Royal Mail plc
Half Year 2017-18 Results

16 November 2017

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Moya Greene
Chief Executive Officer

H1 2017-18 Results overview

Good UK performance, continued strong GLS performance

			Underlying change
Royal Mail plc	Revenue	£4,829m	2% ↑
	Adjusted operating profit before transformation costs	£323m	7% ↑
	In-year trading cash flow	£125m	£9m ↑
	Interim dividend per share	7.7p	4% ↑
UKPIL	Revenue		Flat ↔
	Adjusted operating profit before transformation costs		7% ↑
GLS	Revenue		9% ↑
	Operating profit		8% ↑

Full year outcome dependent on Christmas trading and potential impact of industrial relations environment

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, acquisitions, and other one-off items that distort the Group's underlying performance

Creating a more resilient company focused on cash generation

Growing GLS

Leading position in the UK

Investment in growth and innovation

Strategic focus on UKPIL costs

Sustainable cash generation

Progressive dividend policy

Growing GLS

H1 2017-18 Performance

Continued strong performance

£m	H1 2017-18	H1 2016-17
Revenue	1,205	942
Operating profit	90	73
Operating profit margin	7.5%	7.7%

- Underlying revenue growth of 9%
  - driven by strong revenue growth in Italy, Denmark and Poland
- 19% revenue growth including acquisitions

Strategy

- Establishing strong footprint in local markets
- Further growth in existing markets as well as geographic expansion
- Focus on B2B with selective B2C growth
- Group strategic goals framework for national strategies
- National strategies to:
  - increase revenues and EBIT
  - address specific country requirements
  - ensure customer proximity
- Underpinned by technology

GLS group strategy

Individual country strategies

Stable IT infrastructure

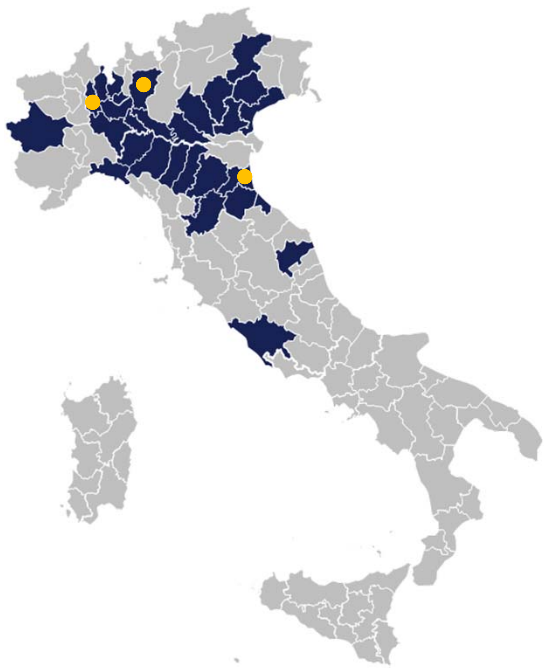
Growing GLS - scale up and grow strategy

Scale up existing businesses in core markets to strengthen market positions
Grow through acquisitions to capture higher growth segments outside EU

GLS Italy

GLS ENTERPRISE | OTHER FRANCHISEES

Acquired franchisees in last two years



- Expanding network by acquiring selective franchisees

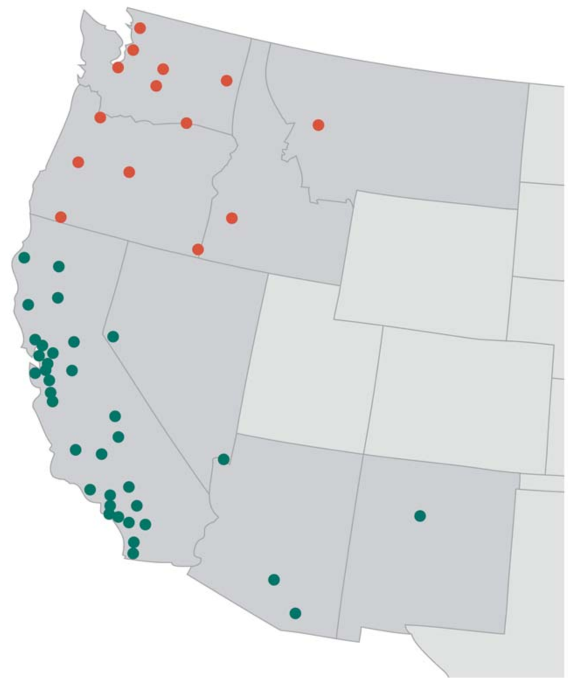
GLS Spain

GLS Spain sites | ASM sites

- Acquired express parcels company ASM in June 2016
- Created Spain's second largest domestic parcel network

USA

GSO sites | Postal Express sites



- Acquired regional carriers GSO (2016) and Postal Express (April 2017)
- Creates an overnight parcel service with full US West Coast coverage

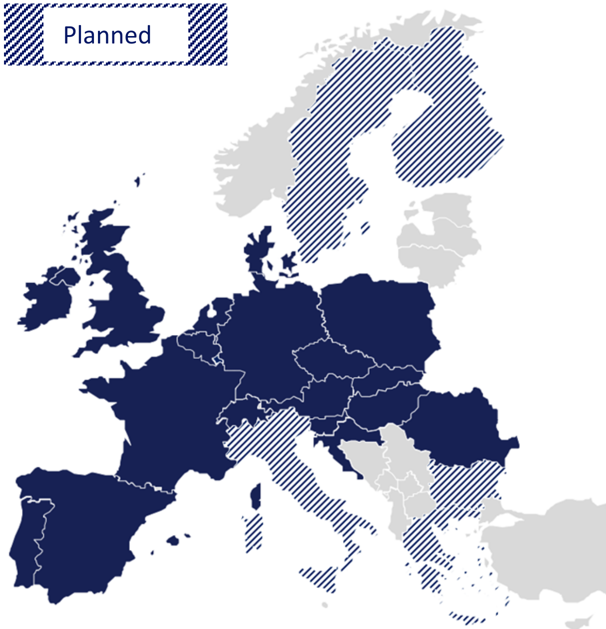
Growing GLS - selective B2C growth

European roll-out of B2C services

FlexDeliveryService

Available

Planned



- Allows recipients to choose when/where to take delivery of items
- Available in 19 countries

ShopReturnService

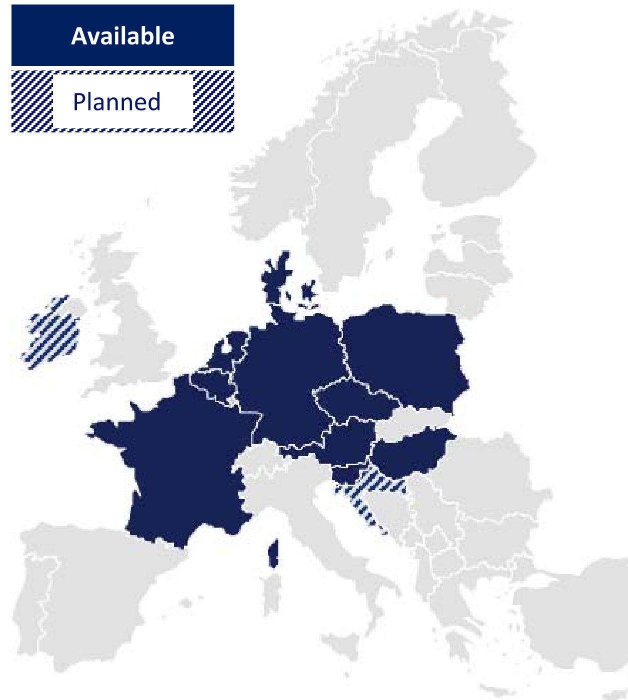
Available

- Allows recipients to drop off returns at GLS ParcelShops of their choice
- Available cross-border in 7 countries

ShopDeliveryService

Available

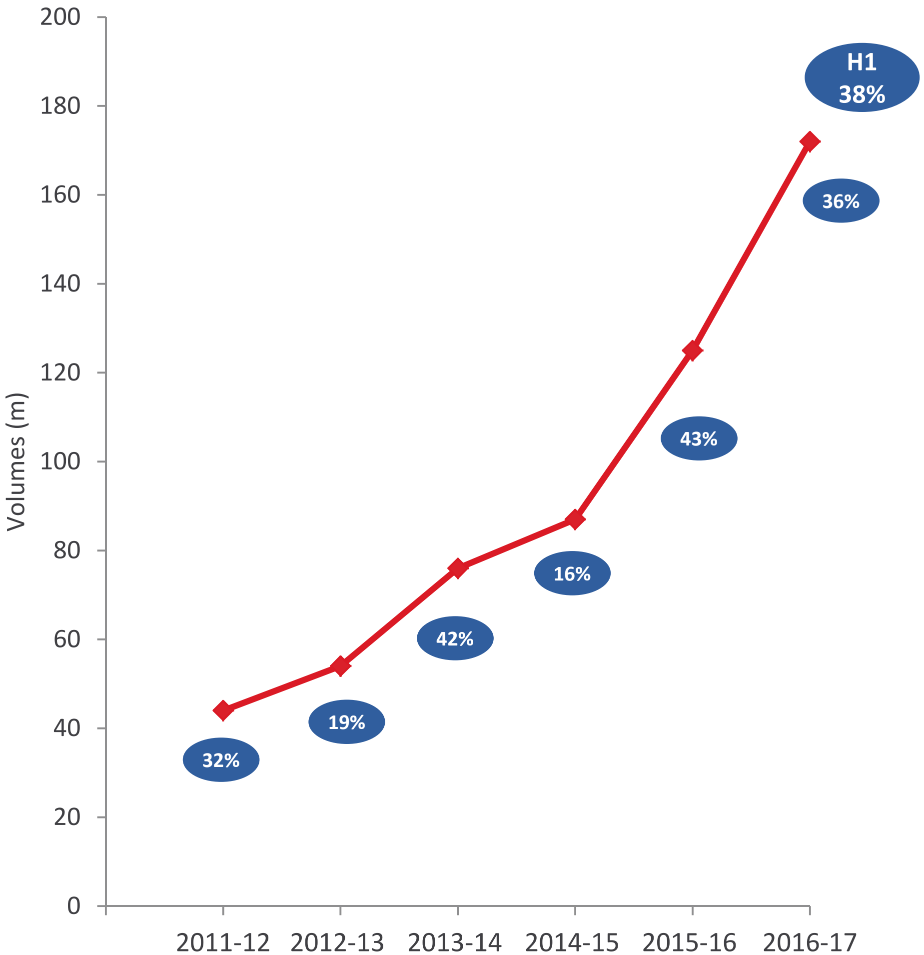
Planned



- Consignors can send parcels directly to GLS ParcelShops/partner parcel shops
- Recipients can select parcel shop during order process

Leading position in UK - Parcels

Royal Mail Tracked products[1] growth



H1 2017-18 Performance

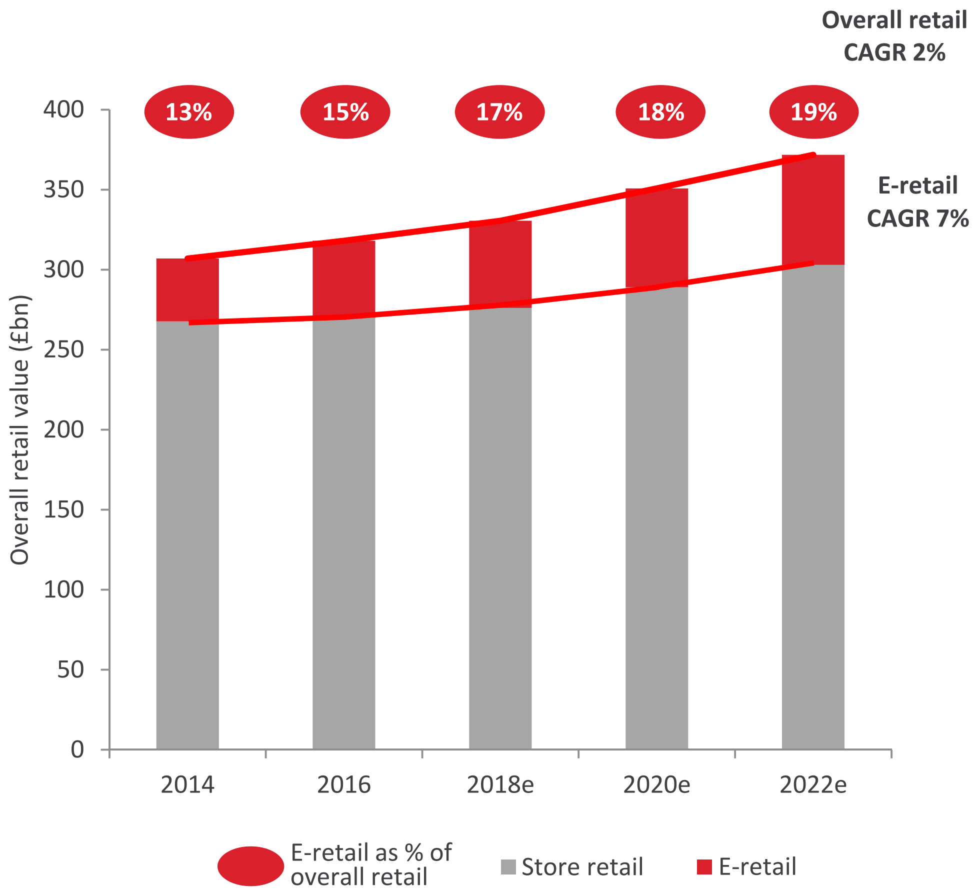
- Total parcel volumes up 6%
- Total parcel revenue up 5%
- Account volumes (ex. Amazon) up 4%
  - successfully targeting faster growing sectors and winning volumes
- Royal Mail Tracked 24®/48® and Tracked Returns® volume growth outpacing market
  - H1 2017-18 c.90m items; c.38% growth
- International cross-border initiative contributed c.2 ppts volume/c.1 ppt revenue growth
- Import (excluding cross-border initiative) and export volumes improved
- Parcelforce volumes up 1%

Domestic & international initiatives driving growth

[1] Tracked 24®/48® and Tracked Returns®

Leading position in UK - Parcels

Growth in online shopping[1]



What customers want

Larger account customers

- Later acceptance times
- Predicted delivery times
- In-flight redirections
- Reliable service quality

Marketplace sellers

- Low prices
- Tracking
- Simple online shipping
- Reliable service quality

Individual senders

- Value for money
- Reliable service quality
- Convenient access points

Receiving customers

- Control of deliveries:
  - tracking
  - delivery timeslots
  - in-flight redirection

[1] Source: Global Data (Verdict) E-retail in the UK 2017-2022, projected value e-retail growth vs. overall retail, 2016-2022

Leading position in UK - Letters

Maximising the value of letters

Protecting mail volumes

- Introduced incentives for incremental advertising mail

Maximise profitability

- Enhanced revenue protection measures
- Targeted pricing initiatives to drive incremental volume/profit

Optimise customer experience

- Commencing Mailmark® roll-out to unsorted mail

H1 2017-18 Performance

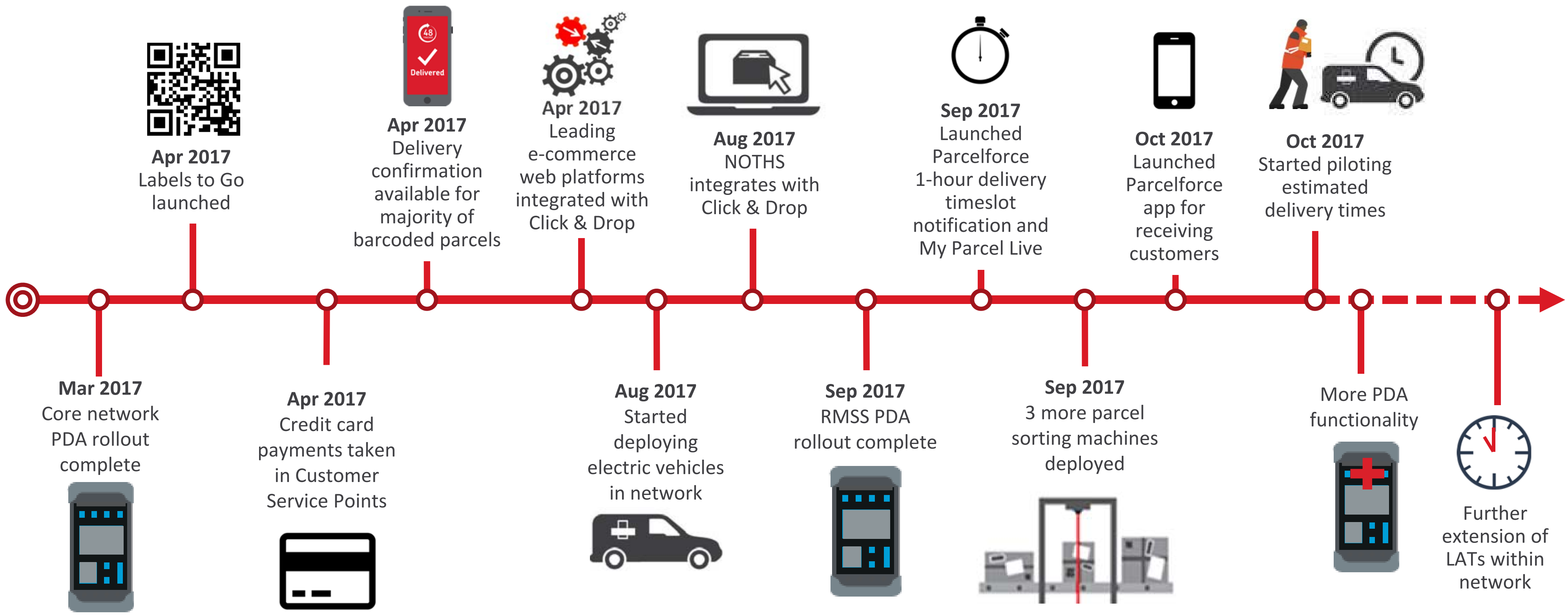
- Resilient performance despite business uncertainty
- Addressed letter volumes down 5% (ex. political parties' election mailings)
- Total letter revenue down 3%
  - better than expected revenue from 2017 General Election mailings
- Marketing mail[1] revenue of £534m, down 2%
- Unaddressed volumes up 8%
- Addressed letter volume decline expected to be at higher end of -4% to -6% range in 2017-18 if current levels of business uncertainty persist

[1] Includes redirections, Address Management Unit, and addressed & unaddressed advertising mail

Investment in growth and innovation

Meeting customer expectations for convenience, flexibility and quality

Leveraging technology



Operational improvements

Strategic focus on UKPIL costs

Maintain target to deliver c.£190m costs avoided in 2017-18

Good cost performance in H1; challenges in H2 due to industrial relations environment

Collections | **Processing** | **Logistics** | **Delivery** | **Central functions**

	2013-14	2014-15	2015-16	2016-17	Target
Gross core network hours	(2.9%)	(2.3%)	(2.0%)	(1.9%)	
Workload	(1.3%)	0.1%	0.4%	0.7%	
Productivity[1]	1.7%	2.5%	2.4%	2.7%	**2.0-3.0%**

Maintain target to avoid c.£600m of annualised costs by 2017-18[2]

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

Stuart Simpson
Chief Finance Officer

H1 2017-18 Financial summary

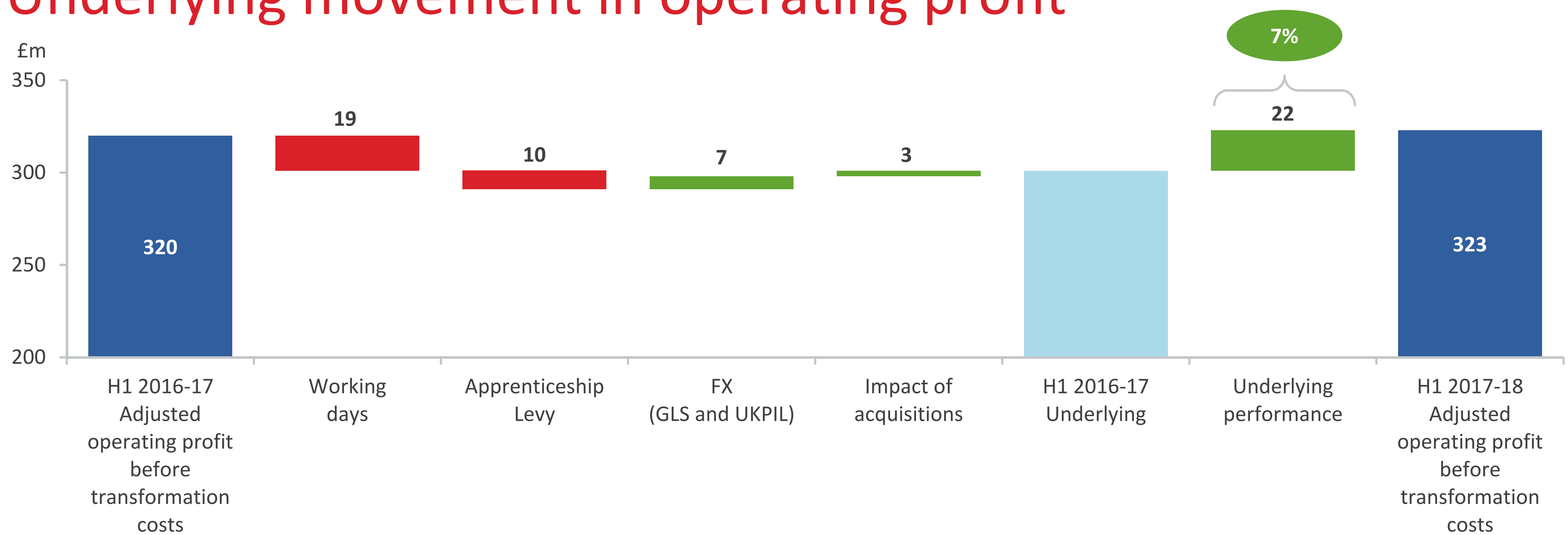
£m	Adjusted H1 2017-18	Adjusted H1 2016-17	Underlying change
Revenue	**4,829**	4,583	2%
Operating profit before transformation costs	**323**	320	7%
Transformation costs	**(63)**	(58)	
Operating profit after transformation costs	**260**	262	
Operating profit margin after transformation costs	**5.4%**	5.7%	+30bps
Profit before tax	**250**	252	
Earnings per share (basic)	**20.1p**	19.2p	+0.9p
In-year trading cash flow	**125**	116	
Net debt	**(382)**	(452)	
Interim dividend per share	**7.7p**	7.4p	4%

£m	H1 2017-18	
	Reported	Adjusted
Operating profit before transformation costs	89	323
Profit before tax	77	250
Profit after tax	168	198
Earnings per share (basic)	17.1p	20.1p

- IAS 19 pension charge to cash adjustment £234m (H1 2016-17: £114m)
  - estimated at c.£450m for full year
- Reported results impacted by increase in pension service cost, specific items and tax credit arising from pension accounting
- Interim dividend based on formula, one third of prior year full year dividend

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

Underlying movement in operating profit



- (£19m) impact in UKPIL due to c.1 less working day (H1 2017-18: 152 working days; H1 2016-17: 152.8 working days)
  - estimated impact c.(£15m) in FY 2017-18 due to c.1 less working day
- Estimated c.£20m full year impact of Apprenticeship Levy
- Net £7m positive impact on Group due to weaker Sterling
  - average rate £1 = €1.14 (H1 2016-17: £1 = €1.23)
  - £78m positive revenue impact offset by £71m negative cost impact, mostly due to GLS
- £3m contribution from recent GLS acquisitions
- 7% increase in adjusted operating profit before transformation costs

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

UKPIL results

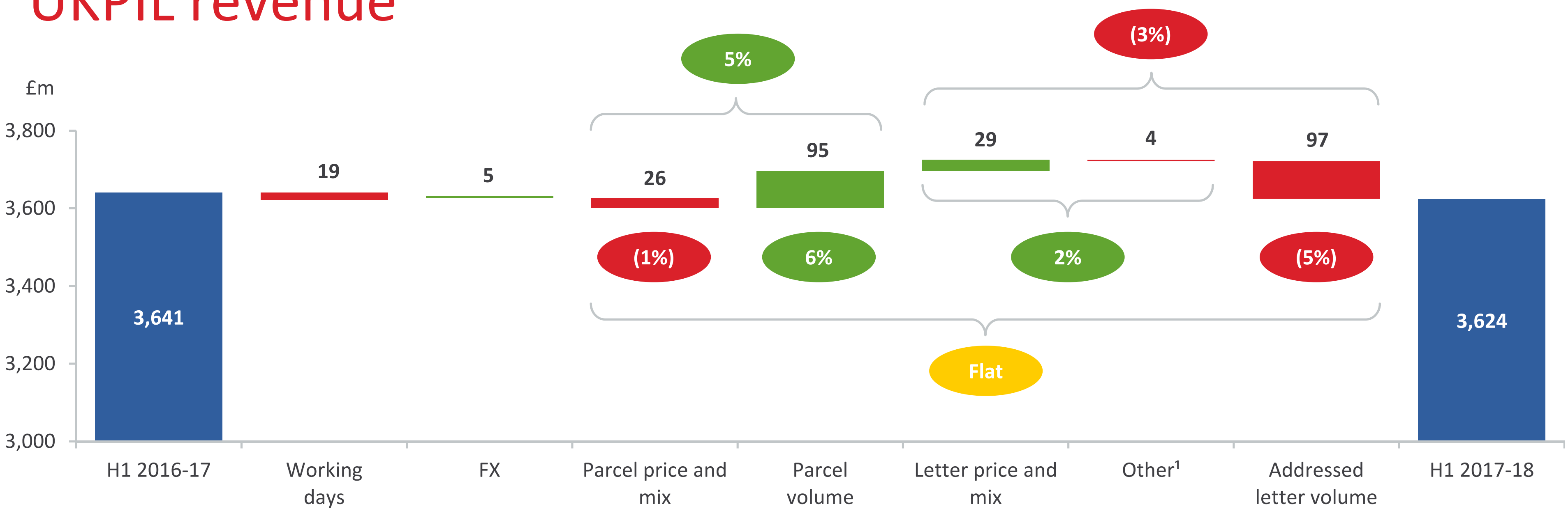
£m	Adjusted H1 2017-18	Adjusted H1 2016-17	Underlying change
Revenue	**3,624**	3,641	Flat
Operating costs	**(3,391)**	(3,394)	(1%)
Operating profit before transformation costs	**233**	247	7%
Transformation costs	**(63)**	(58)	
Operating profit after transformation costs	**170**	189	6%
Operating profit margin after transformation costs	**4.7%**	5.2%	+30bps

£m	H1 2017-18	H1 2016-17
Voluntary redundancy	**(31)**	(26)
Project costs	**(32)**	(32)
Total transformation costs	**(63)**	(58)

- Transformation costs reflect activities under cost avoidance programme
  - increase in VR reflects managerial headcount reduction
- Ongoing transformation costs expected to be c.£130-150m p.a. dependent on absorbable rate of change

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

UKPIL revenue



Parcels – Revenue £1,596m, Volumes 563m

- Excluding new cross-border initiative – volumes up c.4%, revenue up c.4%
  - mix offsets pricing impacts
- Account volumes (ex. Amazon) continue to grow, up 4%
- Strong growth in letter-boxable parcels from Amazon
- International traffic
  - growth in import volumes (including cross-border)
  - improved contract export volumes
- Parcelforce continued improvement in volume trend, up 1%

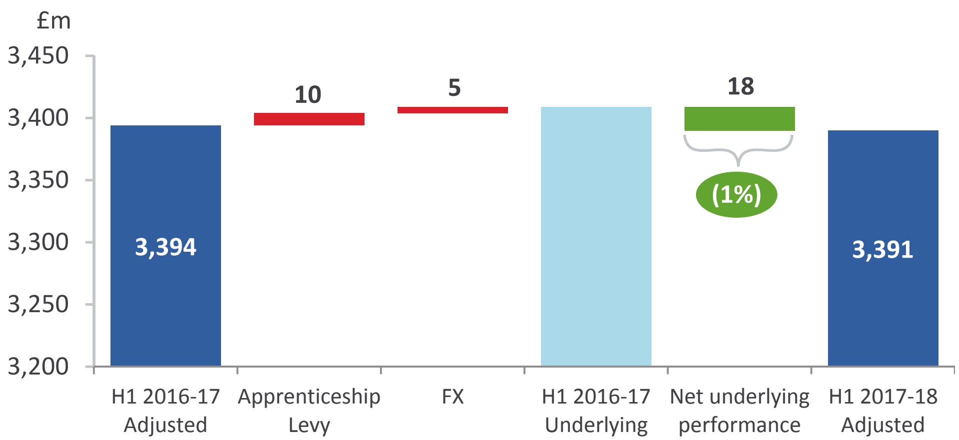
Letters – Revenue £2,028m, Volumes[2] 5,610m

- Addressed letter volume decline of 5%
  - lapping weak Q2 in prior period
- Marketing mail[3] revenue down 2%
  - rate of decline moderating, lapping higher rate of decline in prior period
- Lower AUR unaddressed letter volumes up 8%
  - reflecting initiatives in this segment

Note: Underlying change is calculated after adjusting for working days, foreign exchange movements, acquisitions and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days, acquisitions and exclude political parties' election mailings in letter volumes [1] Includes elections, philatelic, unaddressed and other non-volume related items [2] Total addressed letter volumes including elections [3] Includes redirections, Address Management Unit, and addressed & unaddressed advertising mail

UKPIL operating costs

Operating costs before transformation costs down 1%



£m	Adjusted H1 2017-18	Adjusted H1 2016-17	Underlying change
People costs	**2,362**	2,351	Flat
Non-people costs	**1,029**	1,043	(2%)
Distribution & conveyance costs	**361**	370	(4%)
Infrastructure costs	**365**	360	1%
Other operating costs	**303**	313	(3%)
Operating costs	**3,391**	3,394	(1%)

People costs flat

- Assumption for pay award as not yet agreed
  - H2 2017-18 will reflect status of wage negotiations with any true up/down as required
- Offset by:
  - productivity improvement
  - managerial headcount reduction

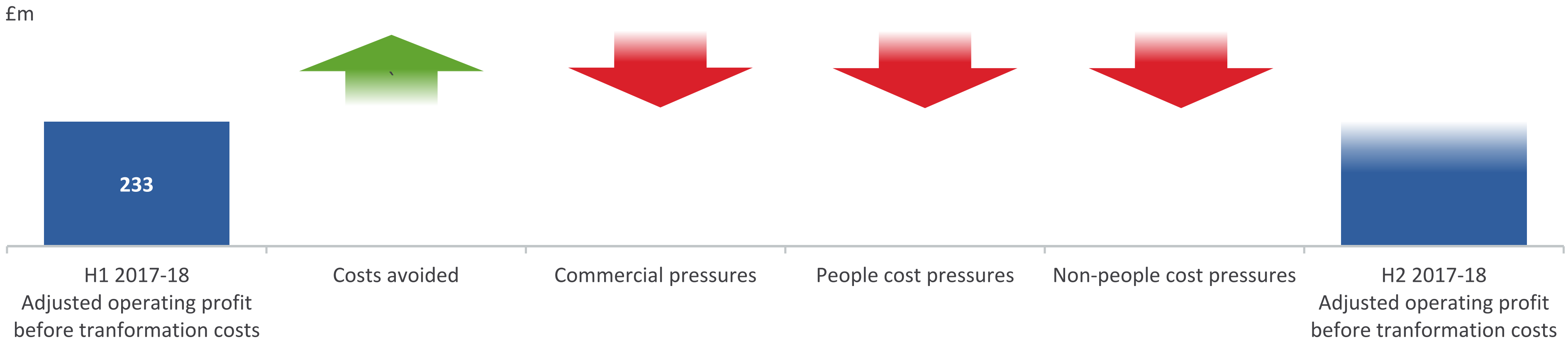
Non-people costs down 2%

- Terminal dues up £5m due to Sterling weakness (D&C)
- Fleet and fuel cost savings (D&C)
- £20m increase in depreciation & amortisation (infrastructure)
  - includes £5m one-off accelerated depreciation of certain IT/other assets
  - depreciation & amortisation expected to be c.£35m higher for 2017-18
- Benefits from Romec integration, IT transformation and lower property spend (infrastructure)
- Lower marketing and discretionary spend (other)
- Savings on certain supplier contracts (other)

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

UKPIL H2 2017-18 performance

Significant headwinds remain in H2 2017-18



- Costs avoided
  - on track to deliver c.£190m costs avoided but skewed to H1 due to timing of projects
  - potential impact of industrial relations environment on pace of change
- Commercial pressures
  - potential customer reaction to industrial relations environment
  - continuing business uncertainty
- People cost pressures
  - outcome of pay negotiations
  - impact of managers pay award from September
- Non-people cost pressures
  - cost of sales weighted to H2 due to Christmas
  - costs associated with parcel initiatives and increased tracked/volumetrics

GLS results

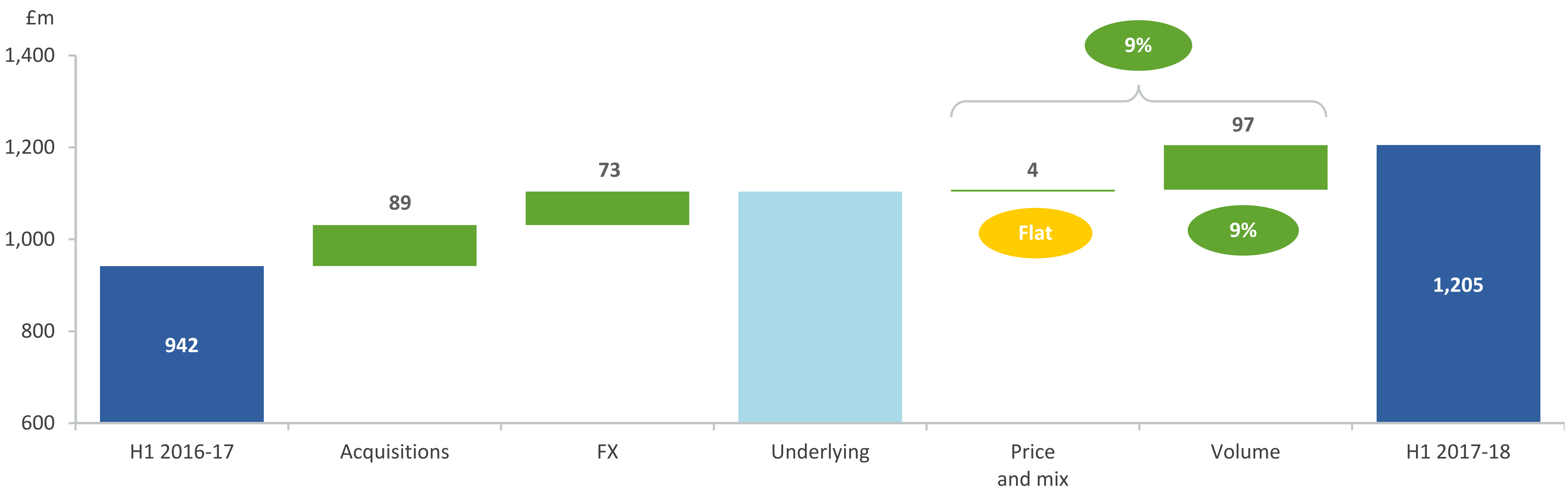
£m	H1 2017-18	H1 2016-17	Underlying change
Revenue	**1,205**	942	9%
Operating costs	**(1,115)**	(869)	9%
Operating profit	**90**	73	8%
Operating profit margin	**7.5%**	7.7%	(10bps)
Volumes (m)	**276**	233	9%
Average £1 = €	**1.14**	1.23	(7%)

€m	H1 2017-18	H1 2016-17
Revenue	**1,371**	1,155
Operating costs	**(1,269)**	(1,066)
Operating profit	**102**	89

- Performance largely driven by good volume growth – domestic and international
  - timing of holidays across Europe reduced underlying volumes and revenue movements by c.3ppts
- Margin impacted by increased people and distribution & conveyance costs
- ASM exceeded performance expectations since acquisition
- Reported Sterling results positively impacted by 7% weakening of Sterling vs. Euro

Note: Movements in revenue, volume and costs are on an underlying basis. Underlying change is calculated after adjusting for ASM, GSO and Postal Express acquisitions (21m volumes; £89m revenue; £86m costs; £3m operating profit) and foreign exchange movements (£73m revenue; £66m costs; £7m operating profit)

GLS revenue



- Underlying revenue up 9%
  - timing of holidays across Europe adversely impacted volumes/revenue by c.3ppts
- Headline revenue up 19% in Euros including acquisitions
- Germany, Italy and France account for 60% of GLS Group revenue, reflecting impact of acquisitions
- Largest customer represents c.3% of GLS Group revenue
- Germany up 5%, driven by international volumes and improved domestic pricing
- Continued strong growth in Italy, up 18% mainly due to strong B2C volume growth
  - growth rate expected to slow going forward
- France growth slowed, up 1%, due to impact of working days and lower export volumes
  - break-even unlikely in short-term

Note: Movements in revenue, volumes and costs are on an underlying basis. Underlying change is calculated after adjusting for ASM, GSO and Postal Express acquisitions and foreign exchange movements

GLS costs

£m	H1 2017-18	H1 2016-17	Underlying change
People costs	**293**	209	10%
Distribution & conveyance costs	**725**	575	11%
Infrastructure costs	**71**	57	6%
Other operating costs	**26**	28	(24%)
Operating costs	**1,115**	869	9%

People costs up 10% due to:

- semi-variable costs linked to volume c.6%
- pay inflation c.4%

Non-people costs up 9%

- Distribution & conveyance costs up 11% due to higher volumes and increased sub-contractor costs
  - €2.5m impact of new German minimum wage from January 2017
  - estimated 12 month impact €5m
- Infrastructure costs up 6% due to one-off provision release for IT-related costs in prior period
- Other operating costs down by 24% driven by one-off provision release this year and costs associated with geographic expansion activities last year

Note: Movements in revenue, volume and costs are on an underlying basis. Underlying change is calculated after adjusting for ASM, GSO and Postal Express acquisitions (£86m) and foreign exchange movements (£66m)

Group in-year trading cash flow

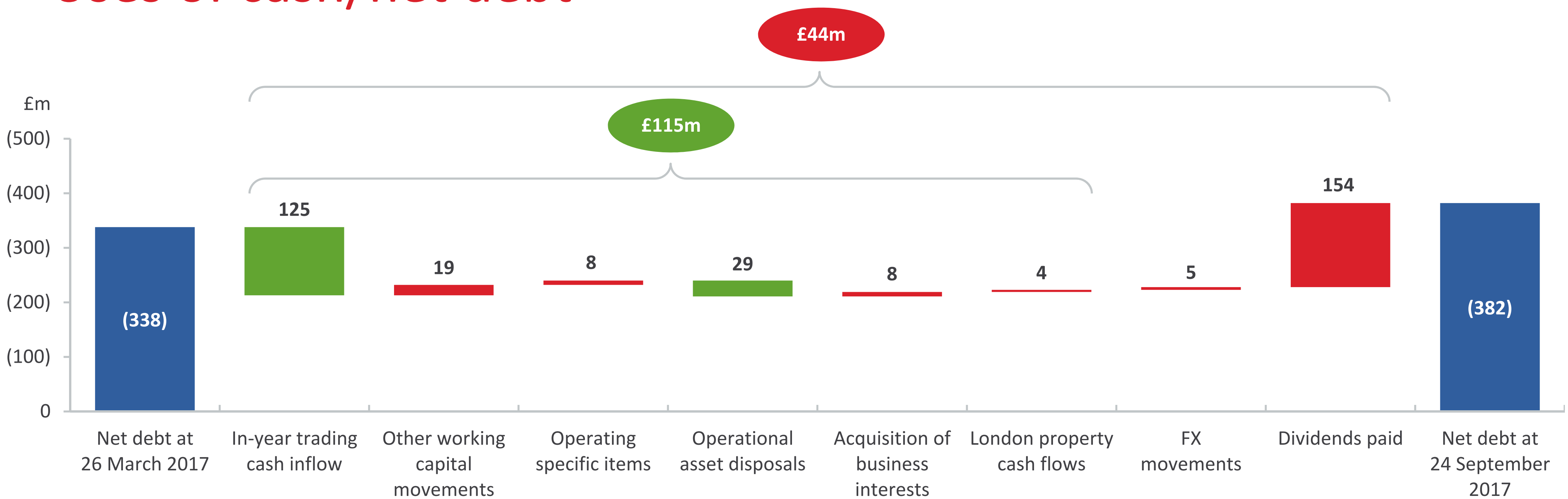
£m	H1 2017-18	H1 2016-17
Reported EBITDA before transformation costs	**255**	352
Pension charge to cash difference adjustment	**234**	114
Adjusted EBITDA before transformation costs	**489**	466
Trading working capital movements	**(130)**	(127)
Share-based awards (SAYE/LTIP/DSBP) charge	**1**	6
Total investment	**(198)**	(201)
Income tax paid	**(24)**	(16)
Net finance costs paid	**(13)**	(12)
In-year trading cash flow	**125**	116

- Higher adjusted EBITDA before transformation costs
- Trading working capital
  - no outflow for pay award
  - timing of international settlements
- Investment on track - total net cash investment target for 2017-18 of c.£450m

£m	H1 2017-18	H1 2016-17
Transformation opex	**(59)**	(60)
Replacement capex	**(53)**	(61)
Growth capex	**(86)**	(80)
Total investment	**(198)**	(201)
Operational asset disposals	**29**	7
Net investment	**(169)**	(194)

- Higher cash tax due to GLS

Uses of cash/net debt



- Free cash flow of £115m
- Other working capital movements include stamps used but purchased in previous periods, GLS client cash held and other deferred revenue
- Operating specific items are largely additional employer National Insurance contributions on Employee Free Share sales and Romec business integration costs
- Operational asset disposals largely relate to the £24m overage payment from the sale of Rathbone Place in 2011
- Acquisition of business interests relates to the purchase of Postal Express by GLS
- London property cash flows - £9.5m deposit received on exchange of contracts for sale of Mount Pleasant plots net of £14m re-investment
- Foreign exchange movements reflect impact of translation on Euro bond, GLS cash, lease creditors and other loans
- Net debt increased by £44m from year end

Property

Site	Acres	Key features	Status
Nine Elms	13.9	• Outline planning consent for 1,950 residential units • Core infrastructure works underway on site	• Two plots sold for £101m conditional on obtaining detailed planning consent — due to timing on obtaining planning consent, proceeds now expected in 2018-19 — c.£30m to be re-invested in infrastructure associated with sold plots • Five plots continue to be marketed • Delivery Office transferred to new site in Aug 2017 • Further investment required (infrastructure, park) for remaining plots when sold
Mount Pleasant	8.6 acres covered by planning consent (of which 6.25 acres sold)	• Full planning permission in place for up to c.680 residential units • Separation works now commenced	• 6.25 acres sold for £193.5m in Aug 2017 – of which £9.5m deposit received; remaining £180.5m cash to be paid in staged payments over 2017-18 to 2020-21 and final lump sum payments in 2024 • Separation and enabling works expected to cost c.£100m

	2014-15	2015-16	2016-17	H1 2017-18
Total proceeds	111	-	-	10
Total investment	(11)	(23)	(34)	(14)
Net cash position	100	(23)	(34)	(4)
Cumulative	100	77	43	39

2017-18

Sales proceeds received (Nine Elms in 2018-19)

Further investment

Royal Mail Pension Plan (RMPP) update

£m	IAS 19 Accounting 24 September 2017	Actuarial[1] 30 September 2017
Assets	9,380	9,303
Liabilities	(5,982)	(8,533)
Surplus	3,398	770
IFRIC 14 adjustment	(1,111)	
Post IFRIC 14 surplus	2,287	

- Liabilities projected to accrue to March 2018 have been hedged in advance against movements in interest and inflation rates
- RMPP will close to future accrual after 31 March 2018
- Plan now expected to close with small surplus[1]
- Remaining employer contributions up to 31 March 2018 to be held in pension escrow investments
- Accounting impact of closing scheme
  - reduction in deferred tax liability
  - P&L tax credit in period
  - IFRIC 14 adjustment to surplus
- Discussion with Unions over future benefits post March 2018 continue

[1] Based on roll forward of RMPP March 2015 triennial valuation assumptions

Moya Greene
Chief Executive Officer

Outlook

Good H1 performance

Medium-term addressed letter volume decline of 4-6% p.a. - outlook unchanged but closely monitoring impact of business uncertainty on letter volumes

UK parcels market remains highly competitive

UKPIL cost avoidance programme on track, skewed to H1

GLS underlying revenue growth for FY 2017-18 broadly in line with H1 2017-18

Headwinds in H2

Continuing business uncertainty

Potential impact of industrial relations environment

Royal Mail