Royal Mail plc
Full Year 2015-16 Results

19 May 2016

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’, ‘forecast’, ‘expected’, ‘estimated’, ‘accelerating’, ‘expanding’, ‘continuing’, ‘potential’, ‘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.

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Moya Greene
Chief Executive Officer

2015-16 Results Overview

Resilient performance

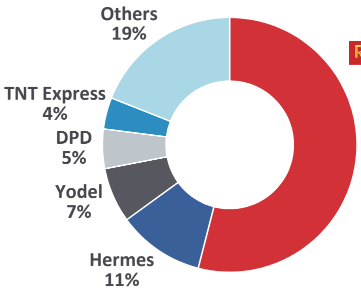
			Change
Royal Mail plc	Revenue	£9,251m	1%
	Adjusted operating profit before transformation costs	£742m	5%
	In-year trading cash flow	£254m	(£61m)
	Recommended full year dividend	22.1p	5%
UKPIL	Resilient performance in tough market		
	Underlying costs before transformation costs		(1%)
GLS	Strong revenue performance offset legislative cost pressures		

Note: Adjusted results exclude specific items. 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

UK Parcels Market

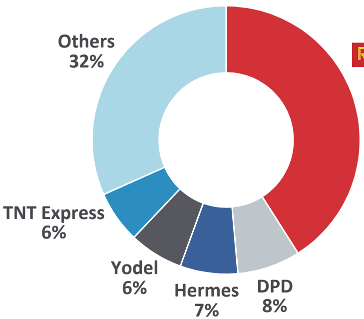
UK parcels market[1,2] share
(excl. same-day, incl. access fulfilment large letters)

Volume



2014: 54%
(2013: 55%)

Revenue



2014: 41%
(2013: 42%)

Market trends

- Estimated blended market[1,3] volume growth of c.4%[4] p.a. in medium-term driven by e-retail
- Addressable market[1,2] volume growth dependent on expansion of Amazon Logistics

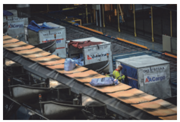
Business
- Continued growth in processing capacity
- Increase in size of e-retail parcels
- Returns growing faster than market

Consumer/SME
- Increasing choices for delivery, pick-up and returns

International
- UK market dynamics increasingly replicated in international cross-border services
- High growth in import parcels expected to continue
- Strong Sterling impacting export volumes

[1] Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2014); defined as individually addressed parcels and packets, generated and delivered in the UK, weighing up to 30kg, that do not require special handling. Includes access fulfilment large letters & parcels and excludes click-and-collect, same-day, small local operators and all international traffic [2] Excludes Amazon Logistics and other retailers own-delivery networks [3] Includes Amazon Logistics and other retailers own-delivery networks [4] Based on Verdict UK E-retail survey and RMG market insight

Maintaining Our Pre-eminent Position in Parcels

	Initiatives	Performance
Business/ Account 	• Being more flexible: – weekend opening and adding more products to weekend collection services – extending latest acceptance times for Royal Mail Tracked 24®/48® parcels – handling larger parcels	• New contract wins more than offset lost Amazon volumes – 7% growth in account volume excluding Amazon • Amazon Group[1] now accounts for c.5% of UKPIL parcel revenue • Uptrading to tracked services, increased AURs • Royal Mail Tracked 24®/48® volumes up 46%
Consumer/ SME 	• Investing in partnership with Post Office to improve customer experience • Increasing convenience: – more Post Offices open for longer and on Sundays – accepting some prepaid letters and parcels at all Enquiry Offices	• Nearly 100% of parcels through Post Office now have 2D barcode • Improvement in volume trend through consumer/SME channels • Overall Royal Mail consumer satisfaction rate up 1ppt, to 82%[2]
International 	• Click & Drop offers international postage to over 200 destinations • Extended Royal Mail International Tracked & Signed to 54 destinations • Extended partnership with Alibaba to offer Tracked 48®/First Class services	• International accounts for 19% of UKPIL parcel volumes and 18% of revenue • Mix impacted by: – increased rate of decline of export volumes – growth in lower AUR import volumes • Key area of strategic focus in 2016-17

[1] Amazon Group includes Amazon Logistics, Lovefilm, Book Depository [2] Royal Mail consumer satisfaction survey conducted by Ipsos MORI. Based on overall experience of sending and receiving consumers in 2015-16

Increased Pace of Change

Improving technology and changing operations to offer more customer-oriented propositions

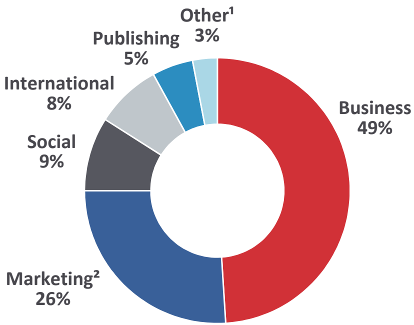
What customers want	Progress in 2015-16	Going forward
Quality	• First time delivery rate of 92% for Royal Mail Tracked 24®/48® • Barcoding - c.50% of UKPIL parcels now carry a barcode • Tracking - 1/3 UKPIL parcels can be tracked by customers in some way • Scanning – rolled out 3,000 finger scanners – installed first parcel sortation machine	• Delivery confirmation pilot on standard products • National roll-out of doorstep scanning • National roll-out of new Postal Digital Assistants with better technology • Rolling out parcels automation • Greater visibility of pipeline will enable quality improvements
Value	• Competitive prices • Reduced prices for 2C 0-2kg medium parcels	• Held online prices for small and medium parcels in 2016-17
Ease of doing business	• Returns portal for online retailers – 24% growth in returns volumes • Click & Drop portal for account customers • 'Service-Point-System' in 460 Enquiry Offices • 'Easy to do business' score for Royal Mail improved from 70% to 77%[1]	• Extending ability to accept returns at Enquiry Offices • Continued improvement in technology and changing operations to improve customer experience

[1] Royal Mail consumer satisfaction survey conducted by Ipsos MORI. Based on parcel sending experience at Q3 2015-16 vs Q3 2014-15

UK Letters Market

Total UKPIL letters

Revenue



Volume

- Addressed letter volumes (excluding elections) down 3%, better than expected
  - forecast to decline 4-6% p.a. in medium-term
- Position within range determined by:
  - rate of e-substitution
  - year-on-year change in economic activity/GDP
  - price increases

Market trends

Business mail

- Business mail impacted by large mailers adopting digital policies to reduce costs
  - rate of decline in e-substitution not expected to increase over medium-term

Marketing mail

- Direct mail spend up 1% while spend on print advertising media declined 11%[3] (calendar 2015)
- Marketing mail is highly geared to GDP and e-substitution

[1] Other includes elections, philatelic and other non-volume related items [2] Marketing mail revenue of £1,158m includes data, redirections, Address Management Unit, and addressed & unaddressed advertising mail [3] WARC UK expenditure report April 2016. Period January–December 2015

Promoting the Value of Mail

Business

Mailmark®

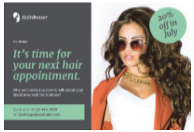
- c.50% of relevant mail bears a Mailmark®
  - targeting 90% by 2016-17

Digital stamps

- New digital stamp
- Trials show improved customer response rates

SME

MailshotMaker



- New all-in-one online tool
  - easy design and implementation of direct mail campaigns for SMEs

Marketing

Incentivising advertising

- Piloting programme that rewards customers for increasing advertising mail spend
- Developed in conjunction with mailing industry to promote the use of mail

Life stages of mail

THE LIFE STAGES OF MAIL

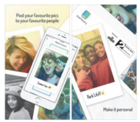
- New research confirms people of all ages interact with and respond positively to mail
- Expansion of MAILMEN campaign

Consumer

Keep Me Posted

- Campaign now supported by 87 charities, trade unions, businesses and consumer groups

Swapshots



- Mobile app to print, post and deliver photos

Strategic Focus on Costs

UKPIL underlying operating costs down 1% in 2015-16

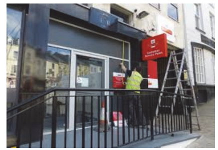
Core network operations

- 2.4% improvement in productivity[1]
  - target 2.0-3.0% productivity[1] improvements p.a.
- Driving consistent application of Operations Standards across network
- Extending 'Collections on Delivery'
- Optimising mail processing through rationalisation of collection hubs
- Rolling out telemetry in vehicles
- Centralising network route planning to reduce mileage
- Optimising inland air network
- Upgrading large letter sorting machines and Optical Character Reading technology
- Continuing plant rationalisation in Mail Centres

Commercial, central functions and property

- Parcelforce depot productivity improvement
- Improving supplier management and reducing catering costs
- Efficiency programmes in central functions and customer experience
- Reducing energy consumption
- Optimising property portfolio
- Facilities management savings
- Further tightening of discretionary costs





Avoided c.£180m of costs in 2015-16, on track to avoid targeted c.£500m annualised costs by 2017-18[2]

[1] Collections, processing and delivery in UKPIL core network [2] Cumulative over financial years 2015-16, 2016-17 and 2017-18

Relationship with our Unions

Agenda for Growth

- Legally binding agreement covering industrial stability and protections
- Agreed in principle: December 2013, ratified by CWU members vote: February 2014
  - included three-year pay deal
- Agreement underlined importance of continued transformation of Royal Mail
- New approach for faster dispute resolution, without disruption
- Protections included:
  - maintenance of existing terms and conditions
  - predominately full-time workforce
  - no additional outsourcing
  - an objective to manage change without recourse to compulsory redundancy

Together for Growth

- Joint training programme to deliver industrial stability
- Aims to help build stronger working relationships, resolve issues and drive cultural change
- Over 6,000 managers and union representatives trained
- c.23,000 colleagues involved in the 'Big Conversation'

GLS

	Parcel market trends	GLS initiatives
Eurozone	• Growth fueled by increasing cross-border trade driven by e-retail • Fragile European economic conditions • Impact of Amazon	• Investment in innovative B2C delivery solutions • Strategic partnership with DB Schenker on parcel and freight activities • Continue to expand through acquisitions
Germany	• Highly competitive market conditions • Minimum wage legislation impacting cost base • Growth in same-day segment	• Targeted cost reduction through streamlined delivery processes and network optimisation • Introduction of same-day deliveries • Enhance B2C capability including: – carrier-neutral parcel box system – FlexDelivery Services
Italy	• Relatively immature online marketplace • Lower B2C parcel market penetration	• Ongoing franchisee acquisition strategy • Continuing to strengthen brand awareness • Prime service for Amazon in selected areas
France	• Challenging market conditions – future B2C growth expected to be lower	• Review underway focusing on measures to promote top-line growth • Break-even now expected in 2017-18
Other	• Stable performance in developed markets • Strong growth in developing/emerging markets	• Improving B2C offering • Adopting national strategies

Growing in New Areas

Digital innovation to solve e-commerce problems for customers

E-commerce platforms	Order management	Inventory management software	Labelling solutions/carrier management	Delivery
MARKET ENGINE, MALLZEE	StoreFeeder multi channels • one solution	StoreFeeder multi channels • one solution	netdespatch deliver more, INTERSOFT SYSTEMS & PROGRAMMING	Royal Mail, PARCELFORCE WORLDWIDE

Targeting higher growth areas

- Continuing to expand GLS's footprint
- Strengthening partnerships with marketplaces, e-retailers and other operators

Leveraging our assets in new ways

- UK vehicle service, maintenance and repair market estimated at £3.4bn[1]
- Trialling third-party fleet services at 7 locations across UK

GOV.UK

- Online identity verification growing in importance
- Launched certified identity service connected to 'GOV.UK Verify' platform

[1] Estimate based on analysis performed by OC&C Strategy Consultants (2015-16)

Matthew Lester
Chief Finance Officer

2015-16 Financial Summary

£m	Adjusted 2015-16	Adjusted 2014-15	Underlying change
Revenue	**9,251**	9,328	1%
Operating profit before transformation costs	**742**	740	5%
Transformation costs	**(191)**	(145)	
Operating profit after transformation costs	**551**	595	(2%)
Operating profit margin after transformation costs	**6.0%**	6.4%	(10bps)
Profit before tax	**538**	569	
Earnings per share[1]	**41.3p**	42.8p	
In-year trading cash flow	**254**	315	
Free cash flow	**292**	453	
Net debt	**(224)**	(275)	
Dividend per share	**22.1p**	21.0p	5%

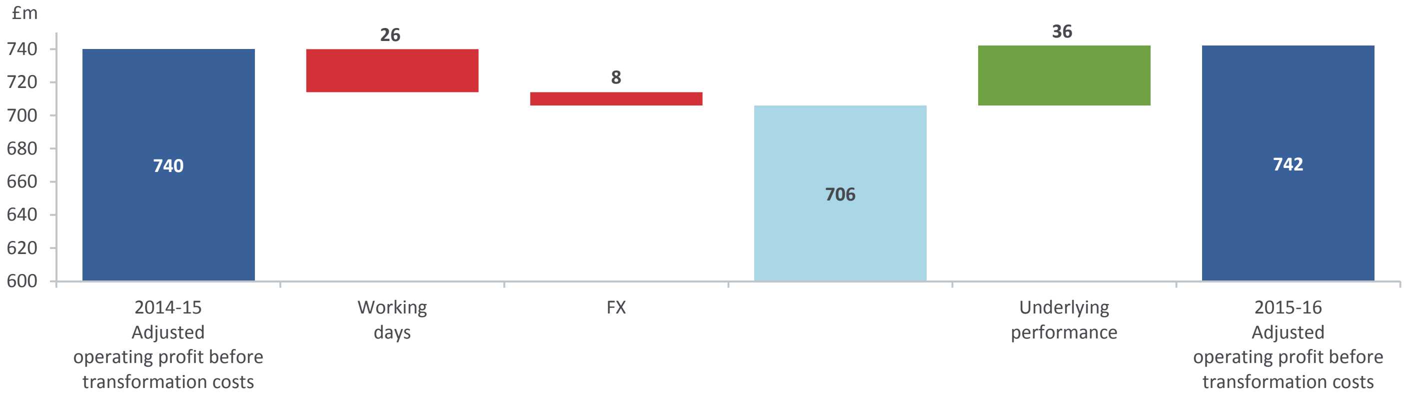
£m	2015-16	
	Reported	Adjusted
Operating profit before transformation costs	**485**	742
Profit before tax	**267**	538
Earnings per share[1]	**21.5p**	41.3p

- Cash to IAS 19 pension charge adjustment £257m (2014-15: £129m)

Note: Adjusted results exclude specific items. 2014-15 figures exclude DPD SL results, a subsidiary of GLS Germany sold on 31 March 2015. 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] Continuing operations

Underlying Movement in Operating Profit



- £26m impact in UKPIL due to c.1 less working day in 2015-16
  - estimated impact in 2016-17 due to c.3 extra working days, c.£65m
- Foreign exchange impact of £8m
  - average rate £1 = €1.37 (2014-15: £1 = €1.27)
- 2016-17 underlying adjustments:
  - c.£70m increase in National Insurance due to introduction of new 'single-tier' state pension scheme
  - other employment legislation (e.g. working time directive)
  - impact of acquisitions and other initiatives

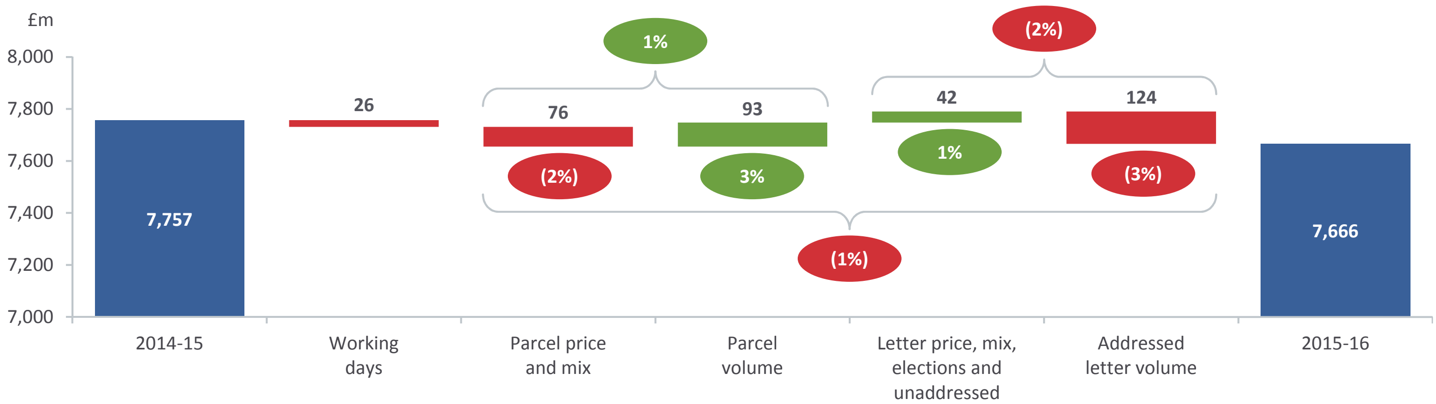
Note: Adjusted results exclude specific items. 2014-15 figures exclude DPD SL results, a subsidiary of GLS Germany sold on 31 March 2015. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance

UKPIL Results

£m	Adjusted 2015-16	Adjusted 2014-15	Underlying change
Revenue	**7,666**	7,757	(1%)
Operating costs	**(7,058)**	(7,142)	1% lower
Operating profit before transformation costs	**608**	615	3%
Operating profit margin before transformation costs	**7.9%**	7.9%	+30bps
Transformation costs	**(191)**	(145)	
Operating profit after transformation costs	**417**	470	(6%)
Operating profit margin after transformation costs	**5.4%**	6.1%	(30bps)

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for working days in UKPIL and other one-off items that distort the Group's underlying performance

UKPIL Revenue



Parcels – Revenue £3.2bn, Volume 1.1bn

- Contract wins with retailers more than offset Amazon impact on account category
- Mix impacted by growth in low AUR import and decline in higher AUR consumer/SME and export volumes
- Strong Parcelforce volume growth of 12% driven by wins from new/existing customers, AURs impacted by competition
  - expect rate of growth to slow in 2016-17

Letters – Revenue £4.5bn, Volume 12.6bn[1]

- Addressed letter volume decline of 3%, better than forecast range
- AURs impacted by changing mix
- Marketing mail[2] revenue flat, reflecting current economic conditions
- Unaddressed volumes improved in H2. H1 impacted by a reduction in marketing spend in certain sectors

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for 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 exclude elections in letter volumes [1] Total addressed letter volumes including elections [2] Includes data, redirections, Address Management Unit, and addressed & unaddressed advertising mail

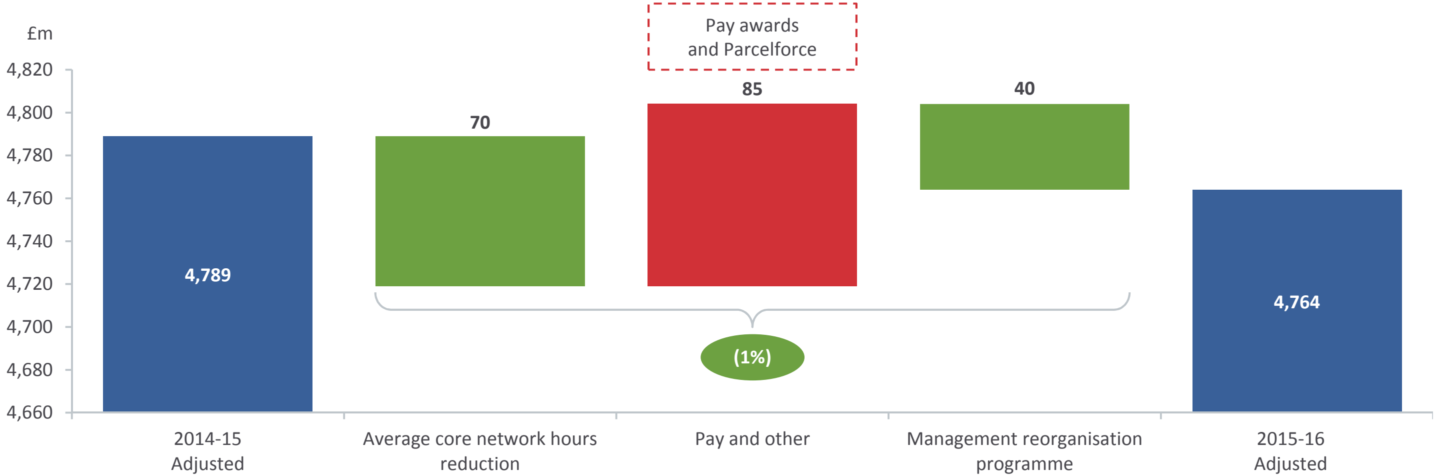
UKPIL Operating Costs

UKPIL underlying operating costs declined by 1%

- Cost avoidance projects delivered as expected with £182m costs avoided, of which:
  - people costs £89m
  - non-people £93m

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for working days in UKPIL and other one-off items that distort the Group's underlying performance

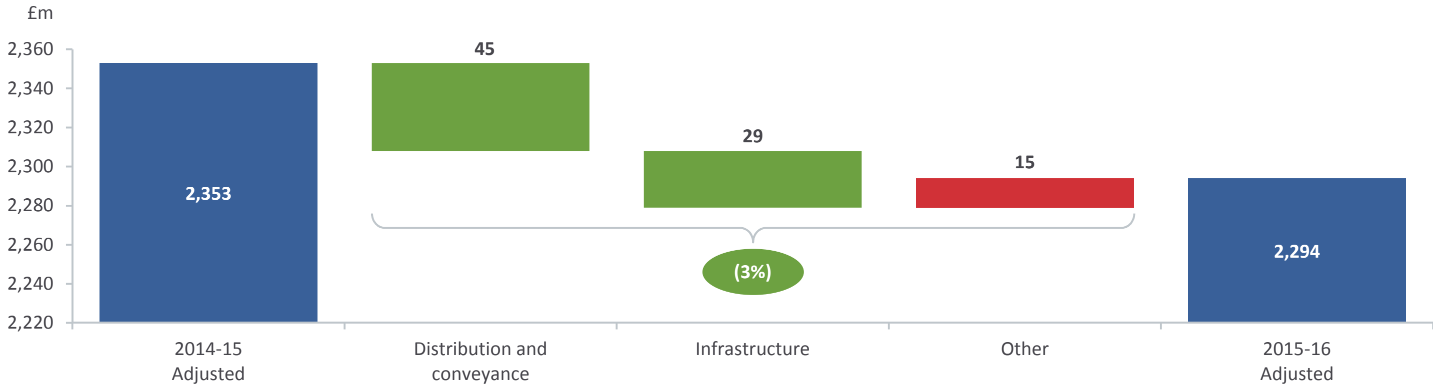
UKPIL People Costs



- Total core network hours down 2.0% resulting in 2.4% improvement in productivity[1]
- Pay and other includes:
  - frontline pay award of 2.8%
  - volume-driven costs in Parcelforce
  - pay increases in other functions
  - impact of cost avoidance programme (non-core network hours)
- Management reorganisation programme savings of £40m
  - achieved c.£80m annualised savings in total
- Emerging trend – larger parcel sizes and proportion of tracked products driving workload

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for 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 £776m

- Down 5%
- Lower terminal dues partly driven by lower export volumes
- Improved fleet management and reduction in UK air routes
- Partly offset by costs associated with increasing parcel sizes

Infrastructure £890m

- After reclassification of internal costs, Infrastructure costs were flat
- Reduced property spend due to better facilities management and utilities savings
- Lower depreciation
- Offset by higher IT transformation programme costs

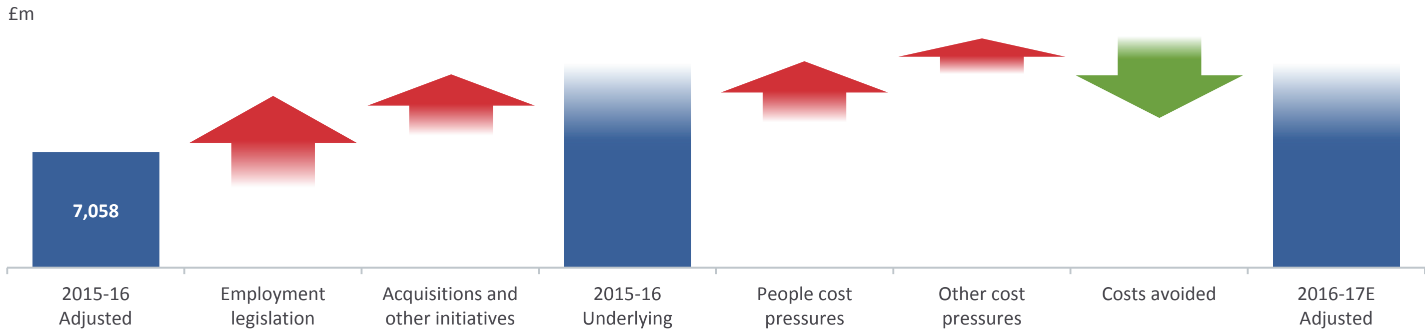
Other £628m

- After reclassification of internal costs, Other costs were down 2%
- Lower POL costs

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for working days in UKPIL and other one-off items that distort the Group's underlying performance

UKPIL Cost Performance 2016-17 (illustrative)

Cost performance dependent on outcome of pay negotiations, other cost pressures and delivery of cost avoidance projects

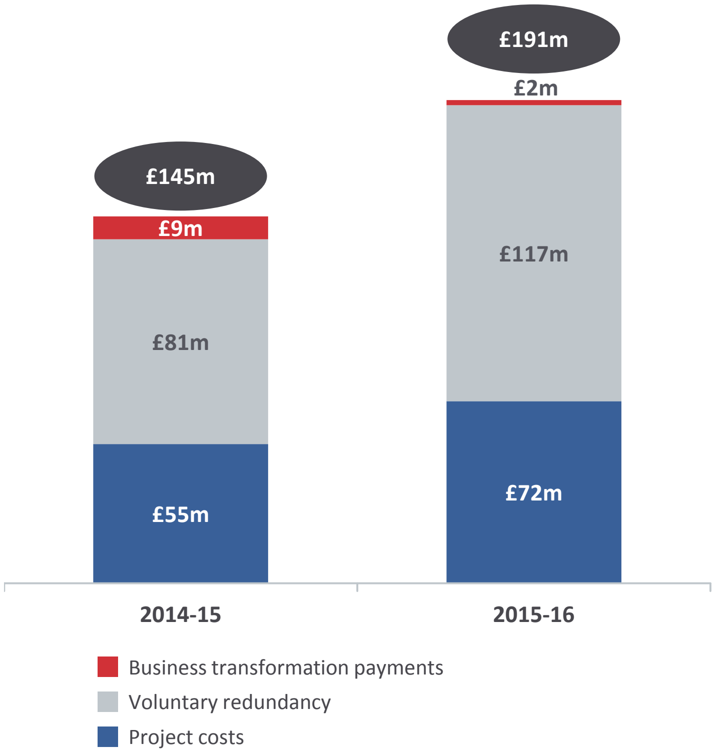


- Employment legislation includes increase in National Insurance due to introduction of new ‘single-tier’ state pension scheme
- Impact of acquisitions and other initiatives, if material

- People costs pressures - outcome of pay negotiations
- Other cost pressures include:
  - cost of sales related to new initiatives with variables costs
  - increasing parcel sizes and tracked volumes
  - depreciation/amortisation increase c.£20m
  - non-pay inflation
- Costs avoided expected to be similar level as prior year

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for working days in UKPIL and other one-off items that distort the Group’s underlying performance

Transformation Costs – Income Statement



2015-16

- Higher voluntary redundancy charge and project costs driven by timing and cost avoidance & efficiency programmes, broadly in line with expectations

Ongoing

- Continue to seek opportunities to drive efficiency
- Transformation costs likely to be above £120-£140m p.a. range over period of cost avoidance programme
  - c.£160m expected in 2016-17

GLS Results

€m	2015-16	2014-15	Change
Revenue	**2,158**	1,978	9%
Operating costs	**(1,998)**	(1,832)	9%
Operating profit	**160**	146	9%
Operating profit margin	**7.4%**	7.4%	Flat
Volumes (m)	**431**	391	10%
Average £1 = €	**1.37**	1.27	8%

£m	2015-16	2014-15
Revenue	**1,580**	1,557
Operating costs	**(1,463)**	(1,442)
Operating profit	**117**	115

- Strong performance throughout year
  - good volume growth, benefiting from continued strong growth in international volumes
  - AURs impacted by lower average parcel weights and competitive pricing
  - rate of growth expected to slow in 2016-17
- Operating profits increased despite significant impact of German minimum wage legislation
- Reported results impacted by 8% strengthening of Sterling vs. Euro rates

Note: 2014-15 excludes revenue and costs (€122m), and volumes (45m) from DPD SL, a subsidiary of GLS Germany sold on 31 March 2015

GLS Revenue

- Revenue growth across almost all markets
- No one customer represents more than 2% of GLS Group
- Germany revenue up 4%, driven by better than expected volumes from new and existing customers
- Continued strong revenue growth in Italy, up 18% mainly due to strong B2C volume growth
  - maintaining current growth rate expected to be challenging given strong performance over last 2 years
- France continues to grow top line, up 6%
  - losses reduced to €13m (2014-15: €16m), pace of turn-around has slowed due to challenging market conditions

Note: 2014-15 excludes revenue (€122m) from DPD SL, a subsidiary of GLS Germany sold on 31 March 2015

GLS Costs

€m	2015-16	2014-15	Change
People costs	**489**	450	9%
Distribution and conveyance costs	**1,312**	1,199	9%
Infrastructure costs	**143**	130	10%
Other operating costs	**54**	53	2%
Operating costs	**1,998**	1,832	9%

- People costs up 9% due to:
  - semi-variable costs linked to volume c.6.0%
  - pay inflation/incentives c.2.5%
  - acquisitions c.0.5%
- Distribution and conveyance costs up 9% due to higher volumes and impact of German minimum wage legislation
- Infrastructure costs higher largely due to additional depreciation and IT related costs, including amortisation of IT investments
- Operating costs benefited from one-off provision release of c.€3m

Note: 2014-15 excludes costs (€122m) from DPD SL, a subsidiary of GLS Germany sold on 31 March 2015

Group Profit After Tax

£m	Adjusted 2015-16	Adjusted 2014-15
Operating profit after transformation costs	**551**	595
Finance costs	**(16)**	(30)
Finance income	**3**	4
Net finance costs	**(13)**	(26)
Profit before tax	**538**	569
Tax charge	**(118)**	(138)
Profit for the year from continuing operations	**420**	431
Earnings per share from continuing operations	**41.3p**	42.8p

Note: Adjusted results excluding specific items

Specific Items

£m	2015-16	2014-15
Pension charge to cash difference[1]	**(257)**	(129)
Employee Free Shares charge[2]	**(158)**	(169)
Impairment and legacy credit/(costs)	**2**	(79)
Total operating specific items	**(413)**	(377)
Profit on disposal of property, plant and equipment	**29**	133
Net pension interest	**113**	75
Profit from disposal of discontinued operations	**31**	-
Total non-operating specific items	**173**	208
Total specific items before tax	**(240)**	(169)

- Difference in pension charge and actual cash paid out increased by £128m
  - difference expected to be c.£230m in 2016-17 following reduction in rate to 28.8%[3] from 29.8%
- 2016-17 Employee Free Shares charge expected to be c.£110m[4] dependent on level/mix and timing of leavers
- Prior year impairment and legacy costs included one-off provision for French fine and impairment of certain IT assets
- Profit on disposal of property, plant and equipment mainly arising from sale of Croydon Delivery Office
- 2016-17 pension interest credit c.£120m driven by an increase in IAS 19 pension surplus
- £31m profit from sale of DPD SL

[1] Including RMSEPP deficit payment of £10m [2] Includes National Insurance which will be cash settled (2015-16: £6m, 2014-15: £6m) [3] Rate determined by real discount rate at end March 2016 based on longer term RPI and appropriate AA corporate bond rates at the time [4] Calculated based on value of Employee Free Shares of c.£600m (including £24m National Insurance) pro-rated over the period of vesting, including 1% to be allocated in due course, adjusted for level/mix of leavers

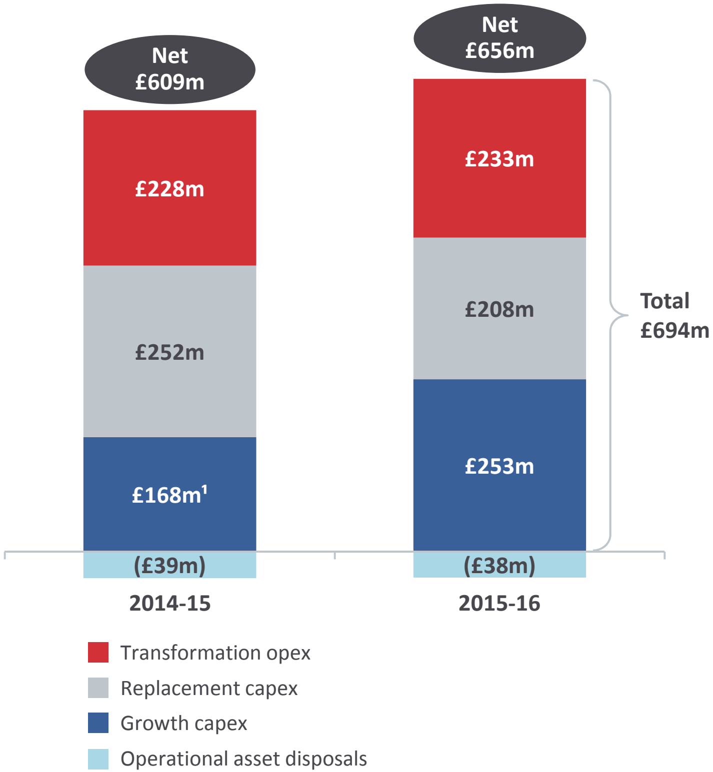
Group Free Cash Flow

£m	2015-16	2014-15
Reported EBITDA before transformation costs	**756**	889
Pension charge to cash difference	**257**	129
Adjusted EBITDA	**1,013**	1,018
Trading working capital movements	**(26)**	(5)[1]
Share-based awards charge to cash difference	**13**	5
Dividends received from associate	**1**	-
Total investment	**(694)**	(648)[1]
Income tax paid	**(40)**	(37)
Net finance costs paid	**(13)**	(18)
In-year trading cash flow	**254**	315
Other working capital movements	**6**	17
Operating specific items	**(6)**	(8)
Proceeds from disposal of property, plant & equipment	**38**	39
Proceeds from disposal of discontinued operations	**41**	-
Acquisition of business interests	**(18)[2]**	(10)
London property portfolio cash flows	**(23)**	100
Free cash flow	**292**	453

- Adjusted EBITDA broadly flat at c.£1bn
- Working capital absorption due to international sales mix
  - expect this trend to continue
- Cash tax expected to normalise by 2018-19
- Blended interest rate on gross debt expected to be c.3%[3] in 2016-17
- In-year trading cash flow supports progressive dividend policy

[1] Restated to move change in GLS client cash of £6m from 'Trading working capital movements' to 'Other working capital movements', and to extract £10m in respect of 'Acquisition of business interests' from growth capital expenditure within 'Total investment' [2] Includes NetDespatch, GLS acquisitions, Mallzee and Intersoft
[3] Including arrangement/commitment fees and finance leases

Group Investment - Cash



- Increase in ongoing voluntary redundancy due to acceleration of efficiency programme:

£m	2015-16	2014-15
Business transformation payments	**2**	9
Voluntary redundancy – management reorganisation programme	**-**	96
Voluntary redundancy - ongoing	**159**	62
Project costs	**72**	61
Total	**233**	228

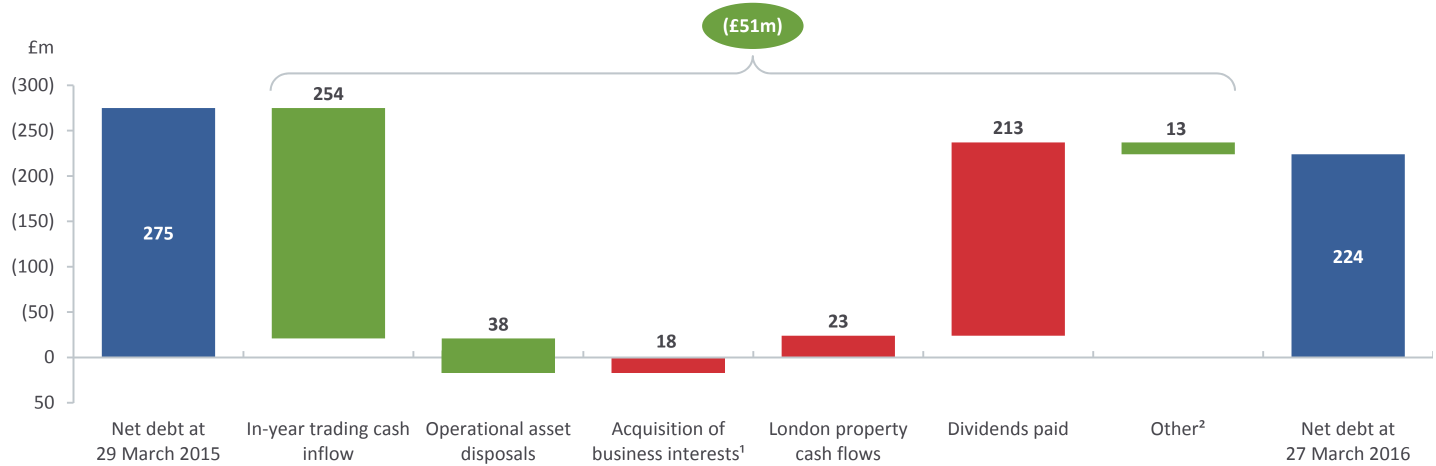
- Lower replacement capex driven by timing of spend on vehicles
- Growth capex includes spend on parcel systems, parcels automation, purchase of new Postal Digital Assistant devices (PDAs) and GLS

Outlook

- Total net cash investment c.£550-600m p.a.
- Targeting increased skew towards growth capex

[1] Restated to extract £10m in respect of 'Acquisition of business interests'

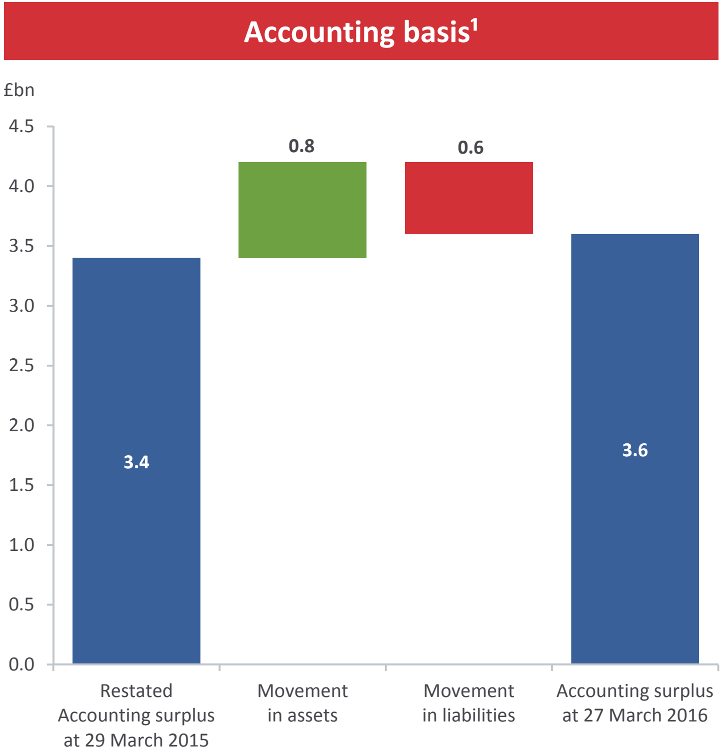
Uses of Cash



- London property proceeds of £100m in 2014-15 required to enable development of Nine Elms and Mount Pleasant sites
- Proceeds from disposal of discontinued operations (DPD SL) of £41m
- GLS fine of €55m paid April 2016

[1] Includes NetDespatch, GLS acquisitions, Mallzee and Intersoft [2] Other includes movements in foreign exchange (-£21m), dividends paid to minority shareholders (-£7m), proceeds from disposal of discontinued operations (+£41m), other working capital movements (+£6m) and cash cost of specific items (-£6m)

Pensions



Actuarial basis

- Estimated actuarial surplus of £1.8bn at March 2016, broadly flat
- Liabilities projected to accrue to March 2018 have been hedged in advance against movements in interest and inflation rates
- c.£550m of surplus relates to liabilities yet to be recognised
- 2015 triennial valuation and discussions with Trustee and unions underway

Accounting basis

- Accounting surplus at March 2015 restated for change in accounting policy
  - pension liabilities no longer include an estimate of future pension administration costs of £0.2bn

[1] Pre IFRIC 14

Property

Exploring options and adopting a flexible approach to realise value			
Site	**Acres**	**Key features**	**Action**
Nine Elms	13.9	• Large site with outline planning consent for up to 1,870 residential units • Rapidly evolving area - latest projections show c.20,000 new homes for whole area	• Enhancing planning consent and preparing for implementation of the planning consent • Remediation of contaminated land progressing • Reprovisioning of Delivery Office underway • Continue to market site
Mount Pleasant	8.6	• Full planning permission received for up to c.680 residential units	• Significant further investment required to separate operational site and enable development • Preparing detailed design of separation works • Addressing third-party issues whilst reviewing value realisation options

Moya Greene
Chief Executive Officer

Royal Mail Strategy

Winning in parcels	Defending letters	Growing in new areas

Enabled by

Strategic focus on costs	Technology and innovation	An engaged and motivated workforce

Future investment skewed towards growth areas

Commitment to progressive dividend policy

Appendix

2015-16 Value Drivers (adjusted basis)

Revenue	Operating costs		Transformation costs	Profit after transformation costs	Cash
UK parcels up 1% **UK letters** down 2% **UKPIL** down 1% **GLS** up 9%	**People costs** Flat **Non-people costs** up 1%		**Transformation costs** £191m	**Profit after transformation costs** £551m **Margin** 6.0%	**EBITDA** £1,013m down £5m **Cash investment** £694m up £46m
Up 1%	**1% Growth**			**Down 10bps**	**Free cash flow £292m down £161m**
Low single digit revenue growth	*Net operating cost growth below rate of revenue growth*			*Drives margin expansion*	*Drives growth in free cash flow*

2015-16 Objective[1]

Note: Adjusted results exclude specific items. 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 2015-16	Adjusted 2014-15	Underlying change
Revenue			
UKPIL	**7,666**	7,757	(1%)
GLS	**1,580**	1,557	9%
Other	**5**	14	
Total	**9,251**	**9,328**	**1%**
Operating profit before transformation costs			
UKPIL	**608**	615	3%
GLS	**117**	115	9%
Other	**17**	10	
Total	**742**	**740**	5%
Operating profit after transformation costs			
UKPIL	**417**	470	(6%)
GLS	**117**	115	9%
Other	**17**	10	
Total	**551**	**595**	(2%)

Note: Adjusted results exclude specific items. 2014-15 figures exclude the results of DPD SL, a subsidiary of GLS Germany sold on 31 March 2015. 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 Data

Parcels	2015-16	2014-15
Volumes (m)		
Royal Mail core network	**1,034**	1,015
Change	***2%***	*3%*
Parcelforce	**96**	86
Change	***12%***	*12%*
Total volume	**1,130**	1,101
Change	***3%***	*3%*
Revenue (£m)	**3,196**	3,190
Change	***1%***	*1%*

Letters	2015-16	2014-15
Volumes (m)		
Non-access	**4,957**	5,429
Network access	**7,080**	7,035
International	**526**	545
Total addressed (including elections)	**12,563**	13,009
Change	***(3%)***	*(4%)*
Unaddressed	**2,993**	3,157
Change	***(5%)***	*1%*
Revenue (£m)	**4,470**	4,567
Change	***(2%)***	*(1%)*

People

	2015-16	2014-15	Target
Gross core network hours	(2.0%)	(2.3%)	
Workload	0.4%	0.1%	
Productivity[1]	**2.4%**	2.5%	2.0-3.0%

	Leavers	Joiners	Net
Natural attrition/joiners	(c.8,500)	c.8,000	(c.500)
Voluntary redundancy	(c.3,000)		(c.3000)
Total	**(c.11,500)**	**c.8,000**	**(c.3,500)**

Note: Adjusted results exclude specific items. Underlying change is calculated after adjusting for 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 exclude elections in letter volumes [1] Collections, processing and delivery in UKPIL core network

Net Debt and Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
Euro bond[1]	2.5%	392	392	2024
Revolving credit facility	LIBOR +0.55%	1,050	–	2020-21[2]
Total		**1,442**	**392**	

- S&P investment grade rating of BBB stable outlook maintained
- Net debt reduced by £51m largely driven by in-year trading cash flow partially offset by dividends

Net debt

£m	27 March 2016	29 March 2015
Loans/bonds[1]	**(392)**	(366)
Finance leases	**(220)**	(272)
Cash and cash equivalents[3]	**368**	343
Pension escrow (RMSEPP)	**20**	20
Net debt	**(224)**	(275)

Other working capital movements

£m	2015-16	2014-15
Stamps used but purchased in prior periods/deferred revenue	**13**	(35)
Timing of payroll payments for monthly paid staff	-	46
Client cash in GLS[4]	**(7)**	6
Other working capital	**6**	17

[1] €500m liabilities net of discount and fees at spot rate €/£0.789 revalued at balance sheet date [2] £98m expires in 2020 [3] Includes GLS client cash of £13m (2014-15 £20m) and short term deposits of nil (2014-15 £56m) [4] Cash collected on behalf of customer, payment on delivery

Pensions

Income statement

£m		2015-16	2014-15
RMPP		**(619)**	(508)
RMDCP		**(45)**	(38)
GLS		**(5)**	(6)
PSE[1]		**(99)**	-
People costs		**(768)**	(552)
Pension costs relating to VR		**(36)**	(10)
Total EBIT pension costs		**(804)**	(562)
Pension interest credit[2]		**113**	75
Total net PBT pension costs		**(691)**	(487)
Pensionable payroll (£bn) – RMPP		**2.1**	2.2
Income statement rate (%)			
	RMPP[3]	**29.8%**	23.6%
	RMDCP[4]	**6%**	5%
Number of active members	RMPP	**c.93,500**	c.100,000
	RMDCP	**c.42,000**	c.39,000

Cash flow

£m		2015-16	2014-15
RMPP		**(352)**	(369)
RMDCP		**(45)**	(38)
GLS		**(5)**	(6)
PSE[1]		**(99)**	-
RMSEPP deficit		**(10)**	(10)
Cash contributions		**(511)**	(423)
Pension payments relating to VR		**(45)**	(30)
Total cash payments		**(556)**	(453)
Pensionable payroll (£bn) – RMPP		**2.1**	2.2
Cash rate (%)			
	RMPP	**17.1%**	17.1%
	RMDCP[4]	**6%**	5%

[1] Pension Salary Exchange (PSE) was introduced in August 2015 [2] Non-operating specific item [3] Rate determined by real discount rate at end March based on longer term RPI and appropriate AA corporate bond rates at the time [4] Average employer contribution rate for the period

Group Tax

£m	Reported 2015-16[1]			Adjusted 2015-16		
	UK	GLS	Group	UK	GLS	Group
Profit before tax	150	117	267	421	117	538
Income statement tax charge	14	31	45	84	34	118
Effective tax rate	**9%**	**26%**	**17%**	**20%**	**29%**	**22%**
Cash tax payments/(receipts)	9	31	40	n/a	n/a	n/a
Cash tax rate	**6%**	**26%**	**15%**	n/a	n/a	n/a

Income statement tax

UK

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

GLS

- Adjusted: lower rate (2014-15 31%) mainly due to a change in tax rules in certain territories, particularly Italy
- Reported: rate lower than adjusted mainly due to recognition of historical losses in Spain

Group

- Adjusted: lower rate (2014-15 24%) mainly due to reduction in UK statutory rate and one-off prior year tax credit

Cash tax

UK

- Low tax payments mainly due to utilisation of brought forward losses and capital allowances (2014-15 1%)
  - prior year included a £6m repayment from HMRC
  - now expected to normalise by 2018-19 mainly due to relief available from additional Employee Free shares allocation

GLS

- Cash rate in line with income statement rate

[1] Continuing operations only

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 short-term and capital allowances in medium-term
- Gross deferred tax liability of £624m comprises future tax charges in respect of:
  - full tax relief for additional Employee Free Shares (£25m) expected to unwind over vesting period
  - pensions (£565m) expected to reverse over a longer term in line with pensions surplus
  - GLS mainly due to goodwill in GLS Germany