Royal Mail Group

Full Year 2019-20 Results and Business Update

25 June 2020

Royal Mail plc

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Keith Williams

Interim Executive Chairman

Agenda

Keith Williams, Interim Executive Chairman

Mick Jeavons, Interim Royal Mail Group CFO

Stuart Simpson, Interim CEO Royal Mail

Martin Seidenberg, CEO GLS

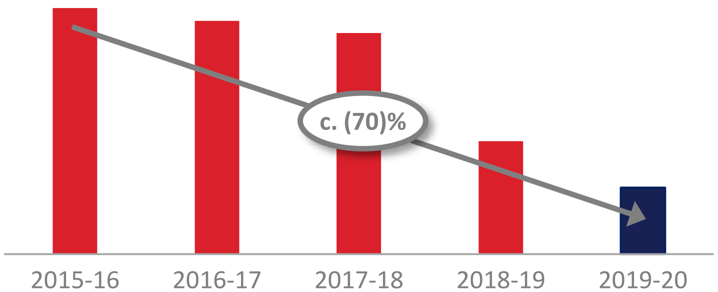
Q&A


THANK YOU
POSTMEN FOR
BEING THERE
YOU ARE BRILLIANT
POST OFFICE
NEXT COLLECTION
WED
Last Collection Time
Monday to Friday
9.00am
A 4.00pm or later collection is made from the Postbox at Maidens Green Winkfield
The latest collection in the area is made at 6.00pm from Peascod Street, Windsor
Saturday
7.00am

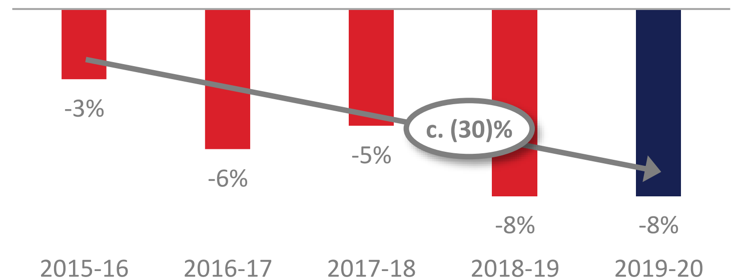

Tracked 24
BIOLOGICAL SUBSTANCE CATEGORY B

Market trends

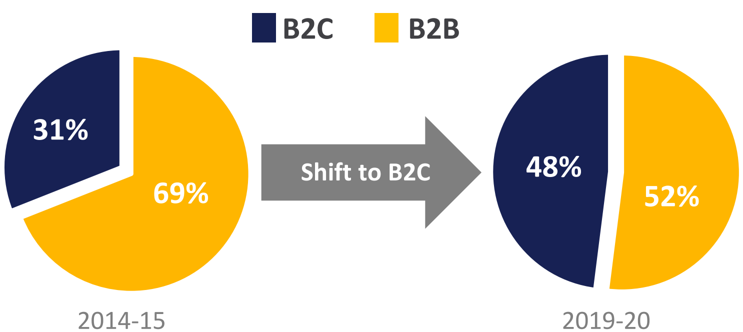
More parcels, fewer letters and shift from B2B to B2C



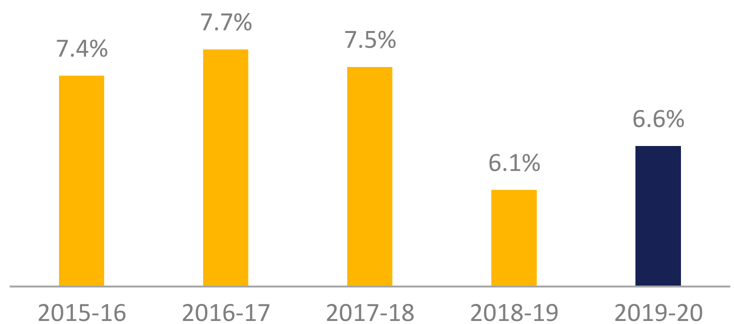
Royal Mail operating profit (inc. transformation cost)



Royal Mail addressed letter volume, ex. elections (change y-o-y)



GLS volume split



GLS adjusted operating margin

COVID-19 has accelerated these trends

First 2 months of FY20-21

Royal Mail

Y-o-Y change

Parcels:
37% volume growth
28% revenue growth

78m more parcels delivered in first 2 months

Addressed letters (ex. elections):
33% volume decline
23% revenue decline

553m fewer letters delivered in first 2 months

GLS

B2C volume growth c. 50%

B2B volume decline c. 20%

Total volume growth c. 17%

Strategy to adapt network to more parcels and fewer letters is right, but pace of operational change needs to be accelerated

COVID-19 has increased the challenges we face

Need to accelerate pace of operational change

We've been too slow in the past to adapt to changes in the market and customer behaviour

COVID-19 has accelerated those market trends
We need a step change in how we operate

Taking immediate action on costs	Management restructure: annual benefit of £130m from FY21-22; flat non-people costs FY21-22 vs FY19-20*, £200m saving to offset increases
	Capex reductions: c. £300m over 2 years (across both FY20-21 & FY21-22)
Further change be to sustainable for the long term	Engagement with Unions. Increased employee engagement
	Engagement with all stakeholders on Universal Service – reflect user needs, modern, contemporary and sustainable

Ambition for GLS to support dividend payments from FY2021-22

* flat ex. depreciation

New management structure

Focus and accountability on the missions of our two businesses

Board

"Step change"

Interim Royal Mail CEO

Stuart Simpson

- Unleash potential of our people
- Increase parcels market share
- Fix cost base
- Fix or exit underperforming businesses
- Improve cash flow

"Accelerate"

GLS CEO

Martin Seidenberg

- Grow parcels in B2B, B2C and cross-border
- Grow / maintain margins
- Fix or exit underperforming businesses

Interim Group CFO

Mick Jeavons

- Monitor delivery, challenge and ensure pace
- Regulation
- Liquidity and Balance sheet
- Capital allocation

Summary

We need to accelerate the pace of change to ensure a sustainable, profitable business

1 COVID-19 has accelerated market trends

- We have the right plan
- Need to accelerate pace of change

2 Taken immediate action

- Action on costs and capex: £330 million cost saving by FY2021/22, capex reduced by c. £300 million over 2 years
- No bonus for senior executives in FY2019-20
- No final dividend for FY2019-20 and no dividend expected to be paid in respect of FY2020-21

3 Sustainable for the long term

- Engagement with unions and employees
- Engagement on Universal Service
- GLS focused on profitable growth

Mick Jeavons

Interim Royal Mail Group CFO

FY 2019-20 Financial summary

£m	Pre IFRS 16 adjusted FY 2019-20	Adjusted FY 2019-20	Re-presented[1] adjusted FY 2018-19	Change[2]
Revenue	10,840	**10,840**	10,444	**3.8%**
Operating profit	312	**325**	376	**(13.6%)**
Margin	*2.9%*	***3.0%***	*3.6%*	***(60 bps)***
Earnings per share (basic)	20.7p	**19.6p**	30.5p	
In-year trading cash flow	415	**556**	117	
Net debt	(46)	**(1,132)**	(300)	
Dividend per share	7.5p *(interim only)*	**7.5p** *(interim only)*	25p	

- Acquisitions accounted for c.1ppt of revenue growth
- Margin compression as expected
- In-year trading cash flow impacted by timing differences, IFRS 16 and no payment of 2018-19 bonuses
- Net debt increased significantly due to IFRS 16. Excluding the impact of IFRS 16, net debt reduced to £(46)m
- Board not recommending a full year dividend as a result of COVID-19 pandemic impacts

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment
[1] Re-presented to reflect: new methodology for allocation of letters and parcels revenue and volume in UKPIL and transformation costs incorporated within relevant UKPIL operating cost categories. The results for FY 2018-19 have not been restated for the impact of IFRS 16 and all income statement data is on a 52 week basis [2] Change reflects period on period movement between figures as presented

Royal Mail results

£m	Adjusted FY 2019-20 52 weeks	Re-presented[1] adjusted FY 2018-19 52 weeks	Change[2]
Revenue	**7,720**	7,595	**1.6%**
Operating costs	**(7,603)**	(7,396)	**2.8%**
Operating profit	**117**	199	**(41.2)%**
Margin	***1.5%***	*2.6%*	***(110 bps)***

- Revenue growth of 1.6%
- People cost pressures not offset by productivity gains
- Margin compression as expected
- IFRS 16 impact on operating profit £10m benefit

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment
[1] Re-presented to reflect: new methodology for allocation of letters and parcels revenue and volume in UKPIL and transformation costs incorporated within relevant UKPIL operating cost categories. The results for FY 2018-19 have not been restated for the impact of IFRS 16
[2] Change reflects period on period movement between figures as presented

Royal Mail revenue

Parcels

- Parcel volume up 2%; revenue up 4.6%
- Domestic account volumes (ex. Amazon) up 5%
  - Royal Mail Tracked 24®/48® and Tracked Returns® volumes up 18%
- International traffic
  - Lower import volumes (ex. cross-border) driven by weak Sterling and COVID-19 impacts
- Parcelforce Worldwide volumes up 2%

Letters

- Total letter revenue down 0.9%
  - benefitted from elections (£82m) and targeted price increases
  - advertising letter[2] revenue down 11.5% at £612m
- Addressed letter volumes (ex. elections) down 8% in line with revised expectations
- Unaddressed volumes down 10%
- Impact of GDP and ongoing business uncertainty

Note: Addressed volumes exclude political parties' election mailings
[1] Other includes unaddressed advertising mail, philatelic and other non-volume related items [2] Comprises addressed and unaddressed advertising letters products

Royal Mail costs

£m	Adjusted FY 2019-20 52 weeks	Re-presented[1] adjusted FY 2018-19 52 weeks	Change[2]
People costs	**5,234**	5,062	**3.4%**
People costs	**5,206**	5,016	**3.8%**
Voluntary redundancy costs	**28**	46	**(39.1)%**
Non-people costs	**2,369**	2,334	**1.5%**
Distribution & conveyance costs	**867**	827	**4.8%**
Infrastructure costs	**793**	819	**(3.2)%**
Other operating costs	**709**	688	**3.1%**
Total costs	**7,603**	7,396	**2.8%**

Adjusted operating costs up 2.8%

- People cost pressures not fully offset by productivity gains
- Transformation costs £130m
- Costs avoided £188m

People costs up 3.4%

- Impact of:
  - frontline and manager pay awards
  - only partially absorbing one hour reduction in working week
- Productivity of 1.0% and 1.4% reduction in core network hours

Non-people costs up 1.5%

- Increase in distribution & conveyance costs driven by higher terminal dues and fuel costs
- Decrease in infrastructure costs driven by lower IT costs
- Other operating costs impacted by increase in bad debt provision and purchase of protective equipment

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment
[1] Re-presented to reflect transformation costs incorporated within relevant UKPIL operating cost categories. The results for FY 2018-19 have not been restated for the impact of IFRS 16 [2] Change reflects period on period movement between figures as presented

GLS results

£m	Adjusted FY 2019-20	Adjusted FY 2018-19	Change[1]
Revenue	**3,161**	2,888	**9.5%**
Operating costs	**(2,953)**	(2,711)	**8.9%**
Operating profit	**208**	177	**17.5%**
Margin	***6.6%***	*6.1%*	***50bps***
Volumes (m)	**667**	634	**5%**
Average £1 = €	**1.14**	1.13	

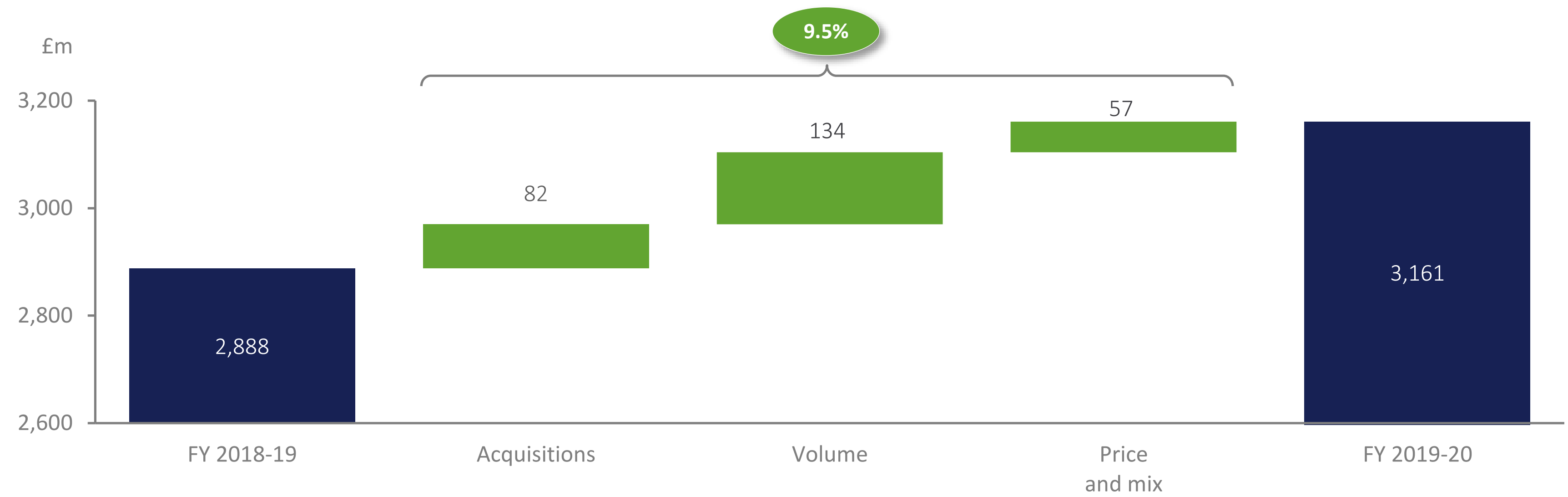
€m	Adjusted FY 2019-20	Adjusted FY 2018-19
Revenue	**3,614**	3,274
Operating costs	**(3,376)**	(3,073)
Operating profit	**238**	201

Adjusted results

- Continued good revenue performance, up 9.5% including acquisitions
  - driven by higher volumes, targeted price increases and customer mix effects
- Operating profit margin 6.6%, up 50bps
- GLS US losses reduced by £7m - business plan performing well
- Dicom performing in line with expectations
- IFRS 16 impact on operating profit £3m benefit
- Negligible foreign exchange impact on profit

Note: Adjusted results exclude specific items
[1] Change reflects period on period movement between figures as presented

GLS revenue



- Revenue up 9.5% including acquisitions
  - significant contribution from Dicom
- Revenue up 6.3% excluding acquisitions
  - positive impact of higher volumes, targeted price increases and customer mix effects
- Germany, Italy and France accounted for 54.6% of total revenue
- Continued good performance in Germany up 9.7% driven by international and domestic volumes and improved pricing
- Volume growth driven by Eastern Europe, Poland and Denmark

Note: Adjusted results exclude specific items

GLS costs

£m	Adjusted FY 2019-20	Adjusted FY 2018-19	Change[1]
People costs	**722**	667	8.2%
Non-people costs	**2,231**	2,044	9.1%
Distribution & conveyance costs	**1,960**	1,803	8.7%
Infrastructure costs	**198**	169	17.2%
Other operating costs	**73**	72	1.4%
Total costs	**2,953**	2,711	8.9%

Adjusted operating costs up 8.9%

- Up 5.8% excluding acquisitions

People costs up 8.2%

- Up 4.0% excluding acquisitions
  - pay inflation: c.2%
  - semi-variable costs linked to volume: c.2%

Non-people costs up 9.1%

- Up 6.5% excluding acquisitions
- Distribution & conveyance costs driven by volume growth and higher subcontractor rates
- Infrastructure costs driven by higher property and IT costs
- Other operating costs broadly in line with prior year

Note: Adjusted results exclude specific items
[1] Change reflects period on period movement between figures as presented

Specific items and pension adjustment

£m	FY 2019-20 52 weeks	FY 2018-19 53 weeks
Regulatory fine	**(51)**	-
Impairment of assets	**(91)**	(68)
Accounting impact of RMSEPP buy-in	**-**	(64)
Employee Free Shares charge adjustment	**(4)**	(22)
Amortisation of acquired intangible assets	**(19)**	(20)
Legacy/other credits/(costs)	**3**	(7)
Total operating specific items	**(162)**	(181)
Profit on disposal of property, plant & equipment	**89**	15
Net pension interest	**86**	79
Total non-operating specific items	**175**	94
Pension charge to cash difference adjustment	**(108)**	(70)
Total specific items and pension charge to cash difference adjustment	**(95)**	(157)

£m	FY 2019-20 Reported	FY 2019-20 Adjusted
Profit before tax	180	275
Profit after tax	161	196
Earnings per share (basic)	16.1	19.6

- £51m regulatory fine in relation to historic complaint
- £91m Parcelforce Worldwide impairment of assets
- Prior period impacted by £68m non-cash impairment of goodwill and other assets in relation to US acquisitions, and £64m non-cash charge in relation to purchase of further insurance policy for RMSEPP
- Employee Free Shares charge £4m; expected to be immaterial going forward
- Profit on disposal of property, plant & equipment £89m reflecting completion of sale of Plots B & D and C of Nine Elms
- Pension charge to cash difference higher, reflecting increase in the pension charge rate for the DBCBS

Group in-year trading cash flow

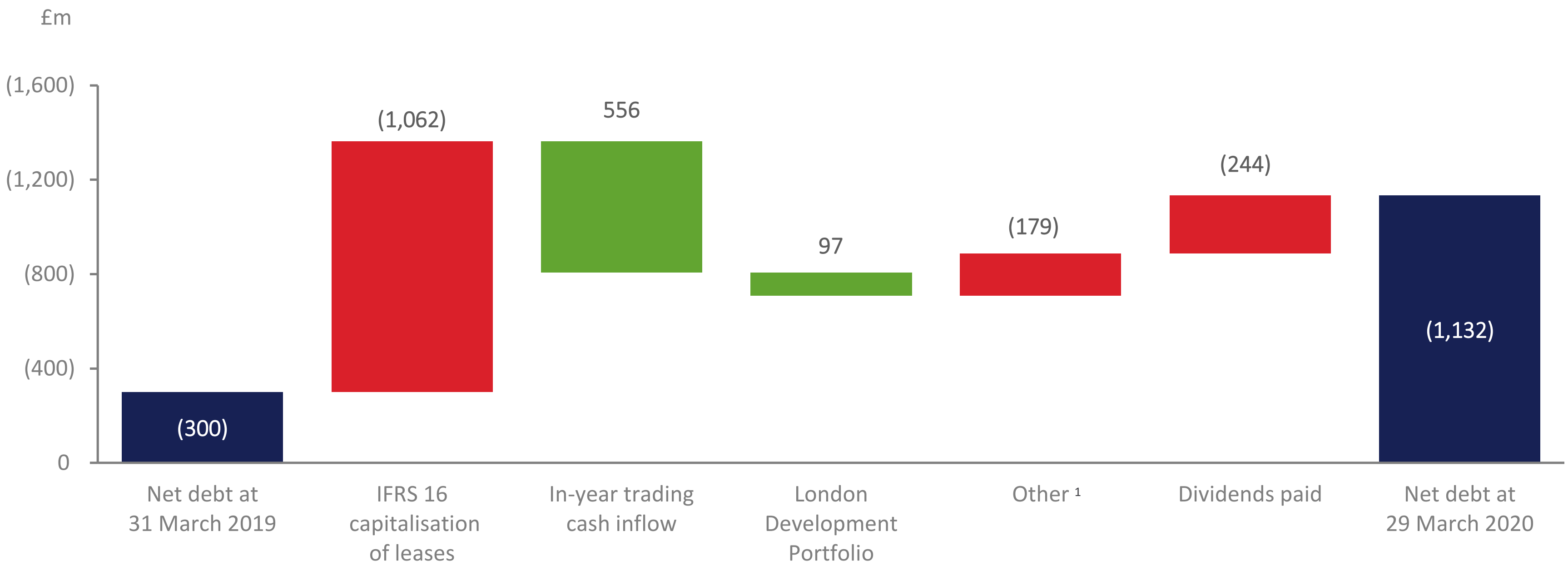
£m	FY 2019-20 52 weeks	Re-presented[1] FY 2018-19 53 weeks
Adjusted operating profit	**325**	411
Depreciation & amortisation	**516**	391
Adjusted EBITDA	**841**	802
Trading working capital movements	**155**	(227)
Share-based awards (LTIP/DSBP) charge	**4**	7
Gross capital expenditure	**(342)**	(364)
Net finance costs paid	**(47)**	(12)
Research & development expenditure credit	**14**	2
Income tax paid	**(69)**	(91)
In-year trading cash flow	**556**	117
IFRS16 impact	(141)	
In-year trading cash flow (pre-IFRS16)	**415**	

- Depreciation higher largely due to IFRS 16
- Trading working capital inflow higher reflecting frontline pay rise in prior year, payroll and VAT payments associated with the 53rd week in 2018-19
- Excluding one-offs in both years, trading working capital movements were comparable
- Net finance costs higher largely due to IFRS 16
- Cash tax lower largely due to tax relief for pension escrow payments which was not received in 2018-19

£m	FY 2019-20 52 weeks	FY 2018-19 53 weeks
Growth capex	**209**	224
Replacement capex	**133**	140
Gross capex	**342**	364

[1] Re-presented to reflect transformation costs incorporated within relevant UKPIL operating cost categories

Uses of cash/net debt



- London property cash net inflow of £97m driven by £144m proceeds in relation to Nine Elms and Mount Pleasant partially offset by infrastructure and enabling works at both locations
- Free cash flow of £653m
- Net debt increased by £832m largely due to adoption of IFRS 16

Strong balance sheet with available resources of £1,874m[2]

[1] Other comprises new lease obligation during the year under IFRS16 (non cash) (-£156m), foreign exchange movement (-£20m), acquisition of business interests (-£17m), operating asset disposals (£12m), other working capital movements (£7m), purchase of own shares (-£3m) and operating specific items (-£2m) [2] Including cash and cash equivalents of £1,619m, current asset investments of £30m and undrawn committed revolving credit facilities of £225m

Summary

FY2019-20 benefitted from tailwinds;
FY2020-21 significant challenges & outlook still uncertain

1 FY19-20 performance

- Boosted by two elections £82m
- Acquisitions in GLS
- Timing differences and lower FY2019/20 bonus in cashflow
- Net debt reduced to £(46)m pre-IFRS16

2 FY20-21 drivers

- GDP / letter volumes / parcel volumes
- COVID-19 related costs and bad debt
- Restructuring costs (c. £150m)
- Wage rises for next two years to be funded by productivity improvements
- Exploring scope for further price increases

3 FY20-21 scenarios

- Unprecedented level of uncertainty
- Two scenarios to illustrate range of potential impacts COVID-19 may have in FY20-21
- Do not represent guidance or management's view on outlook

COVID-19 – impacts

First 2 months of FY20-21

RM Parcels & Letters

- Parcel volumes up 37%
  - Domestic account (ex. Amazon) up 65%
  - Imports significantly impacted in Q4 19-20 (China), bounce back in April/May
- Total letter volume (ex. elections) down 39%
  - Addressed letter volume, ex. elections, down 33%
  - Advertising mail down 63%
- Revenue down £29m (inc. May 2019 election)

GLS Volume and revenue

- B2C volumes have grown in most markets following onset of COVID-19. B2C volumes up c. 50%
- B2B volumes negatively impacted, down c. 20%
- Total volumes up c. 17% in first two months
- Revenue growth of 15%

RM Cost

- Overtime & agency cost / protective equipment / social distancing £53m
- Additional parcel volume related cost
- Operating profit down £108m (inc. May 2019 election)

GLS Cost

- No significant uplift on costs in first two months
- Operating profit margin improvement of 1.4%

Illustrative scenarios for FY2020-21

Two scenarios - illustrate potential impacts COVID-19 may have in FY2020-21

Scenario 1

UK lockdown restrictions continue to ease post June

- Material recession: GDP decline of 10% in UK for FY2020-21
- UK lockdown eases post June, progressive re-opening of businesses and high street retail
- GLS: good parcel volume and revenue growth, business successfully responds to B2C mix shift: margin around 6%

Scenario 2

Downside stress test

- Deeper recession: GDP decline of 15% in UK for FY2020-21
- UK lockdown eases post June, but second lockdown implemented later in year, triggering further GDP decline
- GLS: More significant impact driven by stronger volume decline, leading to higher cost and price pressure.

Royal Mail scenario detail

Scenario 1

UK lockdown restrictions continue to ease

	H1	H2	FY2020-21
Letter revenue	**(22)%**	**(11)%**	**(16)%**
Domestic parcel revenue	24%	8%	15%
International parcel revenue	2%	(7)%	(3)%
Total UK parcel revenue	**20%**	**5%**	**12%**
Royal Mail revenue year on year decline[1]			**£200m to £250m lower**
Net cost of mix change from Letters to Parcels	**£(70)m**	**£(40)m**	**£(110)m**
Cost of COVID-19*	**£(80)m**	**£(60)m**	**£(140)m**

Key assumptions

- FY2020-21 GDP (10)%
- Large negative impact on Letters, reduces in H2
- Lockdown easing across the year from June
- Parcels revenue growth negatively impacted by International trends
- Costs of parcel volume growth and COVID-19 are material

[1] Includes elections in 2019-20 (£82 million)
* Costs of elevated absence, social distancing, additional protective equipment and other COVID-19 related costs

Royal Mail scenario detail

Scenario 2

Downside stress test

	H1	H2	FY2020-21
Letter revenue	**(22)%**	**(22)%**	**(22)%**
Domestic parcel revenue	22%	9%	15%
International parcel revenue	1%	(11)%	(6)%
Total UK parcel revenue	**17%**	**4%**	**10%**
Royal Mail revenue year on year decline[1]			**£500 to £600m lower**
Net cost of mix change from Letters to Parcels	**£(65)m**	**£(35)m**	**£(100)m**
Cost of COVID-19*	**£(85)m**	**£(70)m**	**£(155)m**

Key assumptions

- FY2020-21 GDP (15)%
- Letter volumes remain significantly depressed
- Deeper recession, 2nd lockdown during autumn / winter
- Parcel revenue growth impacted by economy
- Peak capacity restricts volume growth at Christmas

[1] Includes elections in 2019-20 (£82 million)
* Costs of elevated absence, social distancing, additional protective equipment and other COVID-19 related costs

GLS scenario detail

Scenario 1 — Lockdown restrictions continue to ease

Key assumptions

- Lockdowns eased & economies impacted by recession
- GLS is able to successfully respond to the swing in mix towards B2C and preserve margins around 6%

	H1	H2	FY2020-21
GLS revenue growth	8% to 12%	Flat to 2%	5% to 7%
GLS margin			c.6%

Scenario 2 — Downside stress test

Key assumptions

- Lockdowns eased, followed by further lockdowns later in year with deeper recession
- More significant impact driven by stronger volume decline, leading to higher cost and price pressure

	H1	H2	FY2020-21
GLS revenue growth	7% to 9%	Flat to (5)%	Flat to 2%
GLS margin			c.5%

Note: COVID-19 related costs included in margin

Balance sheet & mitigation

- Under both scenarios balance sheet and liquidity would be robust
- We have secured access to our facilities for the future
  - £925m RCF: existing covenants waived until March 2022 and amended in short term to be based on minimum liquidity[1]
  - Accepted for COVID Corporate Financing Facility (CCFF)
  - Current cash and undrawn / accessible facilities would be sufficient
- We have already actioned initiatives to conserve cash until we understand more clearly the medium term impacts of COVID-19
- We will release cash to invest in the required restructuring activities to restore profitability to the UK

Cash conservation initiatives	Expected saving in FY2020-21
No final dividend for FY2019-20 & no interim for FY2020-21	£150m
Capital programmes	c.£175m
Senior managers bonus	£30m

[1]. Existing leverage and interest cover covenants waived for September 2020, March 2021 and September 2021. Replaced by a minimum liquidity covenant (cash, cash equivalents, current asset investments and undrawn committed facilities excluding CCFF) of £250m, tested quarterly.

Summary

1 Headwinds and uncertainty for FY2020-21

2 Structured plan to cope with COVID-19 crisis – already taking action

3 Focused on restoring profitability in the future

[1] ex. depreciation

Stuart Simpson

Interim CEO Royal Mail

Initial observations

- People Business
  - harness enthusiasm / energy and customer service ethos
  - unleash potential
- Direction of travel broadly correct
  - automate sortation of > 1bn parcels
  - revise delivery to meet evolving customer and consumer need
- Increase pace of change
  - 2,000 managers ⬇
  - £200m non-people reduction
- Increase focus
  - fewer projects ➡ better delivery
  - improve cash generation

My Priorities

- "Thank you"

- My Priorities:

1	2	3	4	5
Unleash potential of our people	Increase parcels market share	Fix cost base	Fix or exit underperforming businesses	Improve cashflow

COVID-19 – impacts

First 2 months of FY20-21

RM Parcels

- Strong growth in B2C parcels driven by demand for DIY, gardening & pharmaceutical products
- Domestic account (ex. Amazon) volume up 65%
- Imports significantly impacted in Q4 19-20 (China), bounce back in April/May

Sick absence / Cost

- At peak, c. 20% of employees were off absent / sick
- Agency staff, overtime
- Social distancing measures, inc. additional vehicles
- Protective equipment – committed c. £40m spend
- Parcel sort centres

RM Letters

- Addressed letter volume, ex. elections, down 33%
- Advertising mail significantly impacted, volume down 63%
- Business mail more resilient, volume down 19%

USO - 5 day letters change

- 6-week period of temporary emergency 5-day letters and Saturday parcel only delivery
- Due to high absence levels, to provide relief to our frontline staff and deliver as comprehensive a service as possible

Transformation

Progress over past year but also issues / challenges

Productivity and quality

- QoS: exceeded 2nd class target; 1st class impacted by COVID-19 ✓
- Productivity improvement only 1.0% impacted by additional investment and delays to Transformation programme ✗

Network design

- 20 small parcel sorting machines now installed ✓
- Parcel automation now c.33%
- Letter sort machines reduced by 79 to 677 in past year ✓
- Contract signed for automation of 1st hub; 2nd hub site secured, but behind schedule –

Tools and trials

- PDA Outdoor Actuals deployed and increasingly utilised ✓
- Routing tool fully deployed ✓
- Trials of resource scheduler scaled up to five units and deployed Automated Hours Data Capture to 20 units but behind schedule –

New delivery method trials

- Launched van-based trial to test separate daily delivery of larger parcels and Next Day items
- Trials began in 3 sites, one has been put on hold due to COVID-19 –

Challenges of industrial relations environment, December General Election and COVID-19

COVID-19 has increased the challenges we face

Need to accelerate pace of operational change

Scenarios make clear the need for change

Need a step change in pace of operational change

Taking action on:
management costs, non-people costs and capex

Further change to be sustainable for the long term – engagement with Unions and our people on pace of operational change

Engagement with all stakeholders on Universal Service

Accelerating the pace of operational change

Integration of Parcelforce Worldwide and Royal Mail International into Royal Mail

One strategy	Customers	More efficient	Brand
One integrated domestic and international parcels strategy	Better serves changing needs of market and customers	Uses our assets in a more integrated and efficient way	Parcelforce Worldwide will retain its brand identity and network

Accelerating the pace of operational change

Management restructure

c. 9,700 manager population	c. £550m wage bill FY2019-20	Largest reductions in senior managers and non-operational

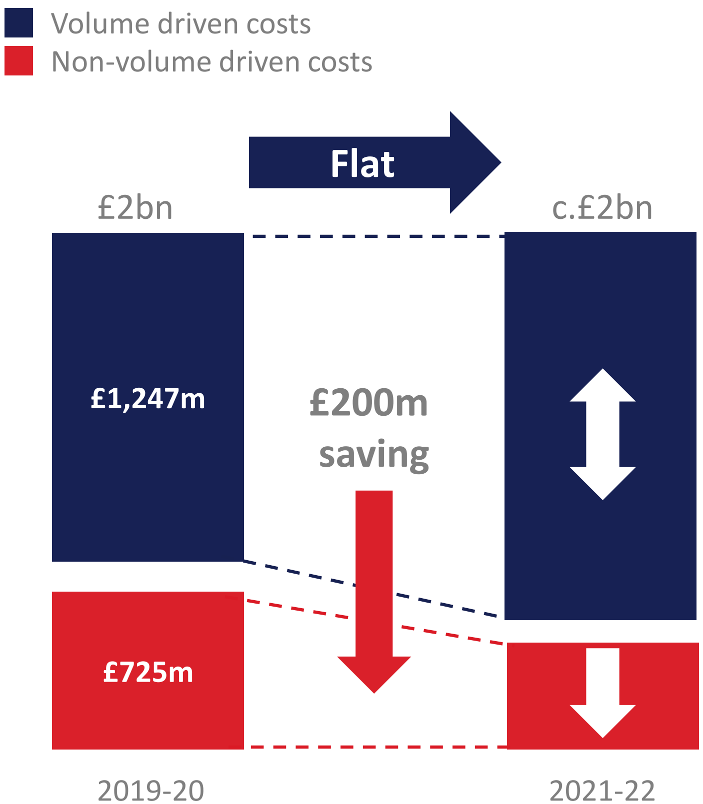
Proposed overall c. 2,000 role reduction

Cost £150 million, targeting annual benefit of £130 million in FY2021-22

- Simpler structure
- Improved visibility and accountability
- Subject to consultation with Unite / CMA

Accelerating the pace of operational change

Targeting total non-people costs flat FY2021-22 vs. FY2019-20 ex. depreciation



- Volume related cost will grow, linked to shift to more parcels, technology & automation
- Terminal dues increases
- All areas targeted for savings, with a greater proportion on non-volume related costs
- £200m annual saving in FY2021-22 achieved through a number of cost reduction activities:
  - Procurement
  - Admin costs (e.g. offices)
  - Demand management

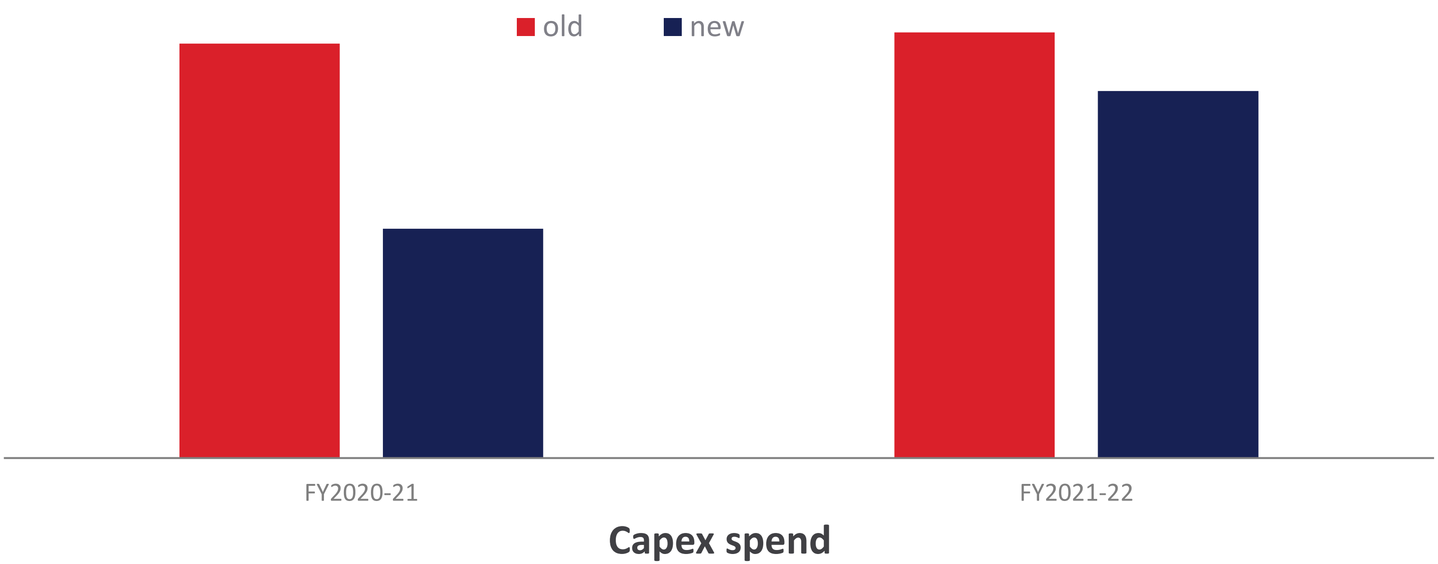
£200m saving broadly offsets increase in volume related costs: total non-people costs flat*

* ex. depreciation

Accelerating the pace of operational change

Capital expenditure

- Capex review and reprioritisation
- Targeted reduction of c.£250m across FY2020-21 & 2021-22 *(vs. Journey 2024 plan)*
  - *Projects: cancelled / deferred; spend reduced via efficiency; lease vs. buy option*
- Continued investment in automation of parcels and parcels hubs
- Provides funding for restructuring and to support balance sheet



Further change to be sustainable for the long term

- Taking immediate action on:
  - Costs
  - Capex
- Long term sustainability requires further change:

Engagement with **Unions**

Engagement with **our people**

Engagement with **stakeholders on Universal Service**

Engagement with Unions

Continue to engage on a regular basis with CWU and Unite / CMA at a senior level on our plans for change

Engagement with CWU follows recent Joint Statement (15 May) with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute

Employee engagement

Build frontline colleagues understanding of need for change and what it means for them

RM TV

RM RADIO

Multi channel communication

Localised, personal and relevant

Join the conversation
Workplace

Regulatory Update: Universal Service

Universal Service economics

- **As previously noted, significant risks to Universal Service financial sustainability**
  - Universal Service requires high volumes - and revenues – to fund deliveries to around 31 million addresses. In last ten years, average number of items per address almost halved from two to nearly one
  - Ability of regulated business to make profits to sustain itself coming under strain. In last five years, profits made by Reported Business[1] have fallen by about 95 per cent. And expected to be loss-making this year

USO next steps

- **Ofcom conducting a User Needs Review around the Universal Service**
- **Royal Mail will engage with many stakeholders on a Universal Service for the 21st Century**. Anticipate many current features should remain in place. Many key features valued by consumers / SMEs e.g. uniformity, universality, affordability
- **A stretching self-help programme in place. Involves significant investment in Universal Service**. But, do not believe successful delivery of (a) our transformation and (b) COVID-19 mitigation plans is enough to underpin Universal Service
- **Therefore, alongside engaging with unions, working with Regulator and Government on Universal Service**. About ensuring it is financially underpinned, in a sustainable way, and future-proofed to reflect changing needs and preferences

Universal Service needs to: reflects user needs, be modern, contemporary and sustainable

[1]. Reported Business is the regulated entity, defined by Ofcom, which delivers the Universal Service. 2019-20 Reported Business EBIT financeability margin is still subject to the Regulatory Audit process.

Summary

1 Right strategy to transform network for more parcels

- Too slow to adapt - behind in transformation
- Impact of COVID-19 has accelerated market trends - need step change

2 Initiatives already underway, giving £330m annual benefit in FY2021-22 and reduced capex

- Management restructure: £130m annual benefit in FY2021-22
- Non-people costs: flat[1] FY2021-22 vs 2019-20, £200m saving to offset increases
- Capex: £250m reduction across FY2020-21 & 2021-22

3 Sustainable for the long term

- Engagement with unions and with stakeholders on Universal Service
- Build on strengths, work together to make Royal Mail sustainable and profitable for long term

[1]. ex. depreciation

Martin Seidenberg

CEO GLS

GLS Priorities

1. Grow parcels in B2B, B2C and cross-border
2. Grow / maintain margins
3. Fix or exit underperforming business

COVID-19 presents challenges and opportunities

COVID-19 Opportunities

Volume growth

- Growth of B2C and international volumes
  - c.50% B2C parcel growth[1]
  - c.25% international parcel growth[1]
- Flexible network structure to respond to market developments
  - Cost containment via quick network reaction
  - Rightsizing of line hauls and delivery tours to capture volume growth

Market capacity constraints

- Implemented and increased service fee (e.g. France, Germany)
- Attract new customers with a reliable service
- Improve customer mix and average price

Changing customer requirements

- Introduction of new B2C delivery solutions to enhance customer convenience (e.g. online drop-off permission and evening/2C delivery tours)
- Improve ease of use & productivity through amended last mile processes
(e.g. contactless delivery)
- Enhance customer service via social media

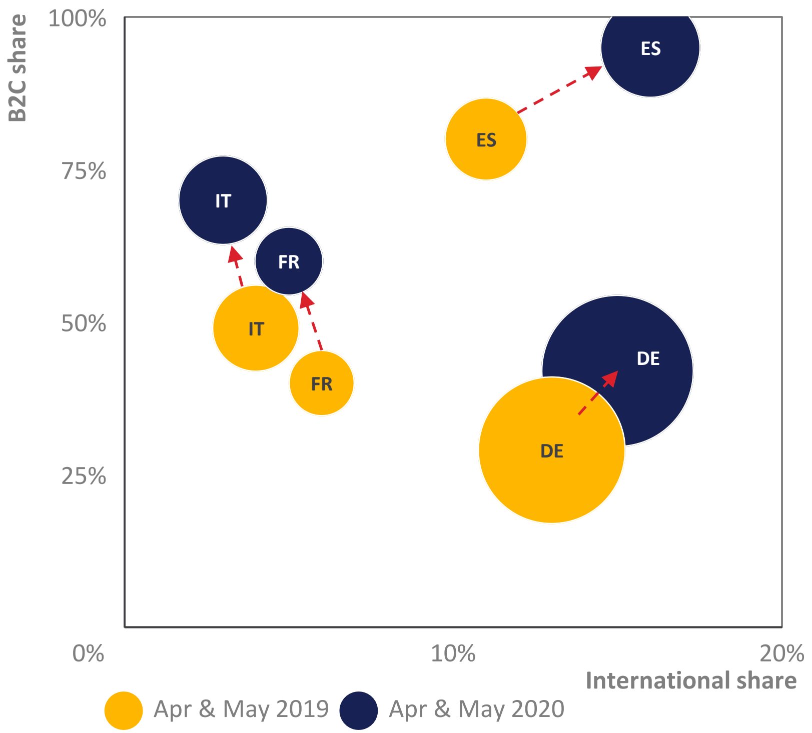
The opportunities support revenue growth and margin improvement

[1] in April and May 2020 compared to last year

COVID-19 presents challenges and opportunities

COVID-19 Opportunities - B2C growth

Development of selected GLS companies[1]
April & May 2019 vs April & May 2020



Spain

- Strong 2C network
- Close to customers due to agent structure

Italy

- Strong local market presence supported by franchisee model
- B2C share expected to further increase

Germany

- Predominately B2B but growing its B2C share
- B2C service fee & productivity improvements in last mile initiated

France

- Consistent service delivery during lock down resulted in customer wins and volume growth

Variation in business models, competitive landscape and economic outlook require a local approach

[1] B2C shares based on domestic parcel volumes | International share reflects percentage of export volumes in total company volumes | Size reflects YTD May 2020 total company volumes

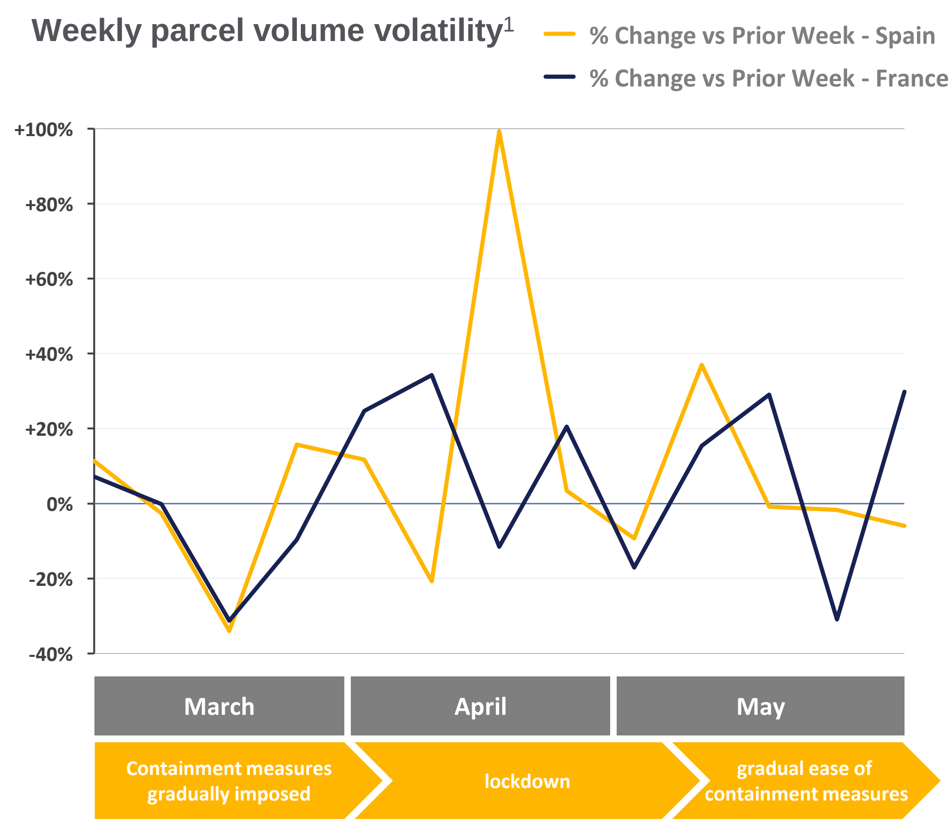
COVID-19 presents challenges and opportunities

COVID-19 has resulted in high network volatility

Volatility

- Higher cost to cope with increased volatility of the network
- Quality pressure
- Imbalance in international volume due to different timing of lockdown measures

- Implementation of various operational measures to support network stability and quality:
  - Day sortation
  - Weekend delivery
  - Second wave delivery
  - Amended line haul set ups & transit times



GLS has taken various measures to respond

[1]Total weekly domestic and export parcel volume

COVID-19 presents challenges and opportunities

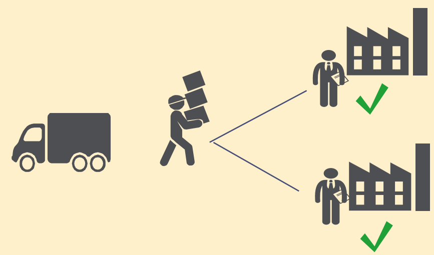
Acceleration of shift from B2B to B2C

Shift from B2B to B2C

- Lower last mile efficiency
- Increased stop costs, especially in countries with a high 2B share

- Increased usage of digitized route optimization tools and new handscanners
- Focus day to day productivity management (e.g. in Germany and Italy stops per tour increased by c. 20% during lockdown)
- Improve B2C pricing strategies on local level

B2B



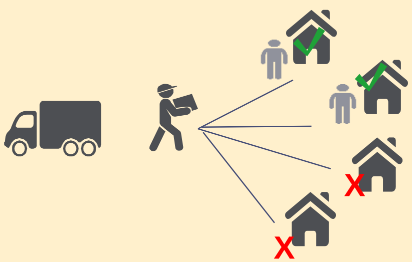
High parcel drop factor per address

High delivery success rate

c.52% share in 2019-20

c.37% share in April & May

B2C



Low parcel drop factor per address

Lower delivery success rate

c.48% share in 2019-20

c.63% share in April & May

Pricing and productivity initiatives taken to protect margins

COVID-19 presents challenges and opportunities

Different ways of working to protect GLS employees, customers and communities

Protection measures

- Local legislation requires different ways of working
- Lower efficiency due to distancing measures in hubs and depots
- Increase of absence rates (temporarily)

- Secured key workers status in GLS countries
- Close engagement with local authorities to ensure compliance with COVID-19 regulations
- Protective equipment investments (FY estimate c. €7m)
- Change of procedures to protect customers and colleagues

Example GLS Poland

Example GLS Spain

Example GLS Germany

Protective measures were thoroughly implemented across GLS entities

Status of focus countries

Opportunities to improve focus countries

	SPAIN	FRANCE	US
FY2019-20	• Integration has been finalised • Successful implementation of yield management initiatives • Profitability was above break-even FY2019-20	• Challenging market with strong competition • Volume growth lower than expected and an unbalanced product mix • Losses increased	• US business progressed in FY2019-20 with losses halved • Acquisition of LTL bolt-on business
Start FY2020-21	• Strong volume growth • Quick response to local market needs (e.g. contactless delivery) • Revenue and profit significantly above prior year	• Consistent service delivery during lockdown resulting in customer wins • Revenue and profit above prior year • Continued management focus to stabilize the positive trend	• Impact from COVID-19 more pronounced due to its relatively high B2B customer share • Will require further management focus

Review possibilities to improve

GLS Summary

GLS well positioned in current market developments

1 — **GLS captures growth opportunities of current market developments**

- Volume growth, scarcity in the market, and changing customer demands support revenue growth and margin improvements
- Variation in business models, competitive landscape and economical outlook require locally tailored actions to capture growth

2 — **Country specific actions taken to deal with COVID-19 challenges**

- The increased 2C share, high volatility and protective equipment measures have increased costs
- Various local initiatives successfully implemented to respond and protect margins

3 — **Opportunities to improve focus countries**

- Positive start in Spain and France in FY2020-21
- Further management attention required for focus countries

Keith Williams

Interim Executive Chairman

Summary

We need to accelerate the pace of change to ensure a sustainable, profitable business

1 New structure – focus and accountability

- Two different business, two strategies
- Royal Mail "Step change", GLS "Accelerate"
- Fix or exit underperforming businesses

2 Accelerating the pace of change

- COVID-19 requires us to transform Royal Mail more rapidly
- Immediate action on costs and capex
- GLS – focus on underperforming businesses

3 Sustainable for the long term

- Intensive engagement with Unions and employees
- Engagement with stakeholders on Universal Service
- GLS focused on profitable growth
- Ambition for GLS to support dividend payments from FY2021-22

Q&A

Appendix

Royal Mail data

Parcels	FY 2019-20 52 weeks	Re-presented[1] FY 2018-19 52 weeks
Volumes (m)		
Royal Mail	1,211	1,188
Parcelforce	101	99
Total	**1,312**	**1,287**
Change	*2%*	
Revenue (£m)	**3,699**	**3,538**
Change	*4.6%*	

Letters	FY 2019-20 52 weeks	Re-presented[1] FY 2018-19 52 weeks
Volumes (m)		
Addressed	10,047	10,496
Unaddressed	2,603	2,880
Total	**12,650**	**13,376**
Change	*(5%)*	
Revenue (£m)	**4,021**	**4,057**
Change	*(0.9)%*	

[1] Re-presented to reflect new methodology of allocating UKPIL letter and parcel revenue and volume

IFRS 16

- Impact on FY 2019-20 results:

Income statement

		IFRS 16 Impact
Non-people costs		
Depreciation	↑	£156m
Operating lease costs	↓	£169m
Operating profit	↑	**£13m**
Net finance costs	↑	£28m
Profit before tax	↓	**£15m**

Balance sheet at transition

		IFRS 16 Impact
Property, plant & equipment	↑	£1,045m
Less existing prepayments	↓	(£20m)
Total assets	↑	**£1,025m**
Obligations under lease contracts	↑	£1,062m
Less existing accruals	↓	(£38m)
Total liabilities	↑	**£1,024m**
Net assets/reserves	↑	£1m

- Principal impact is that majority of leases (property and vehicles) previously classified as operating leases have been capitalised on the balance sheet as assets
- A liability representing the present value of contractual lease payments has also been recognised

Adjusted Group profit after tax

£m	Adjusted FY 2019-20 52 weeks	Adjusted FY 2018-19 53 weeks
Operating profit	**325**	411
Finance costs[1]	**(56)**	(18)
Finance income	**6**	5
Net finance costs	**(50)**	(13)
Profit before tax	**275**	398
Tax charge	**(79)**	(93)
Profit for the period	**196**	305
Earnings per share (basic)	**19.6p**	30.5p

Note: Adjusted results exclude specific items and the pension charge to cash difference adjustment
[1] Includes interest on €500m bond of £11m, interest on €550m bond of £3m and interest on leases of £30m

Group tax

£m	Reported FY 2019-20			Adjusted FY 2019-20		
	UKPIL	GLS	Group	UKPIL	GLS	Group
Profit before tax	-	180	180	83	192	275
Income statement tax (charge)/credit	31	(50)	(19)	(26)	(53)	(79)
Effective tax rate	**n/a**	**27.8%**	**10.6%**	**31.3%**	**27.6%**	**28.7%**
Cash tax payments	(13)	(56)	(69)	n/a	n/a	n/a

Income statement tax

UKPIL

- **Adjusted:** increased compared to both prior period (FY 2018-19: 17.5%) and the UK statutory rate, due to an increased provision against prior year technology claims, partially offset by a one-off recognition of deferred tax assets. Impact on effective rate amplified by lower profit before tax.
- **Reported:** also impacted by no tax charge on property disposals due to reinvestment relief, non-taxable net pension interest income, a one-off deferred tax asset recognition and a non-deductible regulatory fine.

GLS

- **Adjusted:** higher rate in the prior year (FY 2018-19: 31.4%) due to derecognising brought forward US deferred tax assets.
- **Reported:** broadly same as adjusted.

Cash tax

UKPIL

- Cash tax lower than prior year (FY 2018-19: £23m excluding Pension impact of £17m) due to lower profits.

GLS

- Cash tax higher than prior year (FY 2018-19: £51m) due to higher profits.

Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
500m Euro bond[1]	2.5%	446	446	2024
550m Euro bond[2]	2.7%	489	489	2026
Syndicated bank loan facility[3]	LIBOR +0.70%	925	700	2024
Total		**1,860**	**1,635**	

Net debt[4]

£m	29 March 2020	31 March 2019
Loans/bonds	**(1,635)**	(431)
Leases[5]	**(1,188)**	(125)
Cash and cash equivalents[6]	**1,670**	236
Pension escrow (RMSEPP)	**21**	20
Net debt	**(1,132)**	(300)

- S&P investment grade rating of BBB stable outlook
- On 8 October 2019, Royal Mail issued a €550m bond with maturity date of 8 October 2026
- An amended £925m syndicated bank loan facility replaced the existing £1,050m syndicated bank loan facility in September 2019 with an end date of 2024
- Covenants waived until March 2022 – replaced by minimum liquidity covenant, tested quarterly[7]
- Secured access to Covid Corporate Financing Facility (CCFF)
- Net debt increased by £832m largely due to leases capitalised under IFRS 16 and dividend paid offset by free cash flow

[1] €500m liabilities net of discount and fees at spot rate £1/€1.118 revalued at balance sheet date [2] €550m liabilities net of discount and fees at spot rate £1/€1.118 revalued at balance sheet date [3] The total margin over LIBOR consists of a 0.40% margin and a utilisation fee of 0.30% (as the facility was over two thirds drawn at 29 March 2020, the utilisation fee is 0.075% when the facility is under one third drawn) [4] Net debt excludes £180m related to RMPP pension escrow investments which are not considered to fall within definition of net debt [5] Includes £1,086m operating leases in FY 2019-20 following adoption of IFRS 16 [6] Consists of current asset investments of £30m cash and cash equivalents of £1,619m and GLS client cash of £21m (31 March 2019: £20m) [7] Minimum liquidity defined as Cash, cash equivalents and undrawn committed facilities excluding the CCFF

Property

Site	Acres	Key features	Status

Nine Elms	13.9	Planning consent for 1,950 residential units
		Core infrastructure works on two-thirds of the site nearly complete
			• Plots B & D: Sale to Greystar completed
			  • £101m received in July 2019
			  • £30m being re-invested in infrastructure associated with these plots
			• Plot C: Sale to Galliard Homes completed
			  • £22m received in June 2019

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 required	• 6.25 acres sold for £193.5m in August 2017 • c.£84m in staged payments received to date • Remainder to be paid in staged payments in 2020-21 and final lump sum payments in 2024-25 • Separation and enabling works on track to complete in 2021 and expected to cost c.£100m

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total proceeds	111	-	-	43	41	144
Total investment	(11)	(23)	(34)	(33)	(34)	(47)
Net cash position	100	(23)	(34)	10	7	97
Cumulative	100	77	43	53	60	157

2020-21 onwards

Nine Elms proceeds expected from further plot sales

Staged payments and lump sum payments for Mount Pleasant

Pensions

Income statement

£m		FY 2019-20	FY 2018-19
RMPP		**(9)**[1]	(12)[2]
DBCBS		**(388)**	(362)
RMDCP[4]		**(97)**	(82)
GLS		**(7)**	(7)
PSE[5]		**(178)**	(172)
People costs		**(679)**	(635)
RMSEPP buy-in[6]		**-**	(64)
Total EBIT pension costs		**(679)**	(699)
Pension interest credit[7]		**86**	79
Total net PBT pension costs		**(593)**	(620)
Pensionable payroll (£bn)	DBCBS	**1.8**	1.9
Income statement rate	RMPP	**-**	41.0%
	DBCBS[8]	**20.8%**	18.9%
	RMDCP[9]	**8.6%**	8.0%
Number of active members	DBCBS	**c.79,000**	c.82,700
	RMDCP	**c.53,700**	c.50,600

Cash flow

£m		FY 2019-20	FY 2018-19
RMPP		**-**	(5)[2,3]
DBCBS		**(288)**	(297)
RMDCP[4]		**(97)**	(82)
GLS		**(7)**	(7)
PSE[5]		**(178)**	(172)
RMSEPP death in service and administration expenses		**(1)**	(2)
Cash contributions		**(571)**	(565)
Pensionable payroll (£bn)	DBCBS	**1.8**	1.9
Cash rate	RMPP	**-**	17.1%
	DBCBS	**15.6%**	15.6%
	RMDCP[9]	**8.6%**	8.0%

[1] Comprises pension administration costs only [2] Includes 1 week of RMPP costs to 31 March 2018 [3] Includes £2m pension related accruals timing difference [4] Excludes £10m insurance premium costs (FY 2018-19: £10m) which are included in people costs [5] Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay [6] Operating specific item [7] Non-operating specific item [8] Rate determined by real discount rate at end of March based on longer term RPI and appropriate AA corporate bond rates at the time [9] Average employer contribution rate for the period, excluding benefits