Royal Mail Group

Half Year 2020-21 Results

19 November 2020

Royal Mail plc

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Keith Williams

Interim Executive Chairman


Royal Mail plc

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

First half summary

Capturing the revenue opportunity through renewed customer focus and innovation
Expect to deliver this year the £12bn Group revenue previously forecast for FY2023-24

Royal Mail

Revenue growth 4.9%

Adj. operating loss £129 million

- Delivering on commitments from June
- Need to pivot more quickly from letters to parcels
- Approaching CWU talks positively, focused on growth and efficiency

GLS

Revenue growth 21.7%

Adj. operating profit up 84.4% to £166 million

- Boosted by exceptional volumes and price initiatives
- Strong footprint, local market presence and operational agility
- Well positioned to continue to benefit from B2C & cross-border

Updated scenario shows improved FY revenue due to stronger parcel growth YTD
Parcel growth expected to remain robust in Q3, more uncertainty over trends in Q4

Mick Jeavons

Interim Royal Mail Group CFO

Royal Mail plc

H1 2020-21 Financial summary

£m	Adjusted H1 2020-21	Adjusted H1 2019-20	Change
Revenue	**5,671**	5,166	9.8%
Operating profit	**37**	165	(77.6%)
Margin	***0.7%***	*3.2%*	*(250 bps)*
Earnings per share (basic)	**0.4p**	11.1p	
In-year trading cash flow	**219**	152	
Net debt	**(1,006)**	(1,372)	

- Higher parcel revenue more than offsets decline in Royal Mail letter revenue. Parcel revenue now 73.0% (2019-20: 62.8%) of Group revenue
- Higher operating costs mainly as a result of COVID-19, volume and mix change costs, and previously announced management restructure in Royal Mail
- In-year trading cash flow benefits from timing on working capital and lower income tax paid
- Net debt benefits from trading cashflow and Board's decision not to pay full year dividend; ambition to re-commence in FY2021-22

Note: Adjusted results include a charge of £140m for the previously announced management restructure. Adjusted results also exclude specific items and the pension charge to cash difference adjustment

Royal Mail results

£m	Adjusted H1 2020-21	Adjusted H1 2019-20	Change
Revenue	**3,828**	3,649	4.9%
Operating costs	**(3,957)**	(3,574)	10.7%
Operating (loss)/profit	**(129)**	75	(272.0%)
Margin	***(3.4)%***	*2.1%*	(550 bps)

- Revenue growth at highest level since IPO
- Parcels revenue now greater than letters, 60% of Royal Mail revenue (vs. 47% in prior period)
- Operating cost increase driven by COVID-19, volume & mix change, international conveyancing and restructuring

Note: Adjusted results include a charge of £140m for the previously announced management restructure. Adjusted results also exclude specific items and the pension charge to cash difference adjustment

Royal Mail revenue

Parcels

- Parcel volume up 31%; revenue up 33.2%
- Domestic account volumes (ex. Amazon) up 51%
  - Royal Mail Tracked 24®/48® and Tracked Returns® volumes up 72%
- International traffic
  - import volumes up driven by strong demand of cross-border offering
  - export revenues up despite fall in volumes
- Parcelforce Worldwide volumes up 16% driven by
  - increased B2C traffic
  - new customer acquisitions

Letters

- Total letter revenue down 20.5%
  - decline accelerated by impact of COVID-19: economic impact and ongoing business uncertainty
- Advertising letter[2] revenue down 47.8% at £160 million
  - Unaddressed volumes down 45%
- Addressed letter volumes (ex. elections) down 28%
  - Business mail also heavily impacted

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 [3] Adjusted methodology of volume and price/mix calculations to reflect impact from extreme volume changes in certain product categories

Royal Mail costs

£m	Adjusted H1 2020-21	Adjusted H1 2019-20	Change
People costs	**2,774**	2,495	11.2%
People costs	**2,627**	2,489	5.5%
Voluntary redundancy costs	**147**	6	>100%
Non-people costs	**1,183**	1,079	9.6%
Distribution & conveyance costs	**434**	390	11.3%
Infrastructure costs	**381**	381	Flat
Other operating costs	**368**	308	19.5%
Total costs	**3,957**	3,574	10.7%

Adjusted operating costs up 10.7%

- Mainly driven by people costs including voluntary redundancy

People costs up 11.2%

- Impact of:
  - growth in parcel volumes, higher absence levels, overtime and agency staff, and social distancing due to COVID-19
  - mix change cost: £75 million
  - COVID-19 cost: £41 million
- £147 million voluntary redundancy costs
  - £140 million management restructure announced in June 2020

Non-people costs up 9.6%

- Increase in distribution & conveyance costs as a result of volume growth
  - £32m increase in international conveyance
- Infrastructure: higher property cost offset by lower IT costs
- Other operating costs increased, driven by protective equipment, POL fees and compensation costs
- Mix change cost: £20 million; COVID-19: £44 million

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

GLS results

£m	Adjusted H1 2020-21	Adjusted H1 2019-20	Change
Revenue	**1,870**	1,537	**21.7%**
Operating costs	**(1,704)**	(1,447)	**17.8%**
Operating profit	**166**	90	**84.4%**
Margin	***8.9%***	*5.9%*	**300 bps**
Volumes (m)	**387**	321	**21%**
Average £1 = €	**1.12**	1.13	

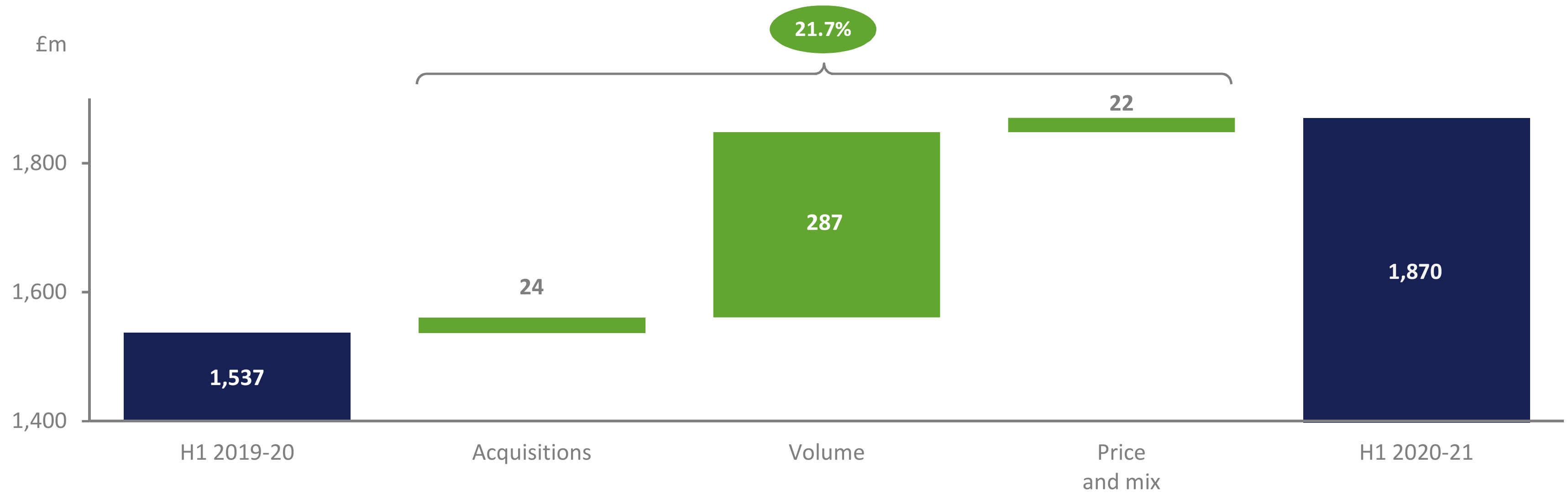
€m	Adjusted H1 2020-21	Adjusted H1 2019-20	Change
Revenue	**2,088**	1,730	**20.7%**
Operating costs	**(1,903)**	(1,629)	**16.8%**
Operating profit	**185**	101	**83.2%**

Adjusted results

- Strong volume and revenue growth in almost all markets
  - driven by growth in B2C and international volumes
  - particularly in markets with a higher B2C exposure such as Spain and Europe East
  - B2C 56% of GLS volume in H1 (46% in prior period)
- Volume driven growth in operating costs
- Actions taken to mitigate increased cost of B2C
  - focus on productivity and pricing initiatives in certain markets
- Operating profit margin 8.9%, benefiting from one-off leverage benefit of around £36 million
- Improvement in focus countries:
  - Spain, France, US
- Negligible foreign exchange impact on profit

Note: Adjusted results excludes specific items

GLS revenue



- Revenue up 21.7% including acquisitions on 21% higher volumes
  - significant growth in markets with greater B2C exposure (e.g. Spain, Europe East and Denmark)
- Revenue up 20.1% excluding acquisitions
  - positive impact of higher volumes and pricing initiatives
- Germany, Italy and France represented 53.6% of total revenue (down 130bps vs. 2019)
- Improved performance in focus countries
  - France: revenue up 19.2% and significant improvement vs. €11 million loss in prior period
  - Spain: revenue up 49.5% driven by B2C volume and pricing initiatives. Operating profit improved significantly vs. small loss in the prior period
  - North America: US performance improved. Increased management focus and contribution from MVE[1]; Dicom revenue impacted by lower freight and B2B volumes, although margin improved due to actions on costs

[1]Mountain Valley Express

GLS costs

£m	Adjusted H1 2020-21	Adjusted H1 2019-20	Change
People costs	**398**	353	12.7%
Non-people costs	**1,306**	1,094	19.4%
Distribution & conveyance costs	**1,152**	959	20.1%
Infrastructure costs	**111**	96	15.6%
Other operating costs	**43**	39	10.3%
Total costs	**1,704**	1,447	17.8%

Adjusted operating costs up 17.8%

- Up 16.3% excluding acquisitions

People costs up 12.7%

- Up 9.8% excluding acquisitions
  - pay inflation: c.2%
  - semi-variable costs linked to volume: c.8%

Non-people costs up 19.4%

- Up 18.4% excluding acquisitions
- Distribution & conveyance costs up 20.1% broadly in line with volume growth
- Infrastructure costs up 15.6% driven by higher depreciation, repairs and maintenance

Note: Adjusted results excludes specific items

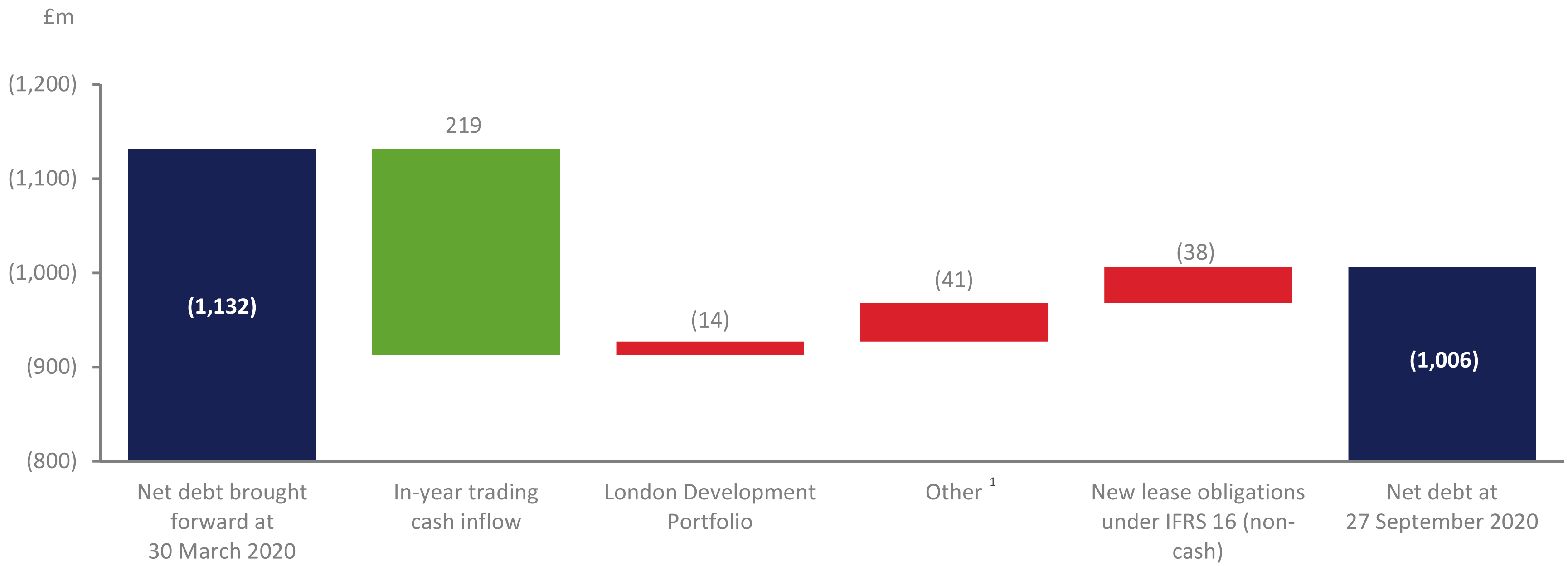
Group in-year trading cash flow

£m	H1 2020-21	H1 2019-20
Adjusted operating profit	**37**	165
Depreciation & amortisation	**259**	252
Adjusted EBITDA	**296**	417
Trading working capital movements	**94**	(105)
Share-based awards (LTIP/DSBP) charge	**3**	3
Gross capital expenditure	**(132)**	(113)
Net finance costs paid	**(24)**	(24)
Research & development expenditure credit	**1**	3
Income tax paid	**(19)**	(29)
In-year trading cash flow	**219**	152

£m	H1 2020-21	H1 2019-20
Growth capex	**(86)**	**(83)**
Replacement capex	**(46)**	**(30)**
Gross capex	**(132)**	**(113)**

- Lower adjusted EBITDA and increased capex
  - increase in growth capex in GLS partially offset by reduction in Royal Mail
  - replacement capex increase driven by timing of vehicle purchases and spend on upgrading data platforms
- Trading working capital movement
  - inflow largely driven by accrual for management restructuring
- Cash tax £10m lower largely due to losses in Royal Mail and timing of GLS tax payments
- Pre IFRS16, in year trading cash flow would have been c. £141m, £78m lower

Uses of cash/net debt



- Cash outflow relating to the London Development Portfolio largely infrastructure and enabling works for Mount Pleasant
- New lease obligations under IFRS 16 relates to additional lease commitments entered into during the period
- Free cash flow of £188 million

Strong balance sheet with available resources of around £2 billion[2]

[1] Other comprises foreign exchange movement (-£24m), other working capital movements (-£14m), operating asset disposals (£2m), operating specific items (-£2m) and acquisition of business interests (-£3m)
[2] Includes committed and undrawn funding facilities of £925 million at 27 September 2020 through the bank syndicate loan facility and other liquid resources available to the Group (cash at bank £385 million and cash equivalent investments of £687 million at 27 September 2020).

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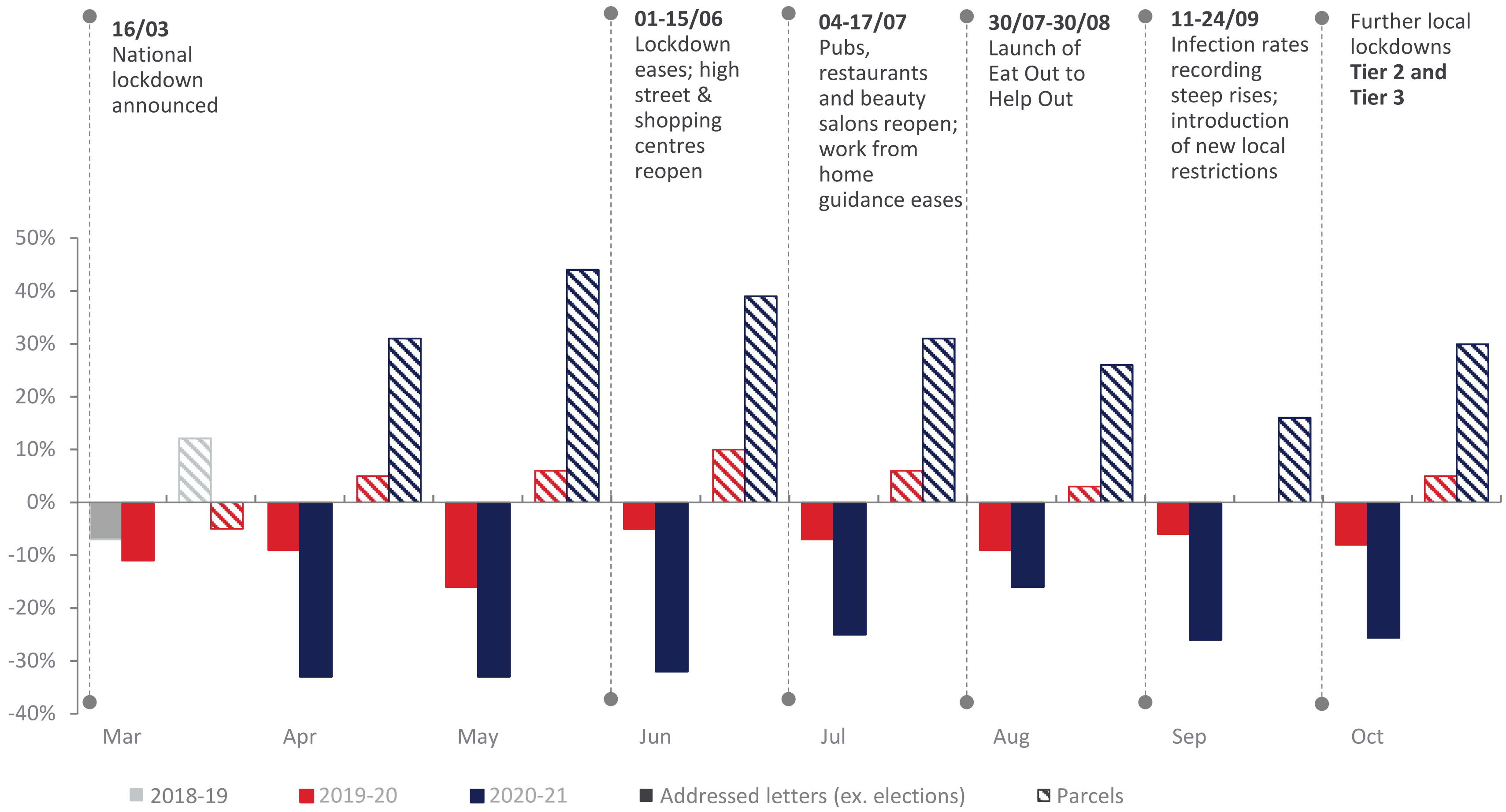
Royal Mail COVID-19 volatility

Addressed letter (ex. elections) and parcel volumes change year on year



Note: Year on year Parcel volume growth in September 2019-20 was 0%

Royal Mail scenario detail

Scenario Update

Updated Scenario vs 8 September (AGM trading update)

	AGM (8 September)		Updated		
	YTD 30/8	FY20-21	H1 (actual)	H2	FY20-21
Letter revenue	(22)%	(17)%	(20.5)%	(12)%	(16)%
Domestic parcel revenue	37%	25%	35%	35%	35%
International parcel revenue	17%	10%	23%	7%	14%
Total UK parcel revenue	33%	22%	33.2%	30%	31%
Royal Mail revenue year on year change[1]	£139m higher	£75m to £150m higher	£179m higher	£200m to £400m higher	£380m to £580m higher
Net cost of mix change from Letters to Parcels	£(85)m	£(140-160)m	£(95)m	£(115)m	£(210)m
Cost of COVID-19*	£(75)m	£(120)m	£(85)m	£(70)m	£(155)m
International conveyance costs**			£(32m)	(£30m)	(£62m)

[1] Includes elections in 2019-20 (£82 million)
* Costs of elevated absence, social distancing, additional protective equipment and other COVID-19 related costs
** The increase in the costs of overseas conveyance on export mail

Royal Mail scenario detail

Scenario Update

Key assumptions

Letters:

- FY letter decline in line with original scenario
- Uncertainty associated with both the economy and Brexit
- Rate of decline in H2 projected to slow vs. H1 driven by advertising mail, assuming current trajectory of business recovery is maintained
- A 1% change from our current projection would impact letter revenues in the remainder of the year by c. £15 million

Parcels

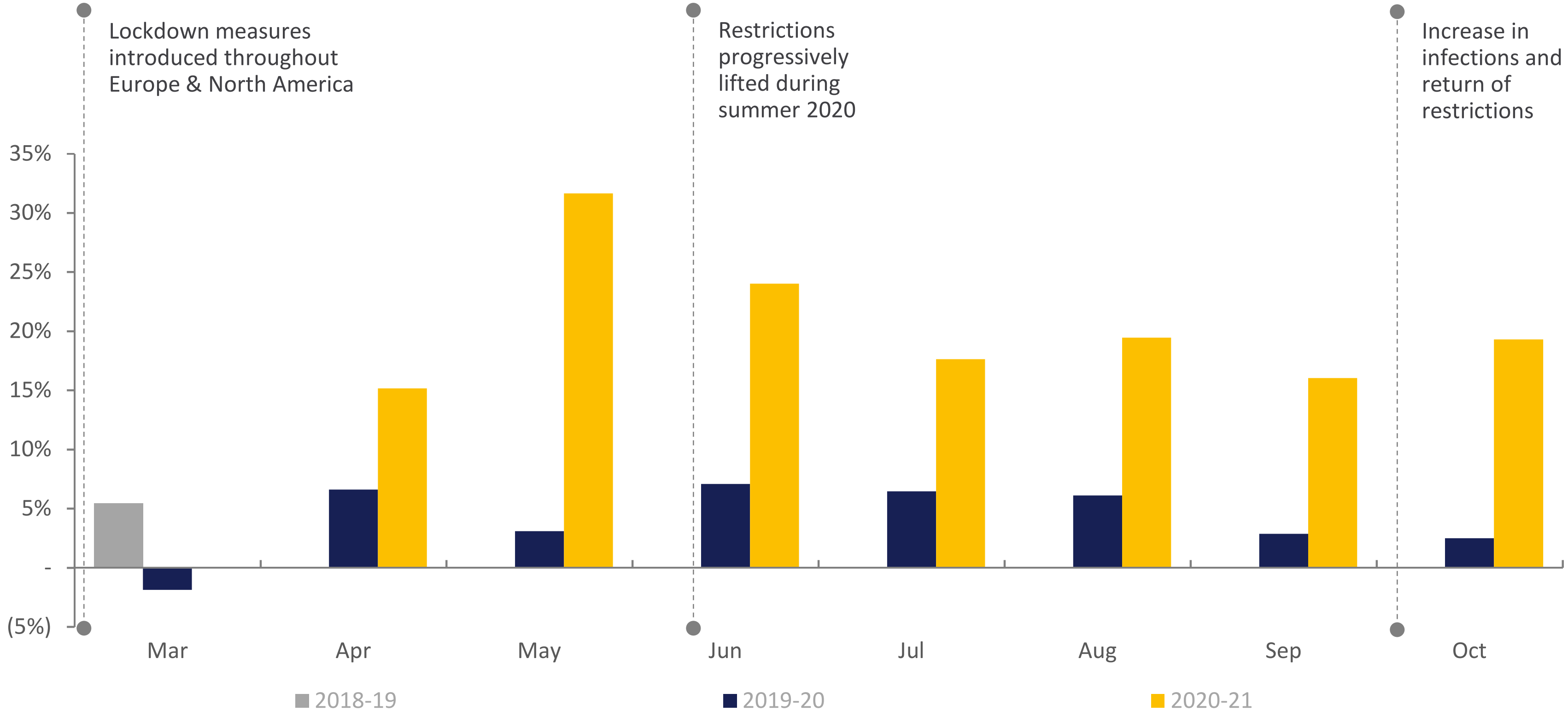
- Assume continued strong growth in H2, based on customer behaviour remaining the same:
  - Domestic: second national lockdown, potential subsequent localised lockdowns
  - significant uncertainty in respect to customer behaviours in Q4
  - International: slower growth rate in H2 vs. H1 predominantly driven by the expected impact of Brexit on exports in Q4
- A 1% change from our current projection would impact parcel revenues in the remainder of the year by c. £20 million

Costs:

- **Cost of mix change:** increased due to higher than anticipated parcel volumes
- The implied incremental cost of each percentage point increase in domestic parcel revenue is c.£ 8 million
- **COVID-19 costs:** higher due to expected increases in absence levels during both national and local lockdowns
- **International:** material price increases in many markets has resulted in revenue growth but also significant increases in the costs of overseas conveyance of export mail

GLS COVID-19 volatility

Parcel volumes change year on year



Note: Working day adjusted volume growth

GLS scenario detail

Scenario Update

Updated Scenario vs 8 September (AGM trading update)

	AGM (8 September)		Updated		
	YTD 30/8	FY20-21	H1 (actual)	H2	FY20-21
Revenue Growth	19%	10-14%	22%	20-24%	21-23%
Adjusted operating profit margin	8.1%	c. 7%	8.9%	c. 7%	c. 8%

Key assumptions

- Revenue and margin improvement driven by:
  - strong performance in H1
  - impact of the new lockdown restrictions in several geographies
- Rest of year carries recessionary uncertainty and consequent risk of lower volumes than observed earlier in the year

Note:
Revenue growth and adjusted operating profit use Sterling figures as a base
COVID-19 related costs included in margin

Summary

1 **H1 2020-21 performance**

- Strong parcel volume and revenue growth
- Additional costs of mix change, COVID-19, international conveyancing and restructuring at Royal Mail
- GLS margin expansion despite shift to B2C – one-off leverage benefit
- Cash generation - net debt reduced by £126 million since March

2 **FY2020-21 scenario**

- Volatility continues to make guidance difficult
- Parcel growth sustained by tightening of lockdown measures
- Volume driven cost increases in Royal Mail
- Q3 parcel growth expected to remain robust
- More uncertainty over trends in Q4 – COVID-19, international volumes, Brexit and recessionary risks

First half performance above initial expectations in many areas
Second half: good momentum but uncertainty over COVID-19 pandemic, possible recessionary impacts and Brexit

Stuart Simpson

Interim CEO Royal Mail

Royal Mail plc

Delivering the 3 commitments from June

1

Management restructure

- Complete by end Q4 subject to consultation
- £140m charge in H1 2020-21
- Will deliver expected £130m annual benefit in 2021-22

2

£200m non-people cost saving (21-22 vs 19-20)

- Delivered £70 million savings to date
- Strong pipeline of initiatives and remaining £130 million savings identified
- Higher than anticipated parcel volumes

3

c. £250m capex reduction over 2 years

- Savings identified and capex plan revised
- Investment in network transformation - automation of parcels and parcels hubs - continuing
- Business critical investments protected

Delivering for our customers through COVID-19

- Kept the network going with unique operating challenges related to COVID-19
  - keeping people safe: social distancing measures and £40 million spent in H1 2020-21 on PPE for our colleagues
  - 20% sick absence level
  - extreme volatility in parcel volumes

- Played an essential role in supporting the Government and the country
  - post men and women recognised as key workers
  - handled > 90% of all COVID-19 test kits
  - delivered 430 million items of PPE since April to Care Homes, GP Surgeries and other critical healthcare points

Operational resilience & flexibility

Fast response to customers

Worked in collaboration with Unions

Supporting the Government & country to navigate the pandemic


THUMBS UP FOR
OUR POSTIES
Designed by ©Miss Meaney's
#ThumbsUpForYourPostie
THUMBS UP FOR YOUR POSTIE.....
KEEPING COMMUNITIES CONNECTED
THE YORKSHIRE POST
We're all in this together
Thank You Postie
THANK YOU TO OUR POSTIE!
THUMBS UP FOR OUR POSTIE
ROYAL MAIL
HEY POSTIE!
TOGETHER WE CAN
THANK YOU KEY WORKERS
THANK YOU POSTIE
Thumbs Up For Your Postie
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Well positioned for growth

1 Best workforce

- Committed to remaining best employer[1]
- More frontline engagement
- Times Top 50 Employer for Women - 6th consecutive year

2 Trusted brand

- UK's most trusted delivery company
- Top 10 YouGov's Best Brands 2020
- Sustainability leader: #2 globally in transport (Dow Jones)
- 500 years of service

3 Great products

- Great quality products
- High quality service, unrivalled scale and reach
- Pushing ahead on innovation

More to come…

4 Efficient ways of working

- Delivering the transformation
- Focussed on efficiency
- More tech-enabled
- Lowest CO_2 per parcel[2]

More to do…

[1]Inaugural signatory of Business in the Community's (BITC) Race at Work Charter BITC mentoring circles [2] Defined as lowest reported CO_2 emissions per parcel than any other UK delivery operator

Transformation update

Progress but not without issues / challenges

Digitisation

- **Automated Hours Data Capture (Scan in / Scan out):** in 20 units, 12 live and 8 with technology installed
- Trials delayed due to COVID-19, restart being planned
- Planned national rollout to Processing sites during 2021-22
- **Resource Scheduler**: testing underway in six units, although delayed by COVID-19
- Trials due to commence Q4 2020-21 at these same sites
- National rollout planned from Q3 2021-22 subject to successful trial outcome
- **Customer facing website and App upgrades**

Challenges related to COVID-19 but trials re-starting and progress on automation and hubs continues

Network design

- North West hub automation fit out commences Jan 2021
- Contract for Midlands hub signed; construction underway
- Contract for new parcel sorting machines signed
- Parcels sorted automatically more than doubled in H1 2020-21 versus H1 2019-20 to 317 million

Dedicated Parcel Routes trials

- Van-based trial to test separate daily delivery of larger parcels and next day Later Acceptance Time parcels
- 22 dedicated van routes deployed over two trial sites
- Four further pilot units commenced deployment in Q3, with four more to deploy in Q4

Employee engagement

Increased employee engagement on the need for change, and to build pride in working for Royal Mail

- **'Change Story':** a two-way conversation with staff to explore the need for Royal Mail to transform
- **Morale boosting campaigns:** e.g. award winning #thumbsupforyourpostie campaign, Who We Are campaign
- **Two-way communication:** greater use of CEO conference calls, social media and other feedback channels
- **Ambassador Programme:** programme of face to face engagement sessions to discuss key issues (e.g. USO), and feed frontline ideas back to the CEO and Executive Board

97% of Ambassadors report frontline attendees understand change is necessary

94% of Ambassadors report sessions have improved understanding of business situation

Ambassadors report c. ¾ of attendees understand the key messages on the financial position of the business & sustainability of the USO

Royal Mail plc

Industrial relations

Engagement with CWU

- Need substantial business change to capture opportunities from rapidly growing demand for parcels
- Engaged in talks with CWU since July, intensified over past weeks
- Focus on pay and how we work to respond to market changes
- Laid out programme of change and benefits to CWU
- First half performance shows we can deliver growth agenda, but need agreement soon

Engagement with Unite CMA

- Consulting extensively on management restructuring and transformation of the business

Prepared for Peak

Working hard to deliver Christmas

- Increased investment in peak period by c. £100m this year
- Deployed eight additional temporary parcel sort centres
- 100,000 flexible worker applications; recruiting c.33,000
- Launched "Shop Early, Send Early for Christmas" campaign and launching first Christmas TV ad in 7 years
- Accurately predicting volumes and absence rates given the risk of COVID infection rates rising is challenging

Q3 parcel growth expected to remain robust

More uncertainty over trends in Q4 – COVID-19, international volumes and recessionary risks

Summary

1 **First half performance demonstrates we have the right strategy**

- Customer focus: parcels revenue > letter revenue
- Highest revenue growth since privatisation
- Innovation: Parcel Collect, Inflight redirections
- Delivering through COVID-19

2 **Delivering on commitments**

- Management restructure: £130m annual benefit in FY2021-22
- Non-people costs: £200m saving by end of FY2021-22
- Capex: £250m reduction across FY2020-21 & FY2021-22

3 **Sustainable for the long term**

- COVID-19 has accelerated market trends - need step change
- Approaching CWU talks positively, focused on growth and efficiency, but need agreement soon
- Unrivalled combination of People / Scale / Brand / Reach / Innovation

Martin Seidenberg

CEO GLS

Royal Mail plc

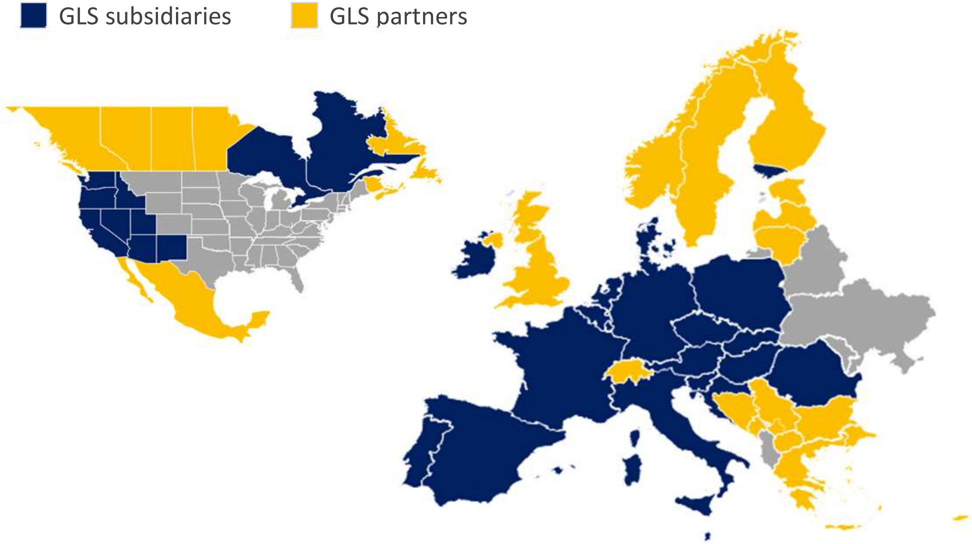
Overview

1. Proven business model
2. Strong H1 performance
3. Positioned for continued growth
4. Positive H2 outlook

Proven business model

GLS at a glance

Network overview



Extensive international footprint

Local focus & entrepreneurial approach

Diverse business & customer portfolio

Facts & figures

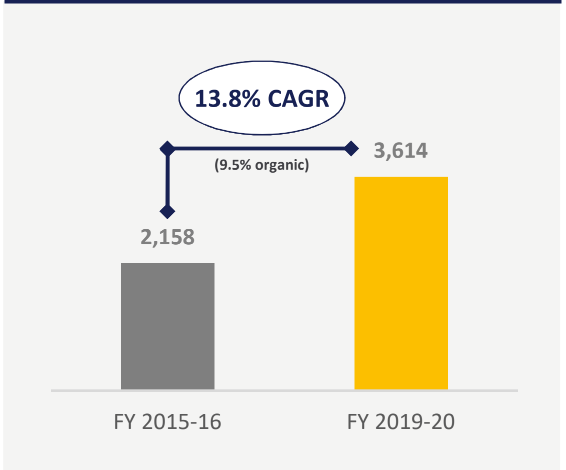
- **H1 2020-21 revenue €2.1bn** (FY 2019-20 revenue €3.6bn)
- **H1 2020-21 8.9%** adj op profit margin (+3.0 ppts vs H1 PY)
- **>240,000** customers
- **c.70 hubs & c.1,400 depots**[1]
- **c. 32,000** vehicles[2]
- **c. 25,000** parcel shops
- **c. 19,000** employees[3]

[1] Including regional hubs, agencies and franchisees | [2] Subcontracted | [3] Headcount

Proven business model

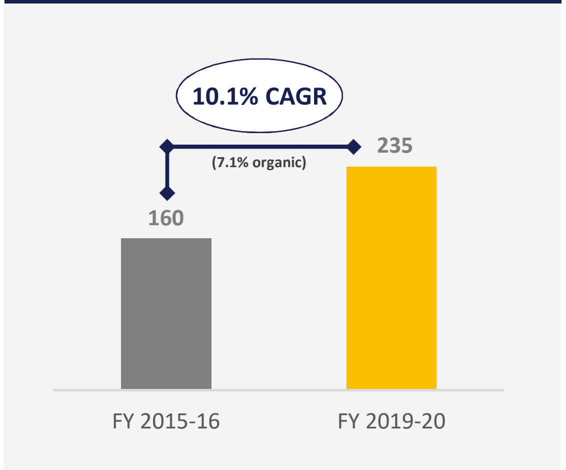
Historic performance

GLS revenue (€m)



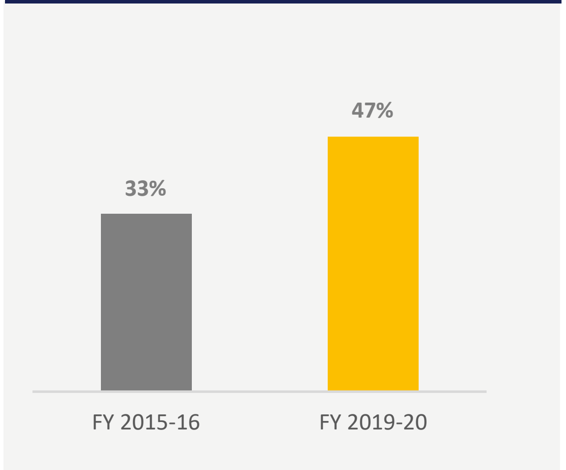
Delivery of revenue growth…

GLS EBIT (€m)[1]



…sustained profitability…

GLS B2C volume share



…alongside pivot towards 2C

GLS has consistently delivered strong performance in recent years

[1] Adjusted operating profit before IFRS 16.

Proven business model

Strategic observations

1

GLS is well positioned

… to quickly respond to new market trends in various segments

2

Scope to grow within existing footprint

…by creating new capacity and improving the customer experience

3

Key strategic priorities

… will feed local strategies and ensure consistent focus

4

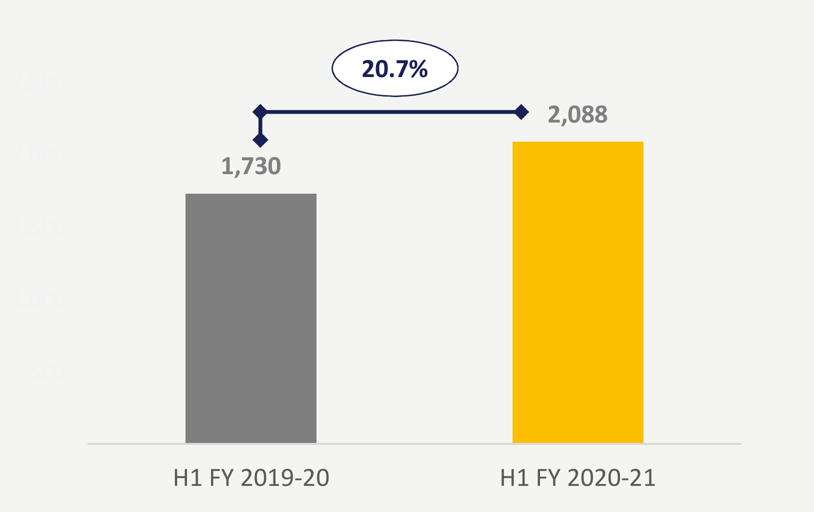
Strong leadership team

…ready to empower business and drive performance

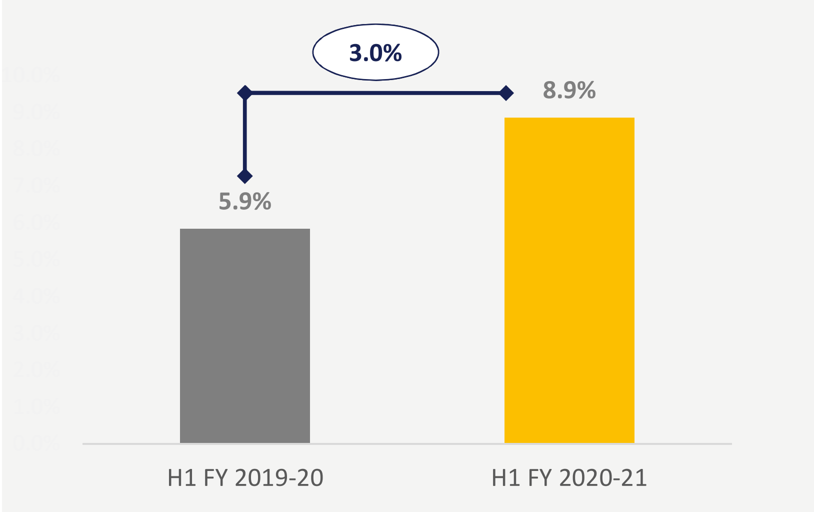
Strong H1 performance

High growth and improved margins

GLS revenue (€m)



Adjusted operating profit margin (€m)



- Excellent H1 performance with GLS exceeding expectations in almost all markets
- Growth largely driven by international and B2C volume:
  - International volume c.+28%
  - B2C domestic volume c.+40%
- Robust pricing environment in most markets

- Margin increase to 8.9% despite pivot towards B2C:
  - scale impact on operational unit costs
  - cost containment measures
- Challenges relating to COVID-19 well managed

Strong H1 performance

Focus countries emerge stronger in H1

Spain

- 49.5% revenue growth
- Significant improvement in financial performance during H1
- Successfully leveraged leading position in 2C
- Growth also driven by international

Continue growth

- Exploit potential in 2C
- Differentiate through quality and international service

France

- 19.2% revenue growth
- Significant improvement in results during H1
- Fully operational & high service levels throughout lockdown
- Growing customer base
- Improved unit costs per parcel

Secure momentum

- Lock-in new customers at the right price
- Focus on operational stability and scale benefits

US

- 15.1% revenue growth[1]
- Now breakeven[2]
- Focus on operational excellence to manage costs
- Launch of hybrid parcel & freight model

Execute turnaround

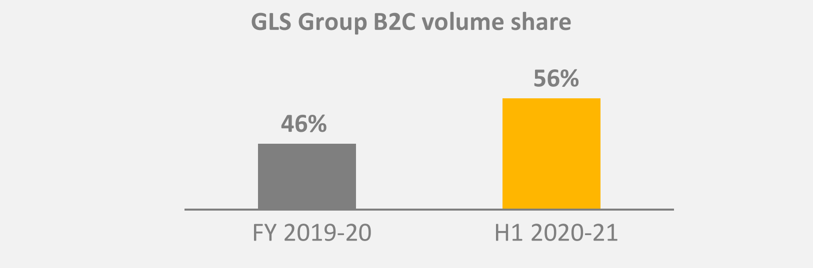
- Detailed management attention
- Focus on operational and commercial excellence

[1] Excluding the impact of acquisitions and on constant currency basis ; [2] incl. acquired Mountain Valley Express (MVE) business

Positioned for continued growth

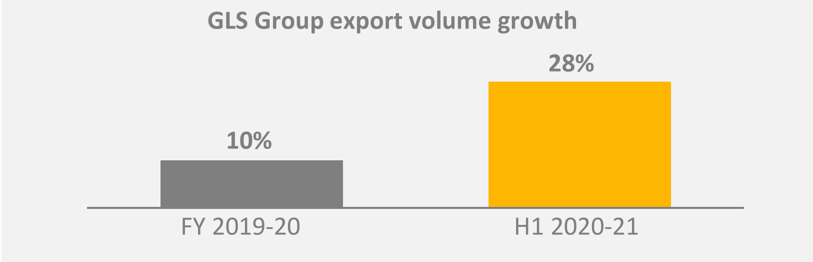
Leveraging shift to 2C & international capability

GLS B2C



- Leading 2C positions in key markets (e.g. Spain, Denmark & Europe East)
- Flexible model allows GLS to respond quickly to local developments & customer needs
- Diverse and profitable customer base
- B2C capability developments alongside existing B2B product portfolio

GLS cross-border



- High quality service across all major EU countries
- Seamless customer experience across borders (e.g. international *ShopReturnService*)

Next steps

- Refine operations and use of technology (e.g. small parcel sorters)
- Elevate the GLS customer experience by digitasing and improving customer connectivity
- Invest to:
  - reinforce best-in-class international quality (e.g. more direct links between hubs, larger facilities)
  - broaden sustainability offering (e.g. green fleet)

GLS Summary

1 Proven business model

- Leading provider across Europe
- Clear track record of delivering profitable growth

2 Strong performance in H1

- 21.7% revenue growth and 3 ppts margin improvement
- Focus countries emerge stronger in H1

3 Positioned to capture growth

- Tailwinds from e-commerce to underpin performance
- Strong B2C & international capabilities in key markets
- Investments in further growth and customer experience

4 Positive H2 outlook

- Improved full year outlook
- Business prepared for continued growth beyond 2020-21

Keith Williams

Interim Executive Chairman

Royal Mail plc

Summary

1

COVID-19 has accelerated market trends

- Expect to deliver this year the £12bn Group revenue previously forecast for FY2023-24
- Royal Mail: parcels revenue > letters revenue for 1st time
- Need to pivot more quickly from letters to parcels
- GLS: Strong footprint, local market presence and operational agility

2

Delivering June commitments; updated Scenario

- Delivering £330 million cost saving in UK by FY2021-22 & capex reductions of £250 million over 2 years
- Improved FY revenue due to stronger parcel growth YTD
- Parcel growth expected to remain robust in Q3, more uncertainty over trends in Q4

3

Sustainable for the longer term

- Approaching CWU talks positively, focused on growth and efficiency
- GLS well positioned to continue to benefit from B2C & cross-border
- Await Ofcom User Needs Report on USO

Q&A

Royal Mail plc

Appendix

Specific items and pension adjustment

£m	H1 2020-21	H1 2019-20
Regulatory fine	-	(51)
Impairment of assets	**(3)**	-
Employee Free Shares charge	-	(4)
Amortisation of acquired intangible assets	**(10)**	(10)
Legacy/other credits	-	4
Total operating specific items	**(13)**	(61)
(Loss) / profit on disposal of property, plant & equipment	**(3)**	88
Net pension interest	**59**	43
Total non-operating specific items	**56**	131
Pension charge to cash difference adjustment (within people costs)	**(44)**	(43)
Total specific items and pension charge to cash difference adjustment	**(1)**	27

£m	H1 2020-21 Reported	Adjusted
Profit before tax	17	18
Profit after tax	14	4
Earnings per share (basic)	1.4p	0.4p

- Amortisation of acquired intangible assets relates to acquisitions in GLS
- Loss on disposal of £3 million (2019-20: £88 million profit) relates to various losses on disposal of property, plant and equipment
  - prior period profit largely relates to the sale of plots B & D and C of Nine Elms
- Higher pension interest credit due to higher pension surplus

Royal Mail data

Parcels	H1 2020-21	H1 2019-20
Volumes (m)		
Domestic	681	492
International	125	121
Total	**806**	**613**
Change	*31%*	
Revenue (£m)	**2,299**	**1,726**
Change	*33.2%*	

Letters	H1 2020-21	H1 2019-20
Volumes (m)		
Addressed	3,423	4,912
Unaddressed	686	1,244
Total	**4,109**	**6,156**
Change	*(33%)*	
Revenue (£m)	**1,529**	**1,923**
Change	*(20.5%)*	

Adjusted Group profit after tax

£m	Adjusted H1 2020-21	Adjusted H1 2019-20
Operating profit	**37**	165
Finance costs	**(32)**	(23)
Finance income	**13**	4
Net finance costs	**(19)**	(19)
Profit before tax	**18**	146
Tax charge	**(14)**	(35)
Profit for the period	**4**	111
Earnings per share (basic)	**0.4p**	11.1p

Group tax

£m	Reported H1 2020-21			Adjusted H1 2020-21		
	Royal Mail	GLS	Group	Royal Mail	GLS	Group
(Loss)/Profit before tax	(133)	150	17	(142)	160	18
Income statement tax credit/(charge)	33	(36)	(3)	24	(38)	(14)
Effective tax rate	**24.8%**	**24.0%**	**17.6%**	**16.9%**	**23.8%**	**77.8%**
Cash tax payments	nil	(19)	(19)	n/a	n/a	n/a

Income statement tax

Royal Mail

- **Adjusted:** not comparable to the prior year due to the loss. Effective rate for the credit lower than the UK statutory rate due to increase in a contingency provision and non-deductible expenditure, which are only partially offset by technology claims
- **Reported:** Rate on reported credit higher than the adjusted rate as no tax charge arises on non-taxable net pension interest income

GLS

- **Adjusted:** lower rate than the prior period (H1 2019-20: 28.0%) due to improved performance of France and US resulting in a lower non-recognition of deferred tax assets on losses
- **Reported:** broadly same as adjusted

Cash tax

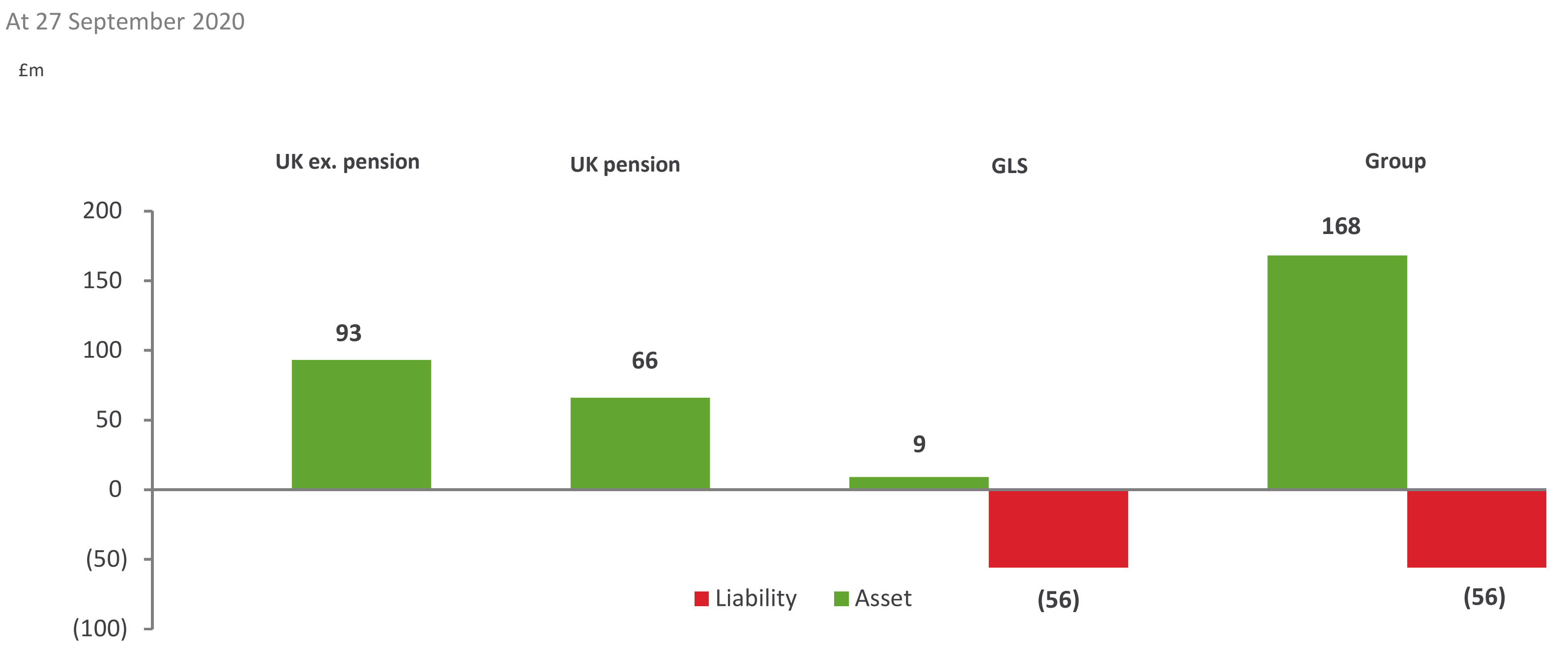
Royal Mail

- Cash tax is £nil (H1 2019-20: £9m) as a result of Royal Mail incurring a loss

GLS

- Cash tax payments are comparable to the prior period (H1 2019-20: £20m) despite improved results this period. Cash tax payments in H1 are based on prior year results. Catch up payments expected in H2

Deferred tax - balance sheet



UK

- UK deferred tax asset excluding pension of £93m (FY 2019-20 £69m) mainly comprising tax losses, timing differences on provisions and capital allowances. Increase of £24m relates to the increase of tax losses and capital allowances
- Deferred tax asset of £66m in respect of the DBCBS pension deficit expected to move in line with the deficit

GLS

- Liabilities of £56m (FY 2019-20 £54m) mainly relate to acquired intangibles

Liquidity

Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
500m Euro bond[1]	2.5%	456	456	2024
550m Euro bond[2]	2.7%	501	501	2026
Syndicated bank loan facility[3]	LIBOR +0.475%	925	-	2025
Total		**1,882**	**957**	

Net debt[4]

£m	27 Sep 2020	29 Sep 2019
Loans/bonds	**(957)**	**(443)**
Leases[5]	**(1,142)**	**(1,171)**
Cash and cash equivalents[6]	**1,072**	**222**
Pension escrow (RMSEPP)	**21**	**20**
Net debt	**(1,006)**	**(1,372)**

- S&P reaffirmed investment grade rating of BBB but revised outlook from stable to negative as a result of their assessment of COVID-19 related challenges
- Covenants waived until March 2022 – replaced by minimum liquidity covenant (£250 million), tested quarterly[7]
- Net debt decreased due to higher in year trading cashflow and no dividend payment following Board's decision not to pay full year dividend
- Unused access to CCFF of up to £300 million

[1] €500m liabilities net of discount and fees at spot rate £1/€1.093 revalued at balance sheet date [2] €550m liabilities net of discount and fees at spot rate £1/€1.093 revalued at balance sheet date [3] The total margin over LIBOR consists of a 0.40% margin and a utilisation fee of 0.075% when the facility is under one third drawn) [4] Net debt excludes £190m related to RMPP pension escrow investments which are not considered to fall within definition of net debt [5] Includes £1,053m operating leases at 27 Sep 2020 [6] Consists of cash and cash equivalents of £1,038m and GLS client cash of £34m [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 over 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	2020-21 (H1)
Total proceeds	111	-	-	43	41	144	1
Total investment	(11)	(23)	(34)	(33)	(34)	(47)	(15)
Net cash position	100	(23)	(34)	10	7	97	(14)
Cumulative	100	77	43	53	60	157	143

2020-21 onwards

- **Nine Elms proceeds expected from further plot sales**
- **Nine Elms additional investment only if further sales**
- **Staged payments and lump sum payments for Mount Pleasant**

Note: Historic proceeds refer to other properties in addition to Nine Elms and Mount Pleasant

Pensions

Income statement

£m		H1 2020-21	H1 2019-20
RMPP[1]		(5)	(5)
DBCBS		(182)	(184)
RMDCP[2]		(52)	(47)
GLS		(4)	(4)
PSE[5]		(91)	(88)
Total EBIT pension costs		**(334)**	**(328)**
Pension interest credit[4]		59	43
Total net PBT pension costs		**(275)**	**(285)**
Pensionable payroll (£bn)	DBCBS	0.9	0.9
Income statement rate	DBCBS[5]	19.7%	19.6%
	RMDCP[6]	9.3%	8.5%
Number of active members	DBCBS	c.77,000	c.80,000
	RMDCP	c.53,200	c.52,000

Cash flow

£m		H1 2020-21	H1 2019-20
DBCBS		(143)	(146)
RMDCP[2]		(52)	(47)
GLS		(4)	(4)
PSE[3]		(91)	(88)
Cash contributions		**(290)**	**(285)**
Pensionable payroll (£bn)	DBCBS	0.9	0.9
Cash rate	DBCBS	15.6%	15.6%
	RMDCP	9.3%	8.5%

RMPP – Royal Mail Pension Plan
DBCBS – Defined Benefit Cash Balance Scheme
RMDCP – Royal Mail Defined Contribution Plan
PSE - Pension Salary Exchange

1 Comprises pension admin costs only. 2 Excludes £5m insurance premium costs (H1 2019-20 £4m) which are included in people costs 3 Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay. 4 Non-operating specific item 5 Rate determined by real discount rate at end of March based on longer term RPI and appropriate AA corporate bond rates at the time 6 Average employer contribution rate for the period, excluding benefits