Royal Mail plc
Half Year 2016-17 Results

17 November 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.

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 2016-17 Results Overview

Responding to challenges caused by economic environment and highly competitive markets

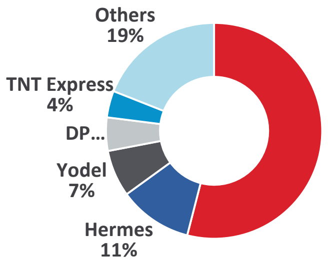
				Underlying change
Royal Mail plc	Revenue	£4,583m	↑	1%
	Adjusted operating profit before transformation costs	£320m	↓	(5%)
	In-year trading cash flow	£116m	↑	£115m
	Interim dividend per share	7.4p	↑	0.4p
UKPIL (Royal Mail, Parcelforce Worldwide)	Revenue		↓	(1%)
	Underlying costs before transformation costs		↔	Flat
GLS	Revenue		↑	9%
	Operating profit		↑	25%

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days in UKPIL, foreign exchange movements and ASM in GLS, and other one-off items that distort the Group's underlying performance

UK Parcels Market

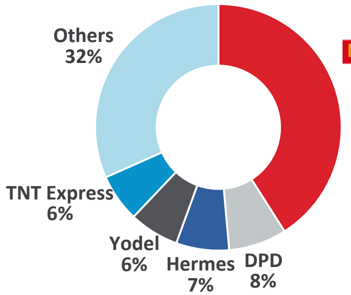
UK parcels market share
(excl. same-day, incl. access fulfilment large letters)

Volume



2014: 54%
(2013: 55%)

Revenue



2014: 41%
(2013: 42%)

Market developments

Traditional

- Continued investment in new capacity (e.g. Hermes, DPD)
- Product and service innovations
  - more convenience for end customers
  - more choice for account customers
- Impact of weaker Sterling on import/export volumes

Disruptive/other

- Expansion of Amazon presence
- New partnerships (e.g. John Lewis/Clipper Logistics, Sainsbury's/Argos)
- Low-pay operating models under scrutiny

Competitive landscape continues to evolve

Note: Parcels market share is an 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. Excludes Amazon Logistics and other retailers' own-delivery networks

UKPIL Parcels – Benefiting from Initiatives and Investments

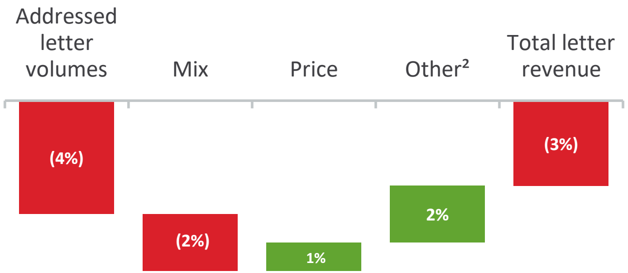
	H1 2016-17 **Volumes up 2%** **Revenue up 3%**	**Initiatives to address market developments**
Business/ Account 	• Account volumes excluding Amazon up 5% • Royal Mail Tracked 24®/48® volumes up 38% • 19% growth in returns volumes • Winning further volumes from major retailers	• Tracked services available to all account customers • Continuing to enhance shipping systems • Extending delivery confirmation on barcoded standard parcels to more account customers • Accelerated customer on-boarding
Consumer/ SME 	• Improved volume and revenue trends • Online sales volume up 14% • Royal Mail sending customer satisfaction rate up 3ppts to 89%[1]	• New Click & Drop capabilities • 200 Enquiry Offices now open on Sundays • Online price differential
International 	• Seeing early signs of impact of weaker Sterling: – import volume growth rate slowing – export volume decline moderating • Faster services and tracked products for Asian e-commerce market, increased import AURs	• Expanding relationships in Asia for import traffic • Improving our export capabilities • International sales and marketing campaign activity

Continued IT investment to support enhanced product & service offering

[1] Royal Mail consumer satisfaction survey conducted by Ipsos MORI

UKPIL Letters

H1 2016-17
Addressed letter volumes[1] down 4%
Total letter revenue down 3%



- Addressed letter volume[1] decline within forecast range of 4-6% decline p.a.
- Marketing mail revenue down 8% to £547m
  - highly geared to economic activity
  - reduced marketing activity pre and post EU referendum

Market developments

- Addressed letter volume decline has been at better end of 4-6% range since IPO
- Letter volumes sensitive to movements in GDP
- First period of economic uncertainty since IPO
- Economic uncertainty impacting UK marketing activity

[1] Excluding the impact of political parties' election mailings [2] Other includes elections, philatelic, unaddressed and other non-volume related items

UKPIL Letters – Responding to Market Developments

Marketing mail

Sales stimulation activities

- Incentives for incremental advertising mail

Making campaigns work harder

Digital stamps

- Improved customer response rates

Improving return on investment

All mail

Strategic Mailing Partnership™

The Strategic Mailing Partnership™
THE MAILMAKERS

- Joint initiative between Royal Mail and UK's mailing house industry

Drives collaboration and innovation across industry

Mailmark®

MAILMARK® get extra savings

- c.70% of relevant mail currently bears a Mailmark®
  - c.45% of total addressed letter volumes

Enhanced visibility and lower postage rates

Helping customers realise more value from mail

Continued Focus on UKPIL Costs

Cost avoidance programme on track, c.£90m costs avoided in H1 2016-17
Targeting to avoid c.£225m of costs in 2016-17 and c.£600m of annualised costs by 2017-18[1]

Operations		Central Functions, Commercial, Property	
Core network hours reduction Productivity improvement[2]	Optimising management structures	IT Services Transformation	
Collections on Delivery	Annual network review and better vehicle utilisation	Process re-engineering	Parcelforce depot productivity improvement

Underlying operating costs[3] flat in H1 2016-17
Targeting to reduce operating costs[3] by up to 1% in 2016-17

[1] Cumulative over financial years 2015-16, 2016-17, and 2017-18 [2] Collections, processing and delivery in core network only [3] Before transformation costs

Transforming the Business

Transforming our UK network at an absorbable rate of change

Changing the way we work

- Delivery to Neighbour
- Collections on Delivery
- Opening up network for longer and on weekends

Investing in technology

- Increasing automation and mechanisation
- New Postal Digital Assistants
- More tracked volume
- Easier to do business with – via apps, APIs, online returns portal
- Enhanced in-house IT capabilities
  - developed 'Click & Drop' tool with Storefeeder
  - NetDespatch enables faster bespoke integration

Delivered

Productivity improvements of 2.2%[1]

First Class Quality of Service H1 2016-17 93.4% target 93.0%

Mean business customer satisfaction score[2] of 78

[1] Collections, processing and delivery in core network only [2] Royal Mail Business Customer Satisfaction Survey, conducted by Ipsos MORI, (H1 2015-16 76)

Relationship with our People – Pensions

- Changed relationship with our people and unions
  - Agenda for Growth
  - Together for Growth
- Triennial review of RMPP ongoing
- Active discussions with unions around nature of future pensions arrangements
- Consultation process with RMPP members required
- Targeting to have reached resolution around end of 2016-17 financial year

GLS

Well positioned to drive growth

- Revenue up 9%; operating profit up 25%
- Strategy has consistently delivered good performance
- Proven and replicable business model
- Focus on expanding geographic footprint in B2B space (e.g GSO) with selective offerings in B2C (e.g. ASM)

Germany

- Revenue growth driven by international volumes
- Sameday service in 11 cities
- Enhancing B2C capabilities

Italy

- Strong revenue growth largely due to B2C volumes
- Continue to provide Prime service for Amazon
- Good growth ex-Amazon driven by B2B and B2C volumes

France

- Improved rate of revenue growth
- International volumes growing more strongly than domestic

Note: Movements in revenue, volume and costs are on an underlying basis. Underlying change is calculated after adjusting for foreign exchange movements and ASM (revenue €27m, costs €27m)

Growing in New Areas

Addressing growth areas through partnerships and acquisitions

New Asian Channels

- Building partnerships with key players in the Asian e-commerce market

CHINA POST

- Higher rates for improved UK delivery service

Alibaba Group

- Enhanced UK delivery services for marketplace traders

- Chinese third party logistics companies
  - UK delivery for goods warehoused in UK and China

GLS

- Targeted and focused expansion of GLS' geographic footprint
- Investing behind GLS' proven operating model

ASM transporte urgente

- Significantly expands size/scope of GLS Spain

GSO

- Regional next day B2B player in market with attractive growth characteristics
- Opportunity to leverage GLS' technology and operational expertise

Matthew Lester
Chief Finance Officer

H1 2016-17 Financial Summary

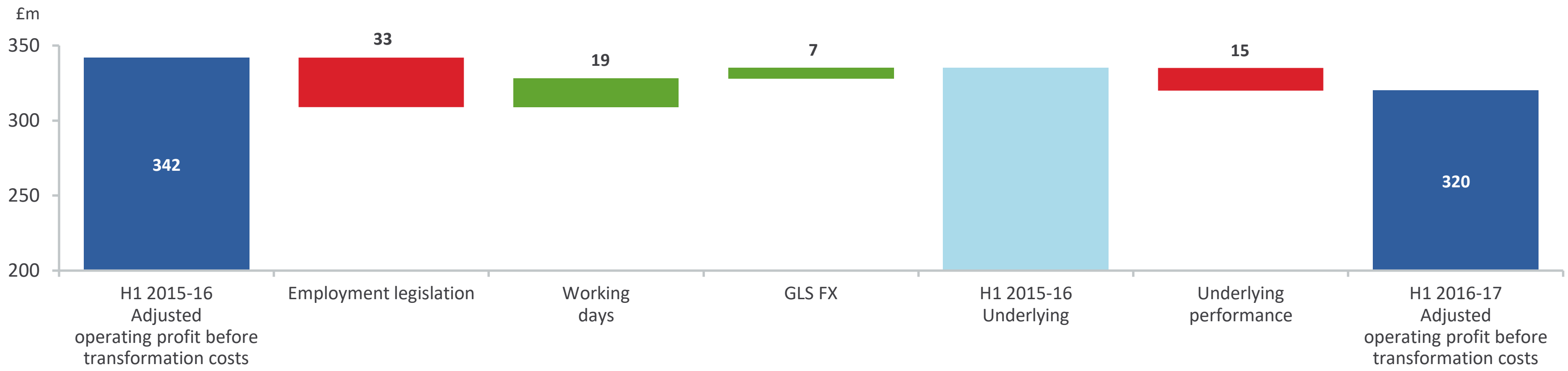
£m	Adjusted H1 2016-17	Adjusted H1 2015-16	Underlying change
Revenue	**4,583**	4,395	1%
Operating profit before transformation costs	**320**	342	(5%)
Transformation costs	**(58)**	(94)	
Operating profit after transformation costs	**262**	248	
Operating profit margin after transformation costs	**5.7%**	5.6%	40bps
Profit before tax	**252**	240	
Earnings per share	**19.2p**	18.1p	
In-year trading cash flow	**116**	1	£115m
Net debt	**(452)**	(369)	
Interim dividend per share	**7.4p**	7.0p	0.4p

£m	H1 2016-17	
	Reported	Adjusted
Operating profit before transformation costs	206	320
Profit before tax	110	252
Earnings per share	8.6p	19.2p

- Cash to IAS 19 pension charge adjustment £114m (H1 2015-16 £134m)

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days in UKPIL, foreign exchange movements and ASM in GLS, and other one-off items that distort the Group's underlying performance

Underlying Movement in Operating Profit



- £33m increase in National Insurance due to introduction of new 'single-tier' state pension scheme
  - expected to be c.£65m for FY 2016-17
- Impact of acquisitions in the period not material
- £19m impact in UKPIL due to c.1 less working day in H1 2015-16
  - estimated impact in 2016-17 due to c.3 extra working days, c.£65m
- Foreign exchange benefit due to weaker Sterling
  - average rate £1 = €1.23 (2015-16 £1 = €1.39)
  - adjusting FY 2015-16 for period end spot rate of €1.15 would have increased profit by £21m

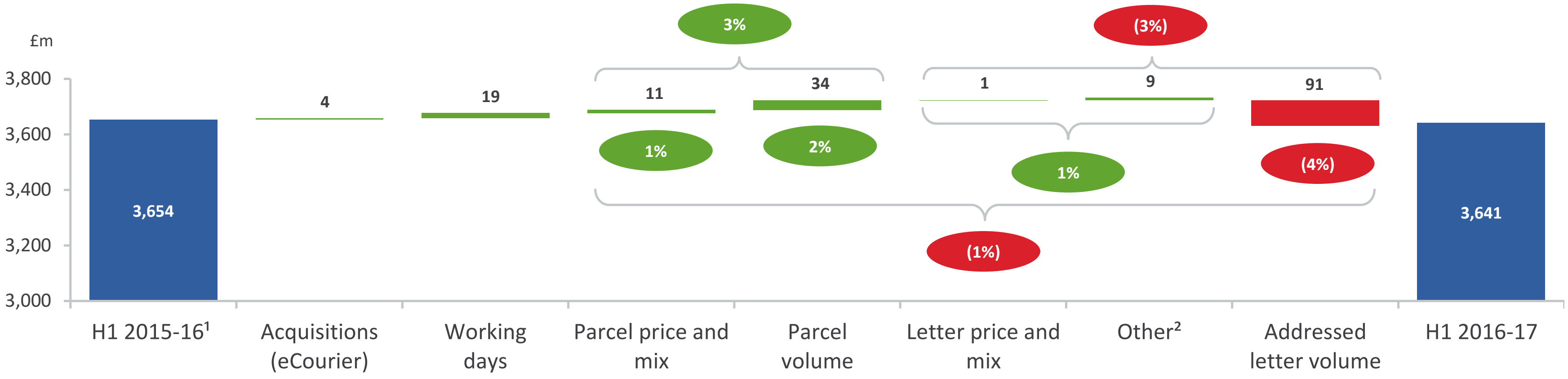
Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days in UKPIL, foreign exchange movements and ASM in GLS, and other one-off items that distort the Group's underlying performance

UKPIL Results

£m	Adjusted H1 2016-17	Adjusted H1 2015-16[1]	Underlying change
Revenue	**3,641**	3,654	(1%)
Operating costs	**(3,394)**	(3,364)	Flat
Operating profit before transformation costs	**247**	290	(11%)
Operating profit margin before transformation costs	**6.8%**	7.9%	(70bps)
Transformation costs	**(58)**	(94)	
Operating profit after transformation costs	**189**	196	
Operating profit margin after transformation costs	**5.2%**	5.4%	20bps

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days and other one-off items that distort the underlying performance [1] Re-presented for consolidation of Romec into UKPIL

UKPIL Revenue



Parcels – Revenue £1,532m, Volume 533m

- Account volumes continue to grow, up 5% excluding Amazon
- Parcelforce volume growth of 2% due to further competitive capacity increases and lapping strong performance in prior period
- Action on international imports improved average unit revenue

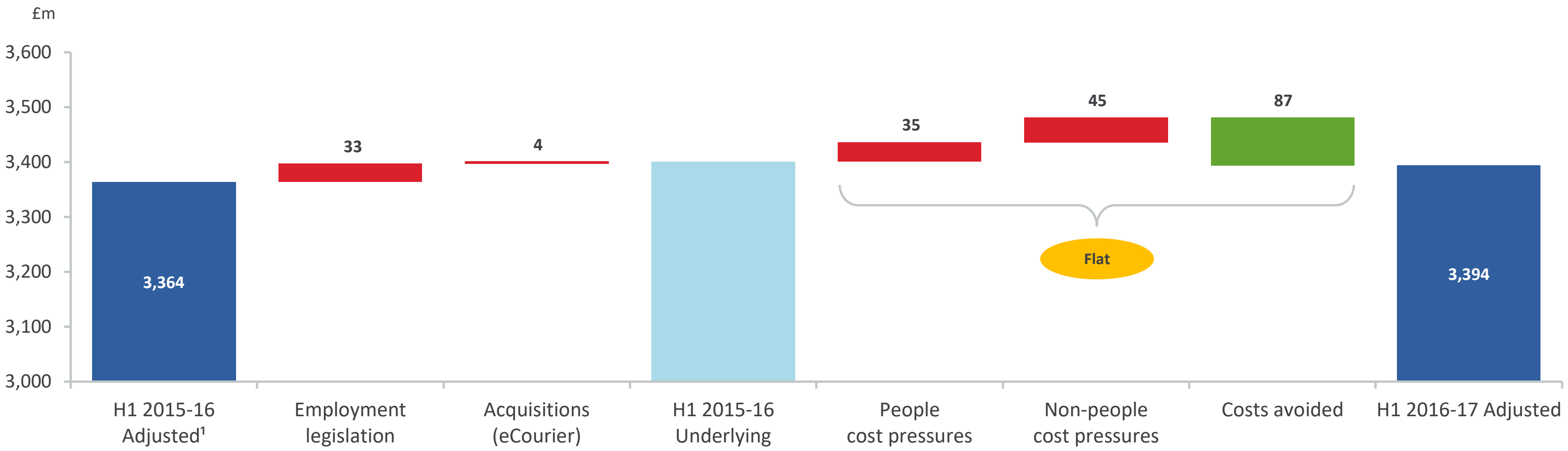
Letters – Revenue £2,109m, Volume[3] 5.9bn

- Addressed letter volume decline of 4%, within forecast range
- Impact of low inflation on revenue
- Marketing mail[4] revenue down 8%, reflecting prevailing economic conditions
- Unaddressed volumes up 4% due to EU Referendum mailings and lapping easier comparative period

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for working days and other one-off items that distort the underlying performance. For volumes, underlying movements are adjusted for working days and exclude political parties' election mailings in letter volumes [1] Re-presented for consolidation of Romec into UKPIL [2] Other includes elections, philatelic, unaddressed and other non-volume related items [3] Total addressed letter volumes including political parties' election mailings [4] Includes data, redirections, Address Management Unit, and addressed & unaddressed advertising mail

UKPIL Operating Costs

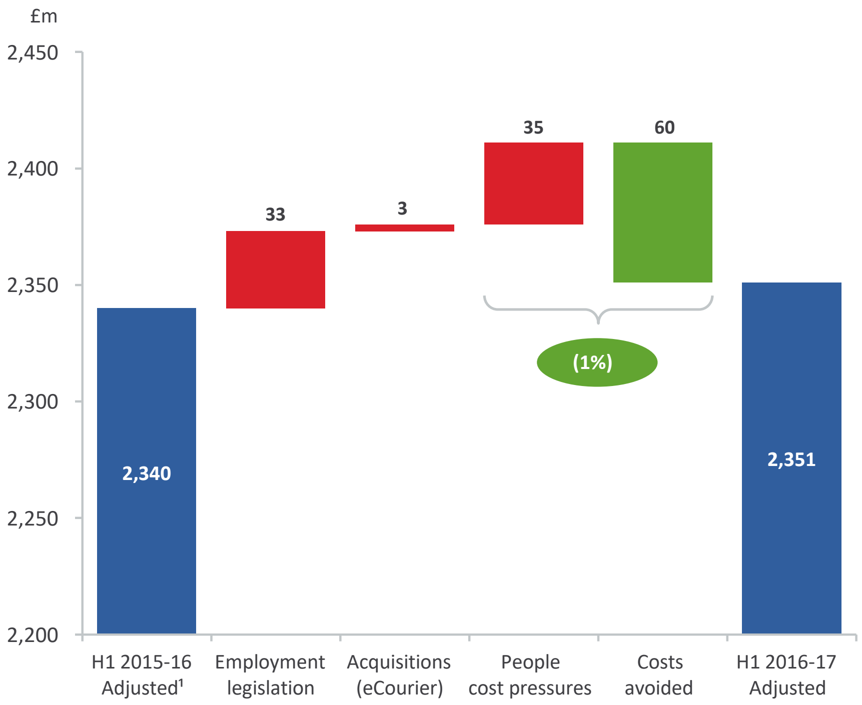
H1 2016-17 underlying operating costs before transformation costs flat



- Cost avoidance projects delivered £87m costs avoided of which:
  - people costs £60m
  - non-people costs £27m

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for one-off items that distort the underlying performance [1] Re-presented for consolidation of Romec into UKPIL

UKPIL People Costs

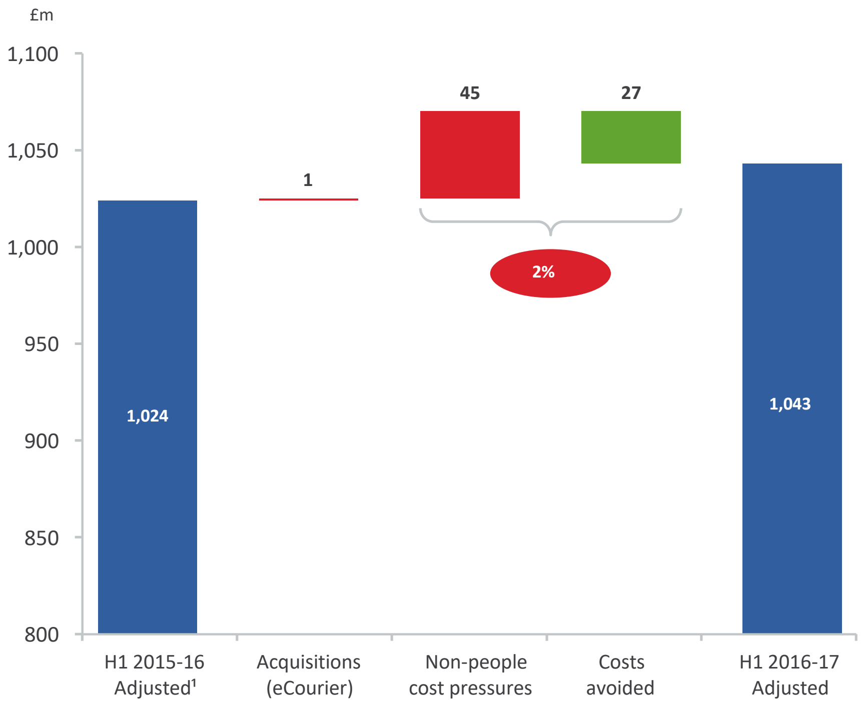


People costs down 1%

- National Insurance headwind (not included in underlying)
- Cost pressures:
  - 1.6% frontline pay award and other pay increases
  - tracked products driving workload, up 1.1%
- Offset by:
  - total core network hours down 1.1%
  - savings largely due to reduced management costs and lower driver hours

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for one-off items that distort the underlying performance [1] Re-presented for consolidation of Romec into UKPIL

UKPIL Non-people Costs



Non-people costs up 2%

- Cost pressures include cost of sales (including impact of FX), depreciation, increasing tracked volumes and non-pay inflation c.1.5%

Distribution & Conveyance £370m

- Up 2%
- Terminal dues higher mainly due to £15m impact from Sterling weakness
- Fewer vehicles and lower running costs

Infrastructure £360m

- Up 4%
- Higher depreciation (+£7m) due to IT investments partially offset by related R&D expenditure credits
- Further benefits from property management programme including Romec integration

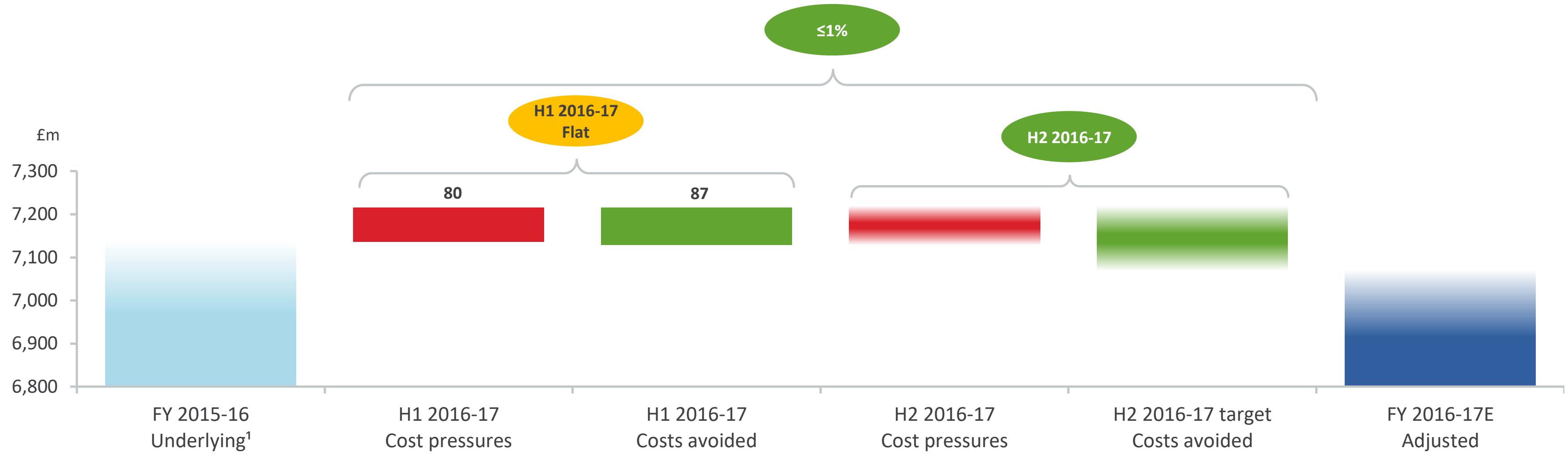
Other £313m

- Down 2%
- Focus on discretionary spend efficiency

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for one-off items that distort the underlying performance [1] Re-presented for consolidation of Romec into UKPIL

UKPIL Cost Performance FY 2016-17 (illustrative)

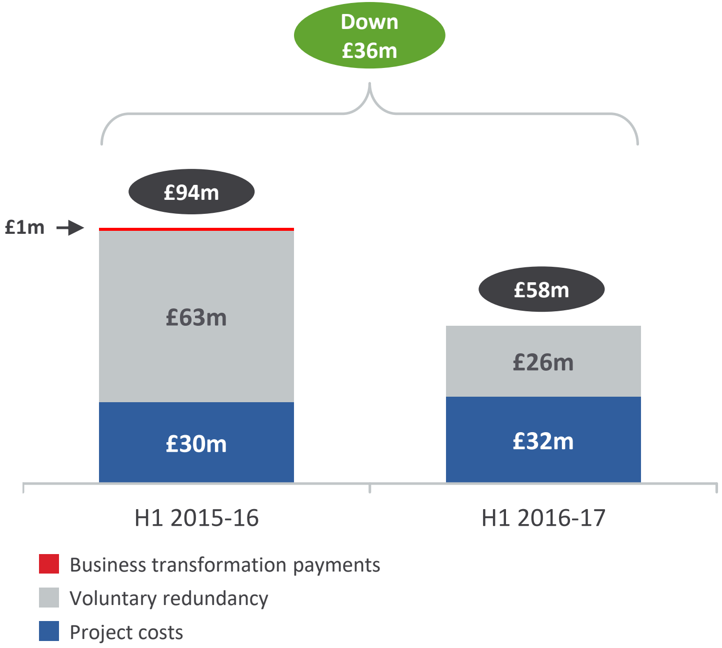
Targeting to reduce underlying operating costs before transformation costs by up to 1%



- H1 2016-17 lapped a strong comparative period
- H2 2016-17 lapping easier comparative period. Prior period impacted by:
  - increasing parcel sizes and tracked volumes
  - cost responses to Quality of Service challenges
- Flow through of H1 2016-17 cost pressures
- Targeting c.£225m costs avoided in 2016-17, dependent on absorbable rate of change

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment. Underlying change is calculated after adjusting for one-off items that distort the underlying performance [1] Re-presented for consolidation of Romec into UKPIL

Transformation Costs – Income Statement



H1 2015-16

- Higher levels of activity in prior period due to acceleration of efficiency programme

H1 2016-17

- Lower voluntary redundancy costs due to change in mix of full-time and part-time employees and reduced variable hours
- Project costs driven by cost avoidance programme

FY 2016-17

- Transformation costs expected to be between £130-£160m due to change in mix of cost avoidance projects

GLS Results

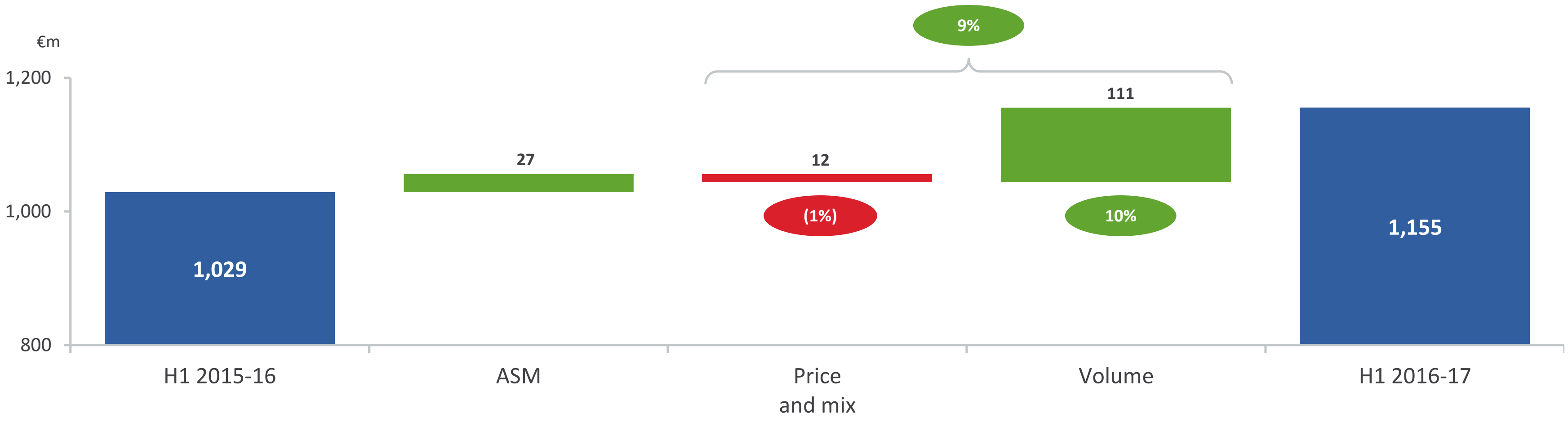
€m	H1 2016-17	H1 2015-16	Underlying change
Revenue	**1,155**	1,029	9%
Operating costs	**(1,066)**	(957)	8%
Operating profit	**89**	72	25%
Operating profit margin	**7.7%**	7.0%	90bps
Volumes (m)	**233**	204	10%
Average £1 = €	**1.23**	1.39	(12%)

£m	H1 2016-17	H1 2015-16
Revenue	**942**	741
Operating costs	**(869)**	(689)
Operating profit	**73**	52

- Performance largely driven by good volume growth, benefiting from continued strong growth in international volumes
  - timing of holidays across Europe benefited volumes and revenue
- Operating profit increase largely due to good performance in Germany and Italy
- ASM operating profit contribution not material due to amortisation of acquired intangible assets and transaction and initial integration costs
- Reported results positively impacted by 12% weakening of Sterling vs. Euro
- Impact of new German minimum wage from January 2017
  - estimated 12 month impact c.€5m

Note: Movements in revenue, volume and costs are on an underlying basis. Underlying change is calculated after adjusting for ASM (revenue €27m, costs €27m and volume 8m)

GLS Revenue



- Largest customer represents c.2% of GLS Group revenue
- Germany revenue up 5%, driven by international volumes

- Continued strong revenue growth in Italy, up 15% mainly due to strong B2C volume growth
  - growth rate expected to slow going forward
- France continues to grow top line, up 8%
  - losses reduced to €5m (H1 2015-16 €8m)

Note: Movements in revenue, volume and costs are on an underlying basis. Underlying change is calculated after adjusting for ASM (revenue €27m)

GLS Costs

€m	H1 2016-17	H1 2015-16	Underlying change
People costs	**256**	233	8%
Distribution & conveyance costs	**705**	628	9%
Infrastructure costs	**71**	69	(3%)
Other operating costs	**34**	27	21%
Operating costs	**1,066**	957	8%

- People costs up 8% due to:
  - semi-variable costs linked to volume c.4%
  - pay inflation/ incentives c.3%
  - prior period one-off provision release c.1%
- Distribution & conveyance costs up 9% due to higher volumes
- Other operating costs increase includes €2m transaction and initial integration costs in respect of ASM

Note: Movements in revenue, volume and costs are on an underlying basis. Underlying change is calculated after adjusting for ASM (costs €27m)

Group Profit After Tax

£m	Adjusted H1 2016-17	Adjusted H1 2015-16
Operating profit after transformation costs	**262**	248
Finance costs	**(11)**	(9)
Finance income	**1**	1
Net finance costs	**(10)**	(8)
Profit before tax	**252**	240
Tax charge	**(59)**	(57)
Adjusted effective tax rate	***23%***	*24%*
Profit for the period	**193**	183
Earnings per share	**19.2p**	18.1p

Note: Adjusted results excluding specific items and the pension charge to cash difference adjustment

Specific Items and Pension Adjustment

£m	H1 2016-17	H1 2015-16
Employee Free Shares charge[1]	**(79)**	(76)
Legacy (costs)/credit	**(11)**	2
Total operating specific items	**(90)**	(74)
Profit on disposal of property, plant and equipment	**4**	27
Loss on disposal of business	**(2)**	–
Net pension interest	**60**	57
Profit from disposal of discontinued operations	–	31
Total non-operating specific items	**62**	115
Pension charge to cash difference adjustment[2]	**(114)**	(134)

- 2016-17 Employee Free Shares charge expected to be c.£110m[3]
  - lower charge in H2 due to SIP 2013 reaching maturity in October 2016
- Legacy costs driven by a reduction in discount rate used to calculate industrial diseases provision
- Profit on disposal of property, plant and equipment mainly from sale of Maidstone Delivery Office
- 2016-17 pension interest credit expected to be c.£120m driven by increase in IAS 19 pension surplus
- Pension charge to cash difference adjustment expected to be c.£230m in 2016-17

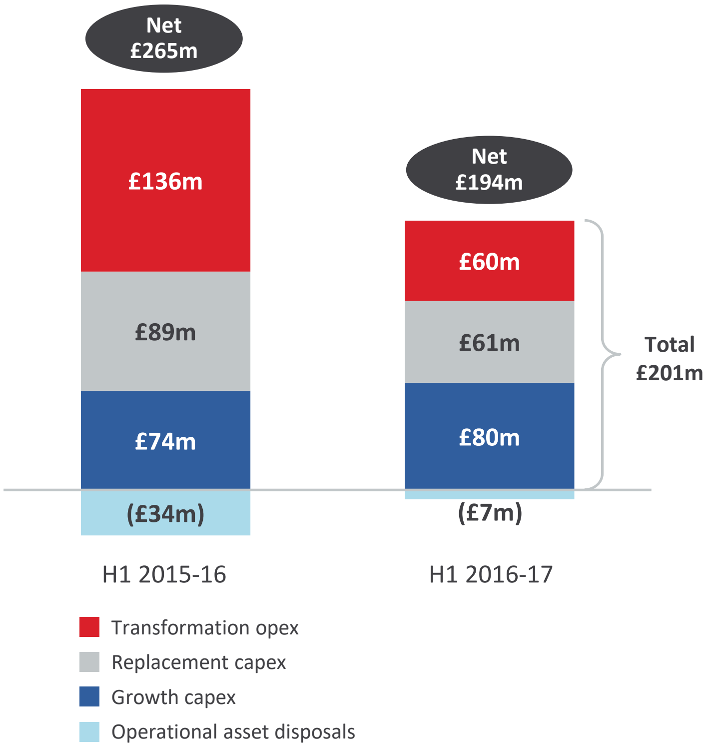
[1] Includes National Insurance which will be cash settled (2016-17 £3m, 2015-16 £3m) [2] Including RMSEPP deficit payment of £5m [3] Calculated based on value of Employee Free Shares of c.£600m (including £24m National Insurance) pro-rated over the period up to maturity for level/mix of leavers

Group In-year Trading Cash Flow

£m	H1 2016-17	H1 2015-16
Reported EBITDA before transformation costs	**352**	343
Pension charge to cash difference adjustment	**114**	134
Adjusted EBITDA before transformation costs	**466**	477
Trading working capital movements	**(127)**	(159)
Share-based awards (SAYE/LTIP) charge adjustment	**6**	2
Total investment	**(201)**	(299)
Income tax paid	**(16)**	(9)
Net finance costs paid	**(12)**	(11)
In-year trading cash flow	**116**	1

- Adjusted EBITDA before transformation costs lower due to higher National Insurance costs
- Working capital improved by £32m largely due to timing of international settlements
- Lower investment spend mainly due to lower voluntary redundancy payments
- Cash tax expected to normalise by 2018-19. R&D credits could extend time frame

Group Investment – Cash

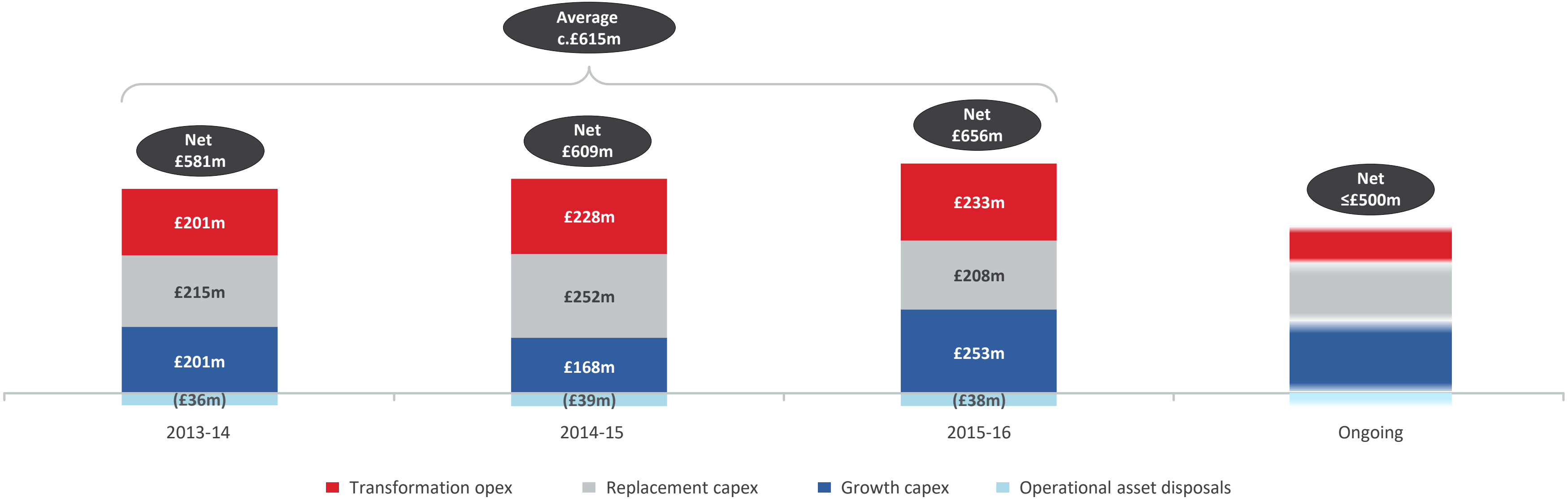


Transformation opex

£m	H1 2016-17	H1 2015-16
Business transformation payments	-	1
Voluntary redundancy	28	105
Project costs	32	30
Total	60	136

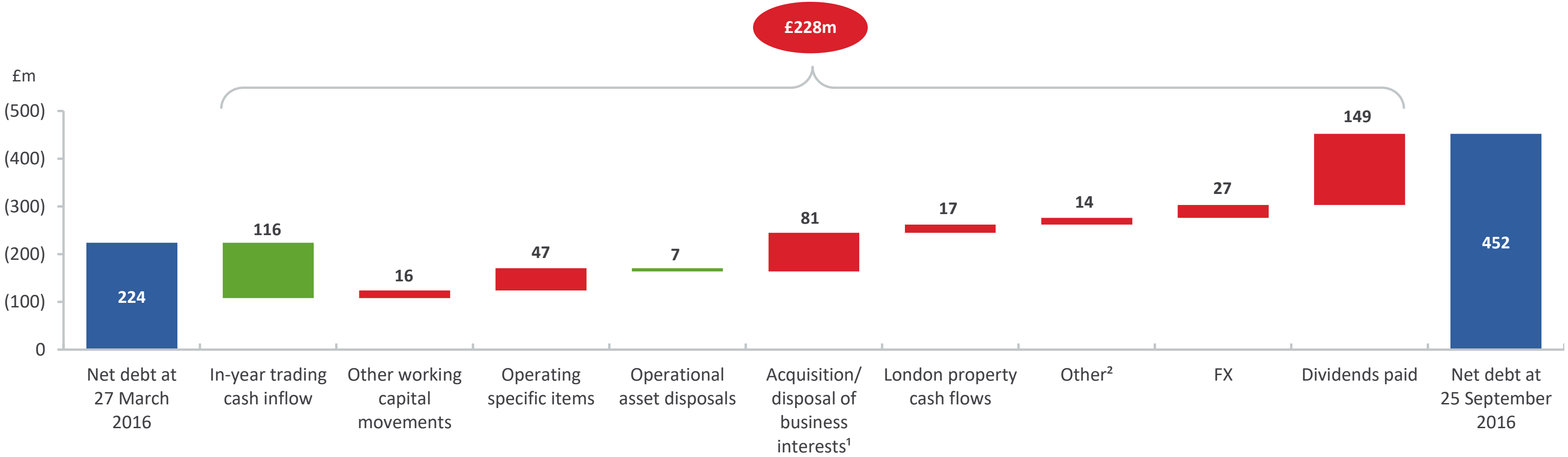
- Decrease in voluntary redundancy largely due to acceleration of efficiency programme in prior period
- Lower replacement capex driven by timing of spend on property maintenance and lower spending on certain property and technology projects
- Growth capex includes spend on parcels IT systems, PDA roll-out and GLS

Group Investment – Cash



- Significant investments in replacement capex over last 3 years, particularly in IT
- Focus now on improving efficiency of spending
- Skewed towards growth capex
- Expect total net cash investment ≤ £500m p.a. going forward

Uses of Cash

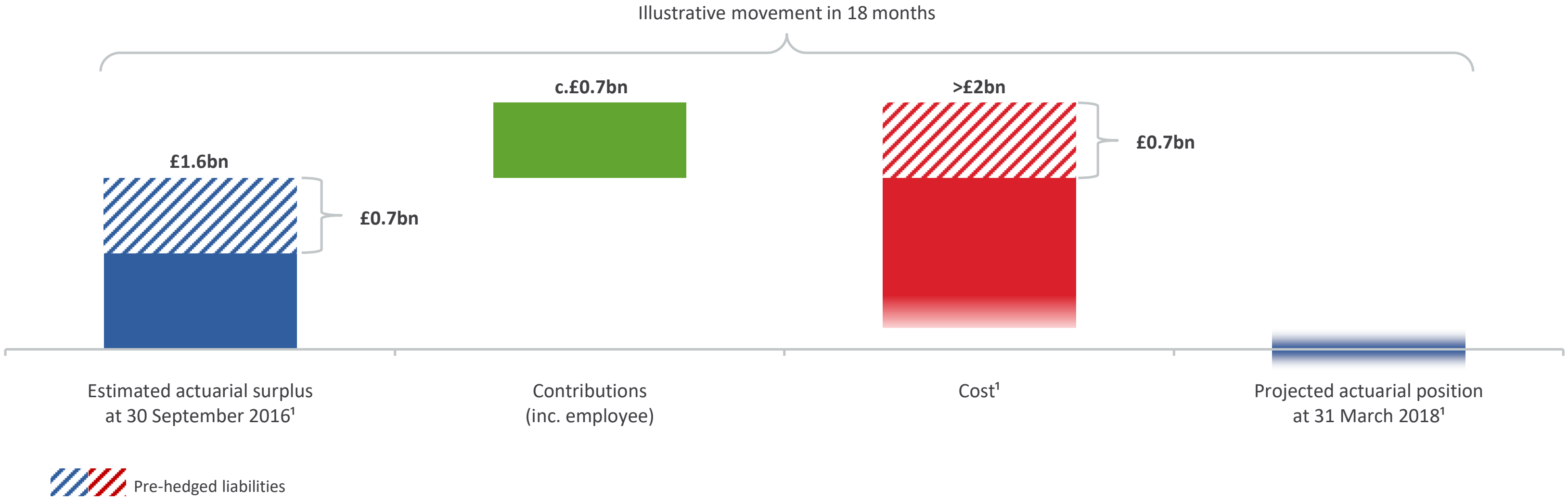


- Other working capital movements include GLS client cash held (+£6m) and stamps used but purchased in previous periods
- Operating specific items – largely GLS French Competition Authority fine of €55m, paid April 2016 (£44m)
- Operational asset disposals – mainly sale of Delivery Offices
- Acquisitions/disposals – largely ASM, eCourier and Romec
- £17m invested in Nine Elms and Mount Pleasant sites
- Foreign exchange movements reflect the impact of translation on lease creditors, GLS cash and Euro bond

[1] Includes purchase of debt in ASM (-£7m) and impact of disposal of NDC 2000 Limited (-£3m) [2] Includes dividends paid to minority shareholders (-£8m) and purchase of shares for employee share schemes (-£6m)

Royal Mail plc

Pensions – Actuarial Basis



- Liabilities projected to accrue to March 2018 have been hedged in advance against movements in interest and inflation rates
- Expect surplus to be exhausted by 2018
- Likely RMPP 2015 valuation assumptions are lower risk to reduce likelihood of deficit arising
- Discussion with unions over future benefits post March 2018 underway, targeting to resolve around end of 2016-17
- No change to agreement for RMSEPP deficit payments of £10m p.a. until 2018

[1] Based on set of assumptions likely to form the basis of RMPP March 2015 valuation

Property

Investing in sites to preserve value of planning consent			
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 – Apple announced UK headquarters at Battersea Power Station	• Revised planning consent allowing additional 80 residential units approved subject to local authority planning agreement; preparing to implement • Remediation completed • New replacement Delivery Office ready for service summer 2017 • Site remains for sale whole or on plot basis
Mount Pleasant	8.6	• Full planning permission received for up to c.680 residential units	• Significant further investment required • Design of separation works continuing • Operational works planning progressing • Progressively resolving third-party issues • Preparing for sale process

Moya Greene
Chief Executive Officer

Outlook

Harvesting benefits of technology rebuild

Expanding multi-year strategic approach to costs

Reprofiling investment spend

Lower overall and weighted to growth

Leveraging growth capacity in GLS

Royal Mail