Royal Mail plc
Half Year 2018-19 Results

15 November 2018

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Rico Back
Group Chief Executive Officer

Connecting customers, companies and countries

Our action plan

£100m sustainable cost avoidance

Targeted pricing moves: UK and overseas

Productivity and efficiency opportunities in Agreement with CWU

UK Network Review: modern, optimised, efficient network

Strategy and direction for next 5 years

Pulling key levers to improve our performance

Royal Mail for the future

Medium-term priorities and direction for next 5 years

- Finalising our **strategic framework**
- Greater focus on **connecting customers, companies and countries** through domestic and international businesses
- Clearer focus on **financial performance** and **management accountability**
- **Connecting the best of Royal Mail and GLS** to increase value

More detail at our Capital Markets day in March 2019

UK Network Review

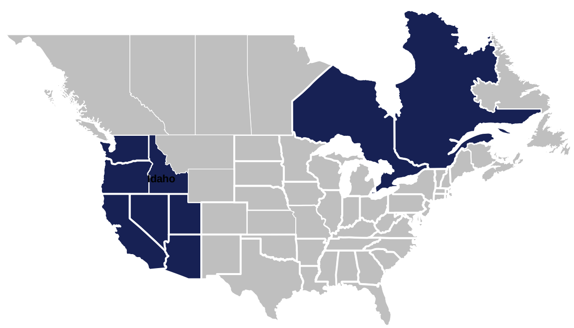
A modern, optimised and efficient network to deliver letters, parcels and new products

- About getting the best from our existing network – the best in the UK. We are not building a new network
- Focus on **processing** and **delivery.** That is where most of the activity is
- Any investment **targeted** and focused on **greater efficiencies** and **effectiveness**
- **Evolutionary** and **phased approach** within agreed expenditure envelope

Further update at Capital Markets day in March 2019

Our international business

Offer parcel solutions to anywhere in the world, for any customer



- GLS performance reflects ups and downs of good economic growth
  - revenue up 9% due to volume growth and pricing strategy
  - increase in labour costs impacted margins
  - targeting adjusted operating profit margins of >6% for FY 2018-19

Acquisitions

- Major player in Spanish market. GLS Spain revenue up 17%
- Integrating US businesses – GSO and Postal Express. Recognising non-cash impairment charge
- Dicom Canada – good presence in one of the world's largest economies

Non-UK revenue[1] 38% of Group

Note: Movements in volume, revenue, costs, profits and margin are on an underlying basis. Underlying change is calculated after adjusting for Redyser and Dicom Canada acquisitions (8m volumes; £28m revenue; £28m costs) and foreign exchange movements (£7m revenue; £6m costs; £1m operating profit) [1] Non-UK revenue comprises GLS, Royal Mail International and Parcelforce Worldwide international revenue

In summary...

Great Company with great strengths

People, brands, products

Wide coverage of UK and Europe

Growing presence in North America

Strong balance sheet

Connecting customers, companies and countries

Stuart Simpson
Chief Finance Officer

H1 2018-19 Financial summary

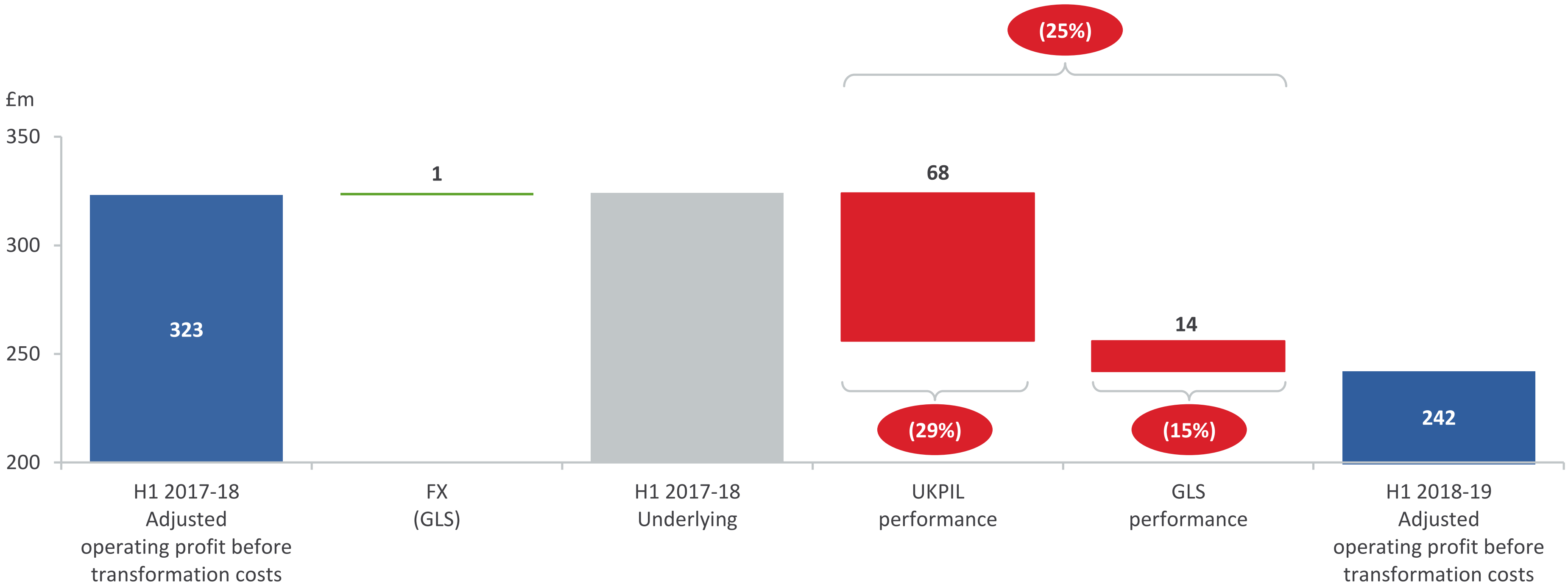
£m	Adjusted H1 2018-19	Adjusted H1 2017-18	Underlying change
Revenue	**4,932**	4,829	1%
Operating profit before transformation costs	**242**	323	(25%)
Transformation costs	**(52)**	(63)	
Operating profit after transformation costs	**190**	260	
Operating profit margin after transformation costs	**3.9%**	5.4%	(150bps)
Profit before tax	**183**	250	
Earnings per share (basic)	**13.6p**	20.1p	
In-year trading cash flow	**(100)**	125	
Net debt	**(470)**	(382)	
Interim dividend per share	**8.0p**	7.7p	4%

£m	H1 2018-19 Reported	H1 2018-19 Adjusted
Operating profit after transformation costs	156	190
Specific items	(116)	-
Net interest	(7)	(7)
Profit before tax	33	183
Profit after tax	5	136
Earnings per share (basic)	0.5p	13.6p

- IAS 19 pension charge to cash adjustment of £34m (H1 2017-18: £234m) due to closing RMPP to future accrual in previous form
  - now expected to be c.£70m for FY
- Reported PBT impacted by specific items charge

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. There was no adjustment for working days in UKPIL in H1 2018-19

Underlying movement in operating profit



- Impact of political parties' election mailings in H1 2017-18 on UKPIL revenue movement
- UKPIL cost pressures include impact of frontline and managers pay award
- Productivity improvements and costs avoided lower than expected
- Good GLS revenue performance offset by cost pressures and losses in France and US

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. There was no adjustment for working days in UKPIL in H1 2018-19

UKPIL results

£m	Adjusted H1 2018-19	Adjusted H1 2017-18	Underlying change
Revenue	**3,585**	3,624	(1%)
Operating costs	**(3,420)**	(3,391)	1%
Operating profit before transformation costs	**165**	233	(29%)
Transformation costs	**(52)**	(63)	
Operating profit after transformation costs	**113**	170	(34%)
Operating profit margin after transformation costs	**3.2%**	4.7%	(150bps)

£m	H1 2018-19	H1 2017-18
Voluntary redundancy	**(10)**	(31)
Project costs	**(42)**	(32)
Total transformation costs	**(52)**	(63)

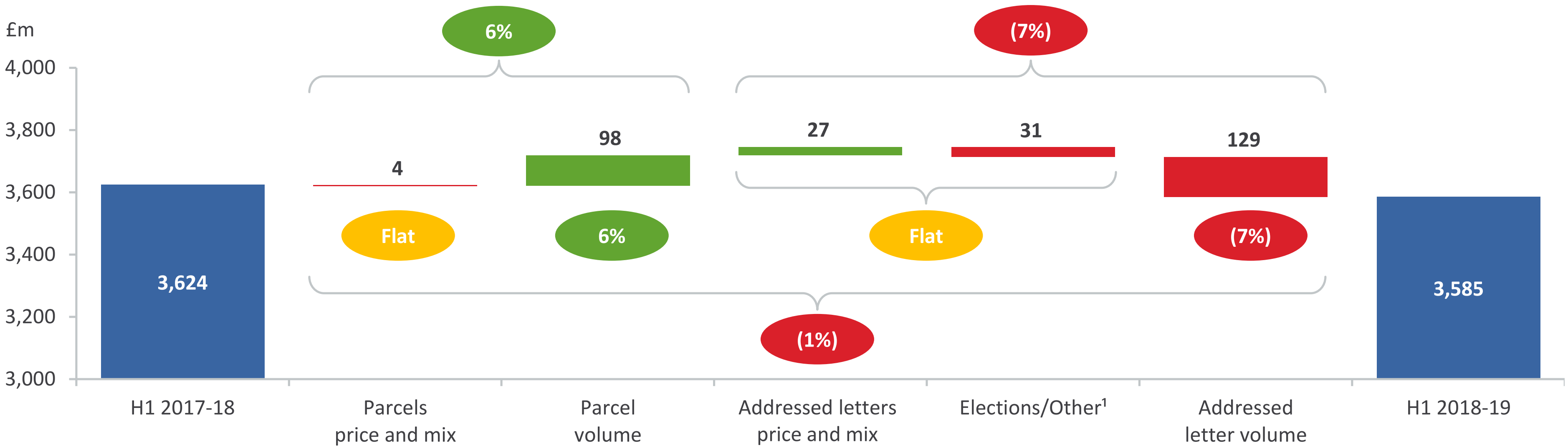
- Voluntary redundancy costs lower than expected due to lower levels of efficiency
- Project costs include IT upgrade, parcel projects and pension transformation costs

Outlook

- FY transformation costs expected to be c.£150m due to short-term cost actions

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. There was no adjustment for working days in UKPIL in H1 2018-19

UKPIL revenue



Parcels – Revenue £1,690m, Volumes 598m

- Volumes up 6%, revenue up 6%
- Domestic account volumes (ex. Amazon) up 8%
- International traffic
  - cross-border initiative accounted for 2ppts of volume and 1ppt of revenue growth
- Parcelforce volumes up 2% vs 4% in Q1 due to customer exiting online retail market

Letters – Revenue £1,895m, Volumes[2] 5,094m

- Addressed letter volume decline of 7%
  - expect similar decline for full year
- Revenue down 7% incl. elections due to ongoing structural decline, business uncertainty and GDPR
  - down c.5% excl. elections
- Marketing mail[3] revenue down 5% at £496m
  - impacted by GDPR

Note: Underlying change is calculated after adjusting for working days. There was no adjustment for working days in UKPIL in H1 2018-19. For volumes, underlying movements are adjusted for working days and exclude political parties' election mailings in letter volumes [1] Other includes philatelic, unaddressed and other non-volume related items [2] Total addressed letter volumes including political parties' election mailings [3] Includes redirections, Address Management Unit and addressed and unaddressed advertising mail

UKPIL costs

£m	Adjusted H1 2018-19	Adjusted H1 2017-18	Underlying change
People costs	**2,387**	2,362	1%
Non-people costs	**1,033**	1,029	Flat
Distribution & conveyance costs	**369**	361	2%
Infrastructure costs	**361**	365	(1%)
Other operating costs	**303**	303	Flat
Total costs	**3,420**	3,391	1%

Adjusted operating costs up 1%

- Cost pressures of £70m partially offset by £41m costs avoided

People costs up 1%

- Timing and value of frontline and manager pay award
- Poor productivity of -0.2% and 0.1% reduction in gross hours
- Impact of:
  - high levels of sickness-related absences
  - adverse weather conditions
  - additional investment to improve Quality of Service

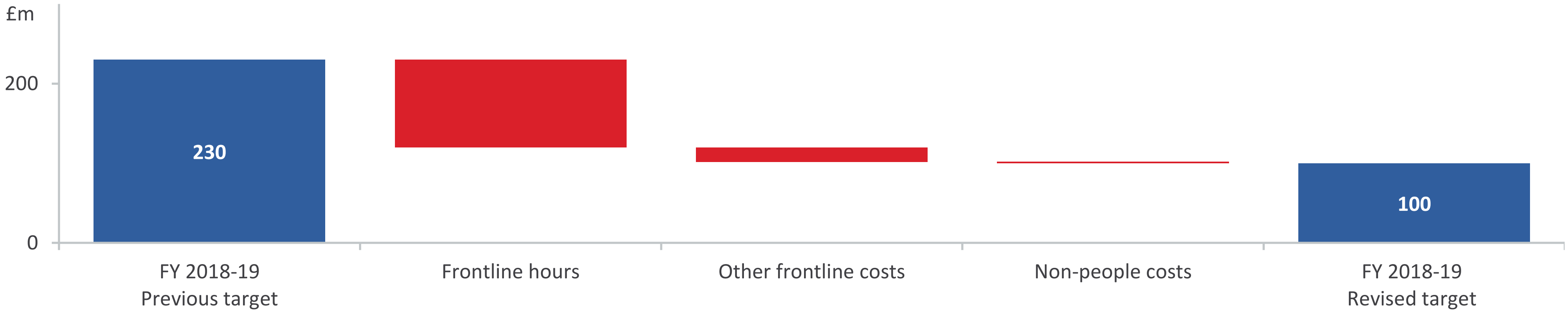
Non-people costs flat

- Increased vehicle related 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. There was no adjustment for working days in UKPIL in H1 2018-19

UKPIL cost avoidance

Targeting to avoid £100m of UKPIL costs in 2018-19



Shortfall in previous target due to:

- Lower productivity improvements and hours savings
- Delayed projects

H1 costs avoided of £41m comprises:

- Operational management headcount reduction in H2 2017-18
- Modernisation at Heathrow distribution centre
- Savings in property, technology and central functions

In addition FY costs avoided target of £100m includes:

- Benefits of line haul review
- Absorption of shorter working week and other frontline activities
- Further savings in property, technology and central functions

Actions underpin outlook for adjusted Group operating profit before transformation costs of £500-550m for 2018-19[1]

[1] 52 week basis

GLS results

£m	Adjusted H1 2018-19	Adjusted H1 2017-18	Underlying change
Revenue	**1,347**	1,205	9%
Operating costs	**(1,270)**	(1,115)	11%
Operating profit	**77**	90	(15%)
Operating profit margin	**5.7%**	7.5%	(160bps)
Volumes (m)	**301**	276	6%
Average £1 = €	**1.13**	1.14	

€m	Adjusted H1 2018-19	Adjusted H1 2017-18
Revenue	**1,524**	1,371
Operating costs	**(1,437)**	(1,269)
Operating profit	**87**	102

Adjusted results

- Continued good performance in revenue driven by good domestic and international volume growth in most markets
- Margin impacted by increased cost pressures and French and US losses
- Negligible Sterling impact

Reported results

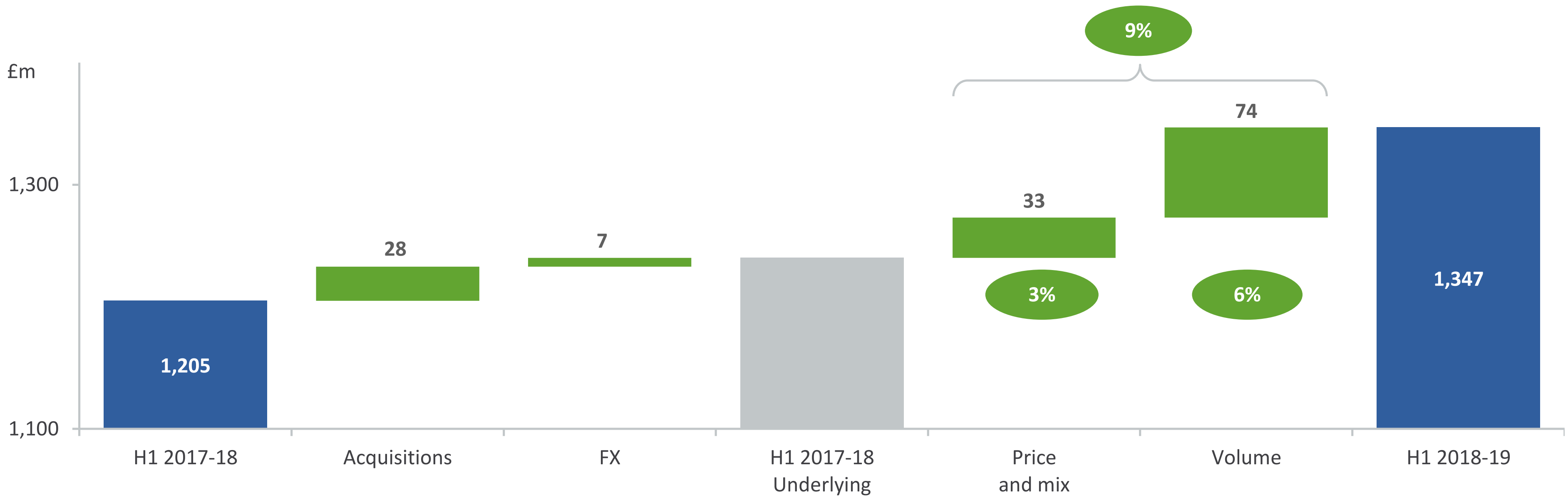
- Impacted by £68m impairment of US businesses

Outlook

- Targeting >6% adjusted operating profit margins for FY 2018-19 due to mitigating actions

Note: Movements in volume, revenue, costs, profits and margin are on an underlying basis. Underlying change is calculated after adjusting for Redyser and Dicom Canada acquisitions (8m volumes; £28m revenue; £28m costs) and foreign exchange movements (£7m revenue; £6m costs; £1m operating profit)

GLS revenue



- Headline revenue up 11% including acquisitions (constant currency basis)
- Impact of price increases on revenue
- Germany up 7%, driven by international volumes and improved pricing
- Italy up 8%, moderating in line with expectations due to competitive environment
- France up 5%, losses increased to €11m
- Spain up 17% benefitting from strong domestic and export volume growth
- Strong revenue performance in Denmark driven by B2C
- Continued strong performance in Eastern Europe

Note: Movements in volume, revenue, costs, profits and margin are on an underlying basis. Underlying change is calculated after adjusting for Redyser and Dicom Canada acquisitions (8m volumes; £28m revenue; £28m costs) and foreign exchange movements (£7m revenue; £6m costs; £1m operating profit)

GLS costs

£m	Adjusted H1 2018-19	Adjusted H1 2017-18	Underlying change
People costs	**318**	293	6%
Non-people costs	**952**	822	12%
Distribution & conveyance costs	**841**	725	12%
Infrastructure costs	**78**	71	7%
Other operating costs	**33**	26	23%
Total costs	**1,270**	1,115	11%

Adjusted operating costs up 11%

People costs up 6%

- semi-variable costs linked to volume: c.3%
- pay inflation: c.3%

Non-people costs up 12%

- Distribution & conveyance costs up 12% largely due to higher volumes and higher sub-contractor costs
- Infrastructure costs up 7% due to higher rents, rates, repairs and maintenance
  - higher depreciation costs due to continued investment to increase network capacity
- Other operating costs up 23% driven by one-off provision release in prior period and acquisition costs

Note: Movements in volume, revenue, costs, profits and margin are on an underlying basis. Underlying change is calculated after adjusting for Redyser and Dicom Canada acquisitions (8m volumes; £28m revenue; £28m costs) and foreign exchange movements (£7m revenue; £6m costs; £1m operating profit)

Group adjusted profit after tax

£m	Adjusted H1 2018-19	Adjusted H1 2017-18
Operating profit after transformation costs	**190**	260
Finance costs	**(10)**	(11)
Finance income	**3**	1
Net finance costs	**(7)**	(10)
Profit before tax	**183**	250
Tax charge	**(47)**	(52)
Profit for the period	**136**	198
Earnings per share (basic)	**13.6p**	20.1p

Higher adjusted Group effective tax rate 26%, c.24% for full year

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

Specific items and pension adjustment

£m	H1 2018-19	H1 2017-18
Impairment relating to US businesses	**(68)**	-
Accounting impact of RMSEPP buy-in	**(64)**	-
Employee Free Shares charge[1]	**(17)**	(18)
Amortisation of acquired intangible assets	**(10)**	(8)
Legacy/other costs	**(1)**	(3)
Total operating specific items	**(160)**	(29)
Profit on disposal of property, plant & equipment	**5**	44
Net pension interest	**39**	46
Total non-operating specific items	**44**	90
Pension charge to cash difference adjustment	**(34)**	(234)

- Non-cash impairment of acquired goodwill and other assets in relation to US acquisitions
- £64m non-cash charge in relation to purchase of further buy-in insurance policy for RMSEPP
- Employee Free Shares charge expected to be c.£25m for FY
- Prior period profit on PP&E included overage payment on Rathbone Place and completion on Phoenix Place plot at Mount Pleasant site
- RMPP pension interest credit c.£80m for FY
- Pension charge to cash difference now estimated to be c.£70m for FY
  - £20m lower than previously expected due to fewer eligible RMDCP members choosing to join the DBCBS than expected

[1] Includes National Insurance which will be cash settled

Group in-year trading cash flow

£m	H1 2018-19	H1 2017-18
Reported EBITDA before transformation costs	**375**	255
Pension charge to cash difference adjustment	**34**	234
Adjusted EBITDA before transformation costs	**409**	489
Trading working capital movements	**(272)**	(130)
Share-based awards (SAYE/LTIP/DSBP) charge	**4**	1
Total investment	**(184)**	(198)
Income tax paid	**(49)**	(27)
Research & development expenditure credit	**2**	3
Net finance costs paid	**(10)**	(13)
In-year trading cash flow	**(100)**	125
2017-18 frontline pay award (paid in H1 2018-19)	*101*	
Implied in-year trading cash flow	*1*	

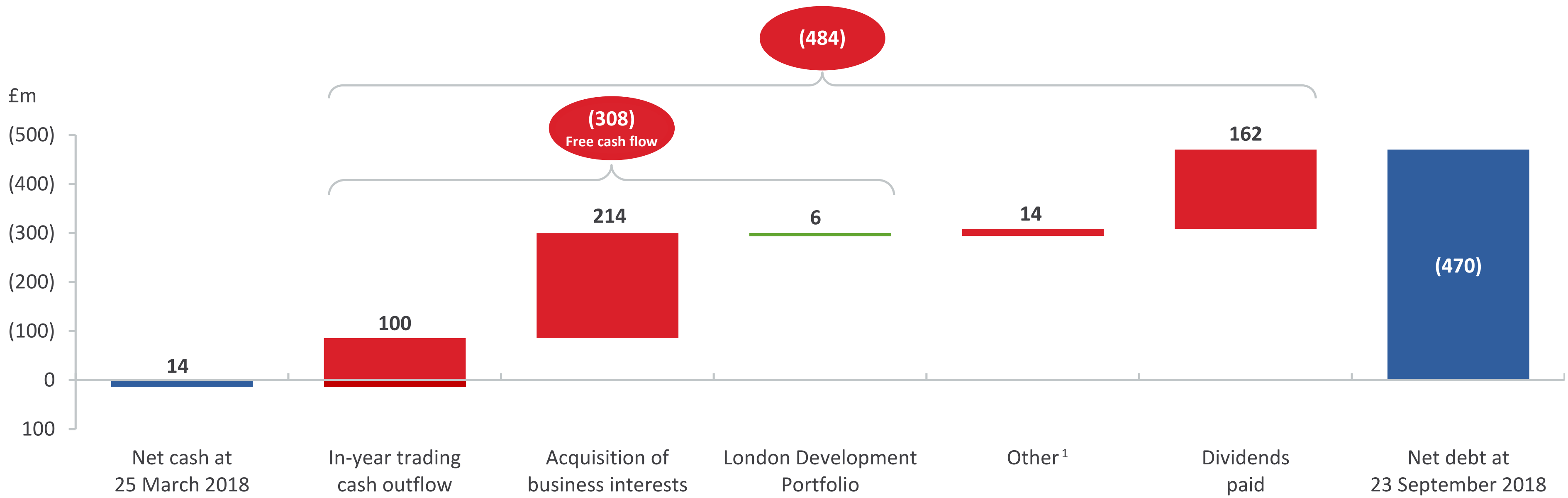
- Usual H1 trading working capital outflow includes bonus payments and international settlements
  - additional £101m outflow due to timing of 2017-18 frontline pay award
- Higher cash tax due to no tax relief on pension escrow payments
- Investment on track – expect c.£500m for FY 2018-19

£m	H1 2018-19	H1 2017-18
Transformation opex	**(47)**	(59)
Replacement capex	**(49)**	(53)
Growth capex	**(88)**	(86)
Total investment	**(184)**	(198)

FY 2018-19 53rd week

- Extra VAT payment c.£20m
- Extra monthly payroll payment £40-50m

Uses of cash



- Other working capital movements and operating specific items (-£9m) offset by operational asset disposals (£9m, largely sale of Hendon DO)
- Acquisition of business interests – largely Dicom Canada
- London Development Portfolio – £20m overage payment for Paddington net of £14m re-investment in Mount Pleasant and Nine Elms
- Net debt increased by £484m

[1] Purchase of own shares (-£10m), employee exercise of SAYE options (£5m) and FX movement (-£9m)

Rico Back
Group Chief Executive Officer

Outlook 2018-19

UKPIL parcel volumes and revenue growth rates expected to be better than 2017-18

Addressed letter volume[1] decline similar to H1

UKPIL costs avoided of £100m
Transformation costs c.£150m

GLS revenue expected to continue to perform well
Targeting adjusted operating profit margins of >6% for 2018-19

Net cash investment expected to be c.£500m

Adjusted Group operating profit before transformation costs of £500-550m[2]

Group has a progressive dividend policy

[1] Addressed letter volume (excluding political parties' election mailings) [2] 52 week basis

Royal Mail