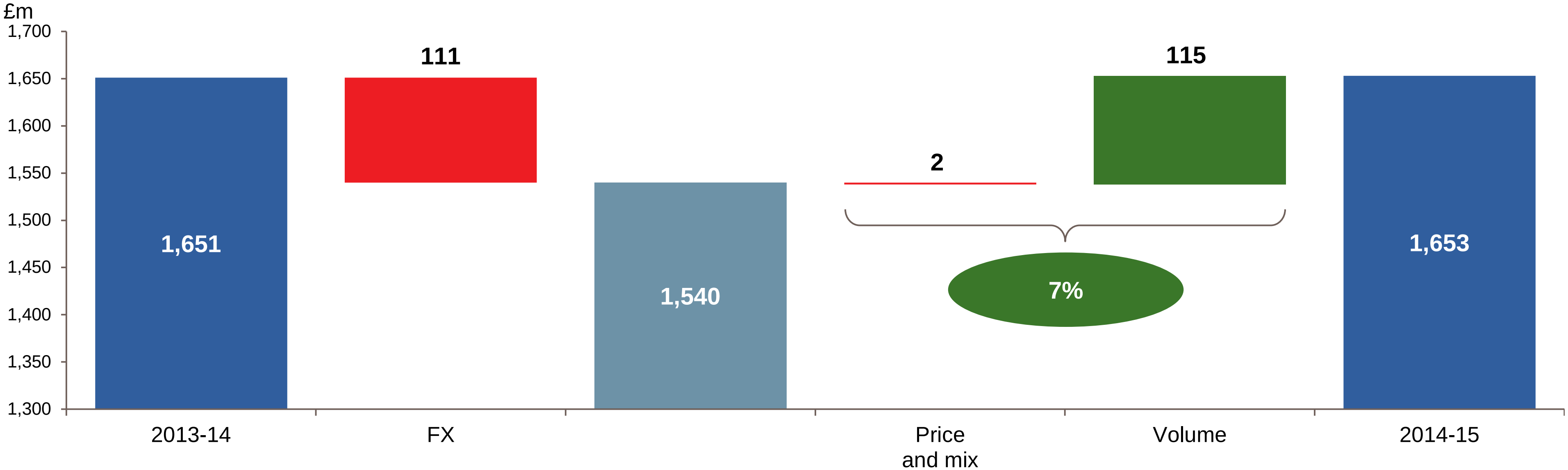
GLS Results

£m	2014-15	2013-14	Change
Revenue	**1,653**	1,651	
Euro (m)	***2,100***	*1,957*	*7%*
Operating costs	**(1,538)**	(1,543)	
Euro (m)	***(1,954)***	*(1,829)*	*7%*
Operating profit	**115**	108	
Euro (m)	***146***	*128*	
Operating profit margin	**7.0%**	**6.5%**	+50bps
Volume (m)[1]	**436**	404	8%
Average £1 = €	**1.27**	1.19	7%

- Good revenue growth, better than expected
- Reported results impacted by 7% strengthening of Pound vs. Euro
- France operating loss reduced to €16m (2013-14: €27m) and turnaround ahead of plan in-year largely due to cost reduction plan and top-line growth progressing well
- Post year end GLS Germany sold DPD SL
  - 2014-15: £96m revenue impact, minimal profit impact

Note: The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations
[1] Includes volumes from DPD SL (2014-15: 45m, 2013-14: 44m)

GLS Revenue



- Germany revenues up 3%, remains largest market by revenue
- France revenue up 7%, driven by higher volumes from existing and new customers
- Italy continues to gain market share despite unfavourable economic conditions
  - Continued strong revenue growth of 16%, expected to slow in 2015-16
- Revenue growth in all developed and emerging European markets

Note: The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations

GLS Costs

€m	2014-15	2013-14	Change
People costs	**470**	435	8%
Distribution and conveyance costs	**1,290**	1,204	7%
Infrastructure costs	**135**	128	6%
Other operating costs	**59**	62	(6%)
Operating costs	**1,954**	1,829	7%

- People costs up 8% due to:
  - Semi-variable costs linked to volume c.3%
  - Pay inflation/incentives c.3%
  - Acquisitions c.2%
- Distribution and conveyance costs up 7% due to higher volumes
- Infrastructure costs higher largely due to depreciation and amortisation costs from IT investments
- Other operating costs lower mainly due to a non-recurring indirect tax charge and higher France restructuring costs in 2013-14
- Combined impact of German minimum wage legislation and DPD SL sale could reduce GLS margins by c.50-100bps in 2015-16

Note: The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations

Group Profit After Tax

£m	Adjusted 2014-15	Adjusted 2013-14
Operating profit after transformation costs	**595**	488
Finance costs	**(30)**	(71)
Finance income	**4**	4
Net finance costs	**(26)**	(67)
Profit before taxation	**569**	421
Taxation	**(138)**	(110)
Profit after tax from continuing operations	**431**	311
Earnings per share	**42.8p**	30.8p

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations

Specific Items

£m	2014-15	2013-14
Pension charge to cash difference[1]	**(129)**	(58)
Pensions Reform credit	**–**	1,350
Transaction-related costs	**–**	(28)
Employee Free Shares charge[2]	**(169)**	(94)
Impairment and legacy costs	**(79)**	(15)
Operating specific items	**(377)**	1,155
Profit on disposal of property	**133**	19
Profit on disposal of business	**–**	2
Disposals	**133**	21
Total operating specific items and disposals	**(244)**	1,176
Pension interest	**75**	69

- Difference in pension charge and the actual cash paid out increased by £71m mainly due to increase in IAS 19 pension service rate from 20.3% to 23.6%
  - Rate will increase to 29.8%[3] in 2015-16 equivalent to a further increase of c.£125m
- Employee Free Shares charge for 2015-16 expected to be c.£150m[4] dependent on level/mix of leavers
- Impairment and legacy costs include:
  - One-off impairment of certain IT assets of £24m
  - Movement in provision for potential industrial disease claims of £19m driven by a reduction in the discount rate
  - Provision for French Competition Authority investigation of £46m. Amount of any fine not expected to be determined until H2 2015-16
- Profit on disposal of property mainly from Paddington site (£106m)
  - Profit on sale of DPD SL of €40m reflected in 2015-16
- 2015-16 pension interest credit expected to be £107m

[1] Including RMSEPP deficit payment of £10m [2] Includes £6m provision for National Insurance which will be cash settled (2013-14: £3m) [3] Rate for 2015-16 determined by the real discount rate at the end of March 2015 based on long term RPI and appropriate AA corporate bond rates at that time [4] Calculated based on value of Employee Free Shares of £510m (including National Insurance) pro-rated over the period of vesting, adjusted for level/mix of leavers

Group Free Cash Flow

£m	2014-15	2013-14
Reported EBITDA before transformation costs	**889**	942
Pensions[1]	**129**	58
Adjusted EBITDA before transformation costs	**1,018**	1,000
Trading working capital movements	**1**	(57)
Investment	**(658)**	(617)
Taxation[2]	**(37)**	(38)
Net finance costs paid	**(18)**	(33)
Other[3]	**5**	2
In-year trading cash inflow	**311**	257
Other working capital movements	**11**	140
Operating specific items[4]	**(8)**	(35)
Proceeds from disposal of property, plant and equipment	**39**	36
London property portfolio net cash flows	**100**	–
Free cash flow	**453**	398

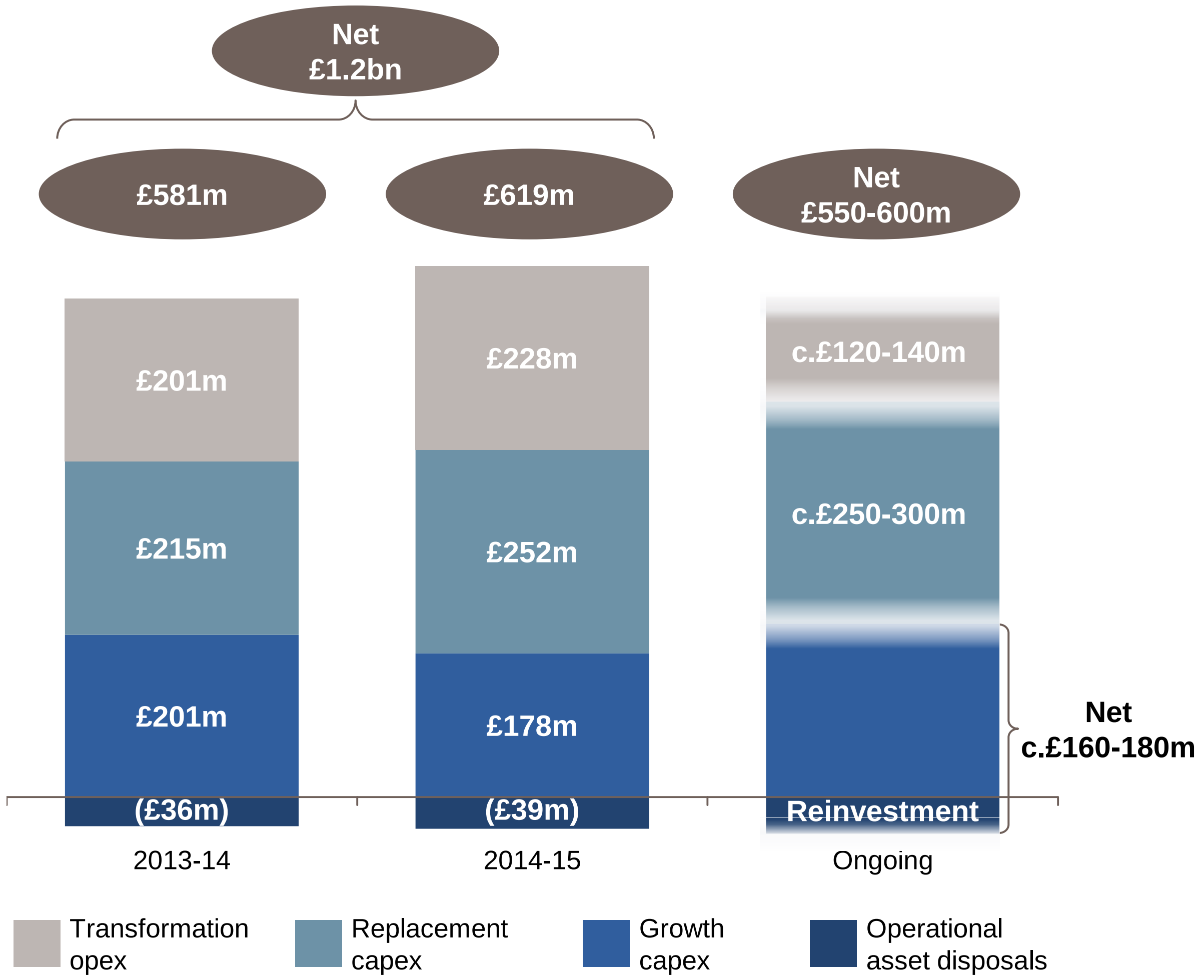
- In-year trading cash flow increased by £54m, despite increase in investment driven by cash cost of management reorganisation programme of £96m
- Free cash flow up £55m including net £100m cash flows from London property portfolio
  - Future free cash flow will reflect any reinvestments in London property portfolio
- Other working capital movement

£m	2014-15	2013-14
Stamps used but purchased in prior periods/deferred revenue	**(35)**	(10)
Timing of payroll payments for monthly paid staff	**46**	–
Unwind of March 2012 pension prepayment	**–**	150
	11	**140**

- 2015-16 will include proceeds from sale of DPD SL

[1] Including RMSEPP deficit payment of £10m [2] Cash tax paid quarterly in arrears therefore different to P&L amount [3] Share option scheme charge difference, dividends from associates [4] Including transaction-related costs

Group Investment – Cash



- Transformation opex:

£m	2014-15	2013-14
Business transformation payments	**9**	19
Voluntary redundancy – MRP	**96**	–
Voluntary redundancy – Ongoing	**62**	71
Project costs	**61**[1]	111
	228	**201**

- Replacement capex largely in relation to vehicles, property projects and IT
- Growth capex relates to parcels projects including IT to support barcoding, scanning and tracking and GLS

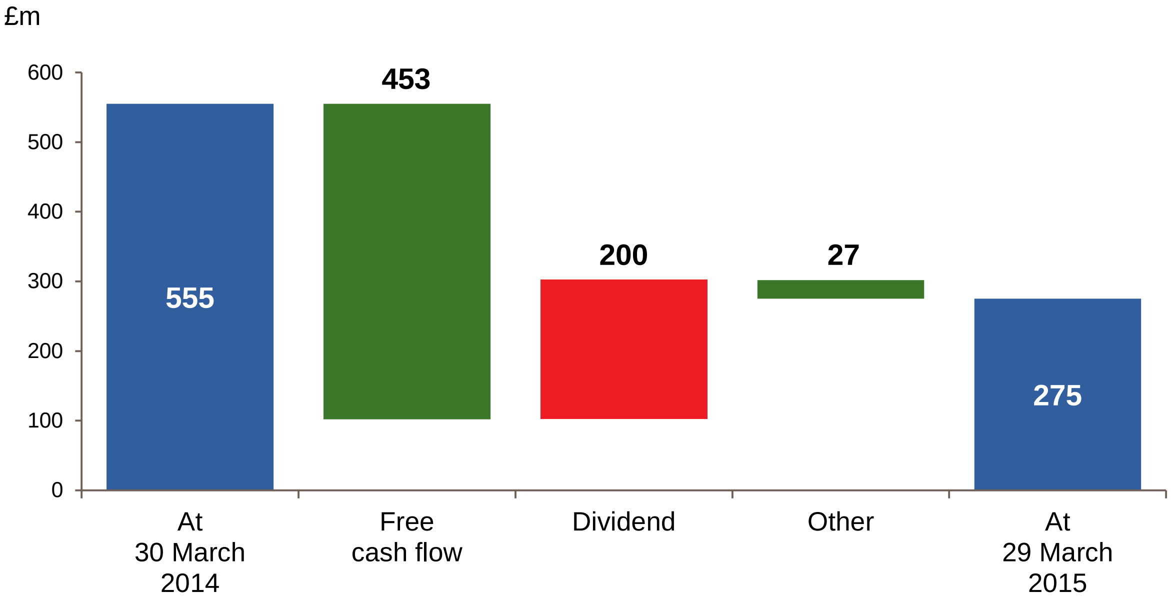
Ongoing

- Significant ongoing investment to drive change, growth and innovation

[1] Includes £2m of management reorganisation programme costs

Group Net Debt and Liquidity

Movement in Net Debt



Facility	Rate	Facility £m	Drawn £m	Facility end date
Euro bond[3]	2.5%	366	366	2024
Revolving credit facilities	LIBOR +0.55%	1,050	–	2020
Total		**1,416**	**366**	

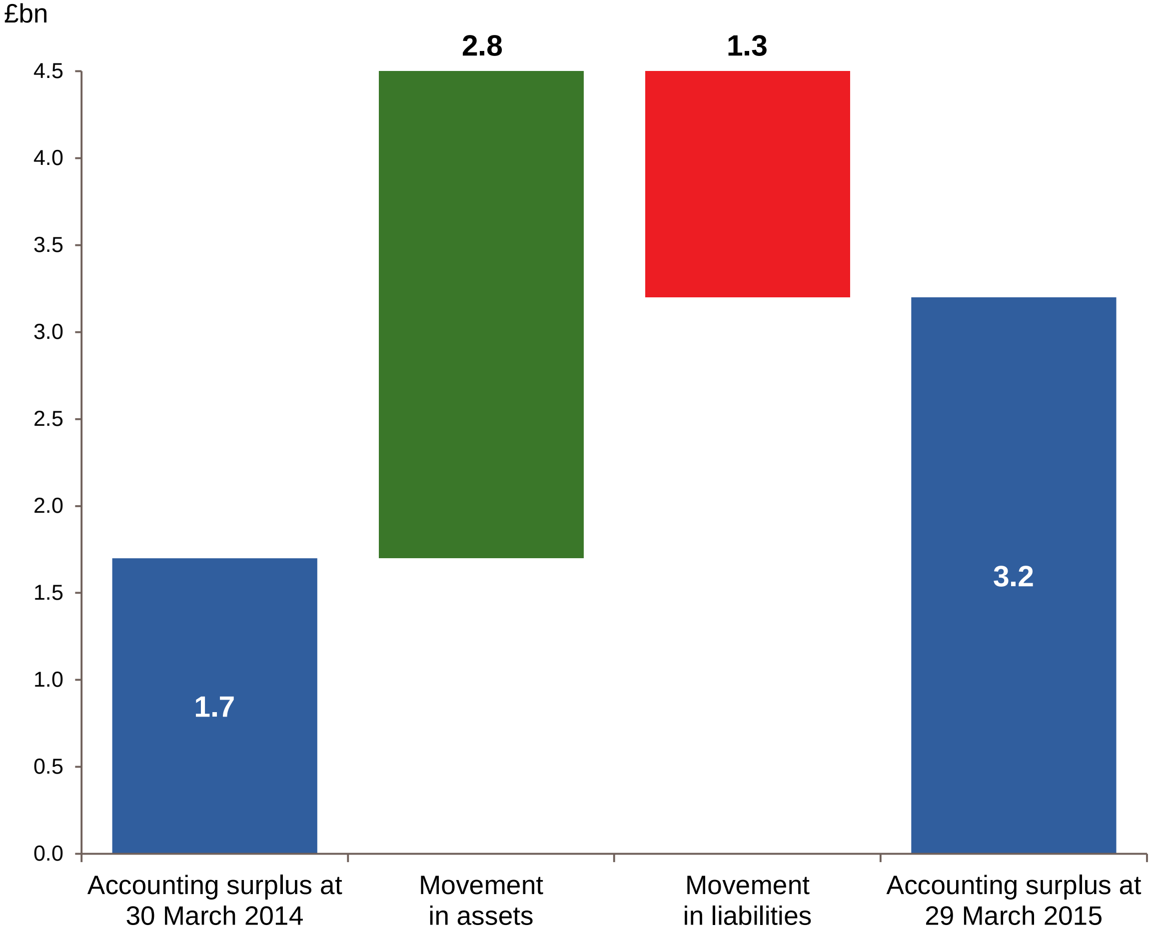
- S&P investment grade rating: BBB stable outlook
- Issue of €500m 2.375% Senior Fixed Rate Notes due July 2024
- Negotiated amendments to bank facilities to reduce interest rate, extend maturity to March 2020 and convert remaining term loans into one revolving credit facility
- Blended interest rate on gross debt expected to be c.3%[1] in 2015-16
- Net debt:

£m	
Loans/bonds	**(366)**
Finance leases	**(272)**
Cash and cash equivalents[2]	**343**
Pension escrow (RMSEPP)	**20**
Net debt at 29 March 2015	**(275)**

[1] Including arrangement/commitment fees and finance leases [2] Including £56m of short term deposits [3] €500m liabilities net of discount and fees at spot rate €/£0.74, revalued at balance sheet date

Pensions

Accounting basis



Actuarial basis

- Surplus has increased on both accounting and actuarial basis, primarily due to liability hedging strategy put in place by RMPP Trustee
- Estimated actuarial surplus of £1.8bn at March 2015 vs. £1.4bn at March 2014
- Liabilities projected to accrue to March 2017 have been hedged in advance against movements in interest rates and inflation rates
  - c.£700m of surplus relates to liabilities yet to be recognised
- Following Pensions Reform, Company contributions maintained at c.£400m p.a. when estimated cost of accrual was c.£700m p.a.
- Expect no material actuarial surplus or deficit by March 2018

Property

Development properties – each site requires bespoke approach to optimise value

Site	Acres	Key features	Action
Paddington	1.1	• Complex site to develop due to TFL and Crossrail requirement	• Sold due to attractive offer
Nine Elms	13.9	• Large site with outline planning consent for up to 1,870 residential units • Rapidly evolving area with considerable potential	• Asset held for sale • Continue to market site • Reprovision/reinvestment spend required
Mount Pleasant	8.6	• Planning permission granted: local authorities seeking to judicially review Greater London Authority's decision	• Significant further investment required to separate operational site

Paddington proceeds reinvested into larger sites to optimise value

Moya Greene

Chief Executive Officer

Outlook

Continued challenging environment
Competitive parcels market, continued structural decline in letters

Poised to step up pace of change
Investing to drive efficiency, growth and innovation

High level of union and employee engagement supporting our ability to change
Cost-conscious culture to deliver efficiencies

Trading in line with our expectations
Performance weighted to second half, dependent on important Christmas period

Committed to growing dividends

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

Royal Mail

Appendix

2014-15 Value Drivers (adjusted basis)

Revenue	Operating costs	Transformation costs	Profit after transformation costs	Cash
UK parcels up 1% **UK letters** down 1% **UKPIL** Flat **GLS** up 7%	**People costs** up 1% **Non-people costs** Flat	**Transformation costs** £145m	**Profit after transformation costs** £595m **Margin** 6.3%	**EBITDA** £1,018m Up £18m **Cash investment** £658m up £41m
1% Growth	**1% Growth**		**Up 20bps**	**Free cash flow £453m up £55m**
Low single digit revenue growth	***Net operating cost growth below rate of revenue growth***		***Drives margin expansion***	***Drives growth in free cash flow***

2014-15   Objective[1]

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance [1] These objectives do not represent any forecast, target or expectation as to future results or performance

Segmental Summary

£m	Adjusted 2014-15	Adjusted 2013-14	Underlying change
Revenue			
UKPIL	**7,757**	7,787	Flat
GLS	**1,653**	1,651	7%
Other	**14**	18	
Total	**9,424**	**9,456**	**1%**
Operating profit before transformation costs			
UKPIL	**615**	608	
GLS	**115**	108	
Other	**10**	13	
Total	**740**	**729**	
Operating profit after transformation costs			
UKPIL	**470**	367	
GLS	**115**	108	
Other	**10**	13	
Total	**595**	**488**	

Note: Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD SL, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period and sold following the year end and has been reclassified as discontinued operations. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance

Pensions

Income statement

£m	2014-15	2013-14
RMPP	**(508)**	(448)
RMDCP	**(38)**	(25)
GLS	**(6)**	(6)
People costs	**(552)**	**(479)**
Pension costs relating to voluntary redundancy	**(10)**	(34)
Total EBIT pension costs	**(562)**	**(513)**
Pension interest credit[1]	**75**	69
Total net PBT pension costs[2]	**(487)**	**(444)**
Pensionable payroll (£bn) – RMPP	**2.2**	2.2

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

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

Cash flow

£m	2014-15	2013-14
RMPP	**(369)**	(380)
RMDCP	**(38)**	(25)
GLS	**(6)**	(6)
RMSEPP deficit	**(10)**	(10)
Cash contributions	**(423)**	**(421)**
Pension payments relating to voluntary redundancy	**(30)**	(17)
Total cash payments	**(453)**	**(438)**
Pensionable payroll (£bn) – RMPP	**2.2**	2.2

Cash rate (%)

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

[1] Non-operating specific item [2] Excluding specific item credit of £1,350m in 2013-14 in relation to Pensions Reform [3] Set at triennial valuation as at March 2012 [4] Average employer contribution rate for the period

Group Taxation

£m	Reported 2014-15			Adjusted 2014-15		
	UK	GLS	Group	UK	GLS	Group
Profit before tax	330	70	400	452	117	569
Income statement tax charge	36	36	72	102	36	138
Effective tax rate	**11%**	**51%**	**18%**	**23%**	**31%**	**24%**
Cash tax payments/(receipts)	2	35	37	n/a	n/a	n/a
Cash tax rate	**1%**	**50%**	**10%**	n/a	n/a	n/a

Income statement tax

UK

- Reported: lower rate mainly due to profits made on property disposals offset by reinvestment relief
- Adjusted: reduced broadly in line with UK statutory rate

GLS

- Reported: no relief assumed for the French Competition Authority investigation provision
- Adjusted: higher than weighted European rate due to no deferred tax asset being recognised in relation to French losses

Group

- Adjusted: Group effective rate is expected to stabilise as the decline in the UK statutory rate and reduction in GLS France losses is offset by the change in weighting of GLS profits towards territories with higher tax rates

Cash tax

UK

- Net of a £6m repayment from HMRC as a result of updates to prior year returns
- Low tax payments in the UK mainly due to utilisation of brought forward losses and capital allowances. Expected to normalise by 2017-18
- No cash tax on property disposals due to availability of reinvestment relief
  - Not expected to incur tax on property disposals if there are sufficient reliefs to shield profits

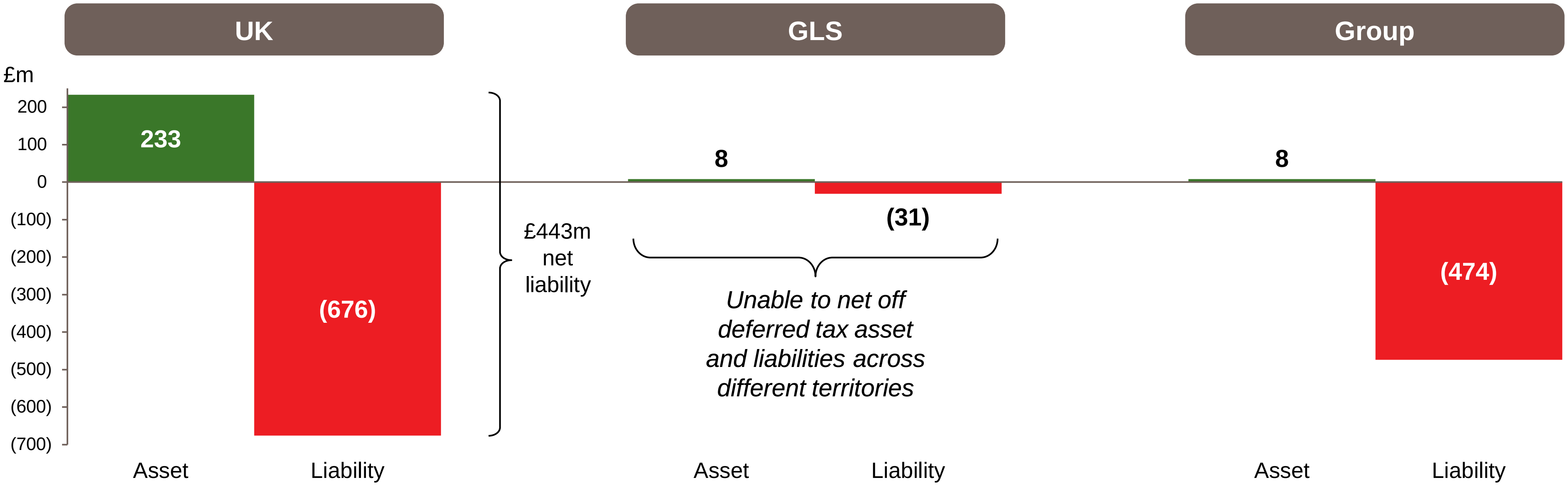
GLS

- Cash tax rate broadly in line with income statement rate

Group

- Group tax payments in the year were £37m

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 £707m comprises future tax charges in respect of:
  - Employee Free Shares Offer, £48m – full tax relief was recognised in 2013-14 and 2014-15, and is reversed over the vesting period. New schemes may accumulate further liabilities
  - Pensions, £629m – mainly due to Pensions Reform. Expected to reverse over a longer period as the surplus reduces
  - GLS – mainly due to goodwill

Estimated FFO to Adjusted Net Debt Ratio

£m	
Funds From Operations	
Reported EBITDA before transformation costs	**889**
Transformation costs	**(145)**
Specific items – impairment and legacy costs	**(79)**
Operating lease commitments due within one year	**130**
7% interest on capitalised operating leases	**(49)**
Net finance costs excluding unwinding of discount relating to industrial diseases provision	**(24)**
Current income tax charge	**(39)**
Total	**683**
Adjusted Net Debt	
Net debt	**275**
Adjustment for available cash[1]	**52**
Adjustment to capitalise operating leases[2]	**697**
Total	**1,024**
RMG estimate of FFO to adjusted net debt ratio at 29 March 2015	**67%**

- The key performance metric underpinning a credit rating is Funds From Operations (FFO) to adjusted net debt

Adjustment for available cash[1]

- Client cash and 10% of other cash and cash equivalents[3]

Adjustment to capitalise operating leases[2]

- Present value of future operating lease commitments at a 7% discount factor

Note: This metric uses reported information and a series of adjustments which seek to demonstrate underlying economic conditions from the perspective of a credit rating agency [1] Estimated adjustments for cash not available for operational purposes [2] Per rating agency methodology [3] Including £56m of short term deposits