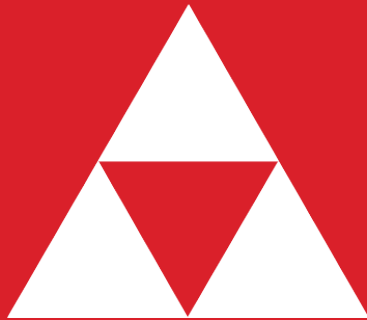




Royal Mail plc



Journey 2024

Growing. Efficient. Diversified.

22 May 2019

# Disclaimer





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# Agenda

Strategy and Outlook, 2018-19 Results	
09:30	Presentation Commences
09:35	Video – Our History
	Strategy Overview and 2018-19 Results Summary  <b>Rico Back</b> Group CEO
10:00	2018-19 Results and Financial Outlook  <b>Stuart Simpson</b> Group CFO and COO
10:30	Q&A
11:05	Break
UK Commercial	
11:20	Video – Letters
	Letters  <b>Stephen Agar</b> MD Letters
11:40	Parcels  <b>Nick Landon</b> Chief Customer Officer
11:55	Q&A
12:15	Lunch

UK Operations	
12:55	Operations  <b>Stuart Simpson</b> Group CFO and COO  <b>Achim Dünnwald</b> Chief Strategy and Transformation Officer
13:15	People  <b>Sally Ashford</b> Chief HR Officer
13:30	Q&A
13:50	Break
GLS and Cross-border	
14:05	Video – GLS
	GLS  <b>James Rietkerk</b> GLS CEO
14:45	Cross-border  <b>Saadi Al-Soudani</b> Group International MD
15:00	Q&A
Summary	
15:20	Video – Our Future
	Closing Remarks  <b>Rico Back</b> Group CEO
15:30	Close

# Welcome

**Keith Williams**

Chair



# Video

## Our History

# Strategy Overview and 2018-19 Results Summary

**Rico Back**  
Group CEO



# Royal Mail will change

## Vision and strategic priorities

### 2023-24 vision

#### **Growing.**

c.£12bn revenue  
(2-3% CAGR over next 5 years)

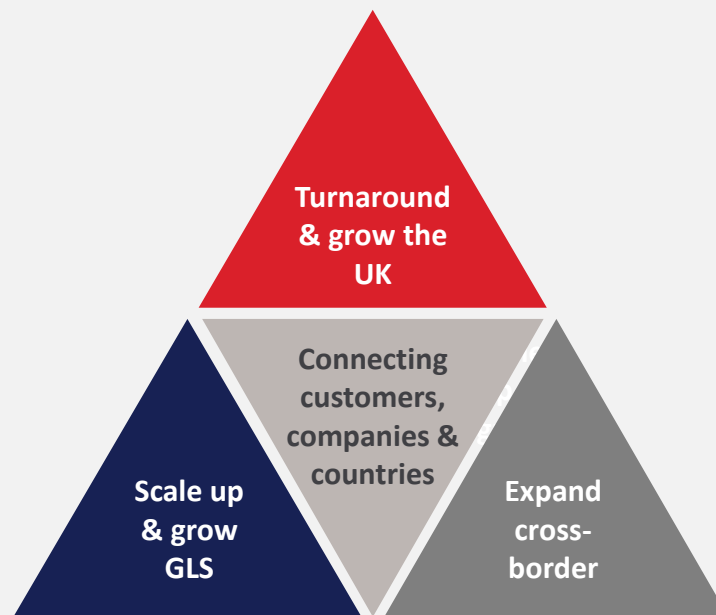
#### **Efficient.**

>5% operating profit margin

#### **Diversified.**













>70% revenue from Parcels  
>40% generated outside UK

### Strategic priorities



# Strong foundations

## Royal Mail overview

Business	UKPIL			GLS	
	Domestic letters	Domestic parcels	International	Cross-border	Domestic
			 		 
2018-19 Revenue <sup>1,2</sup>	£3.8bn 	£2.7bn 	£1.1bn 	£0.5bn 	£2.4bn 
Highlights	Basis for high quality network	Largest player, gaining market share	Biggest UK gateway	One of the largest ground based parcel networks in Europe and expanding in North America	
	<b>Joint delivery network</b> Over 30m delivery points 6 days a week service c.60k routes			44 countries	



# Becoming a parcels-led business

Key trends mainly in our favour



## E-substitution

Changing the way we communicate...



## E-commerce

...bringing retail to the home...



## Global trade

...opening up new avenues for commerce



UKPIL letter volume: 4-6% p.a. decline<sup>1</sup>



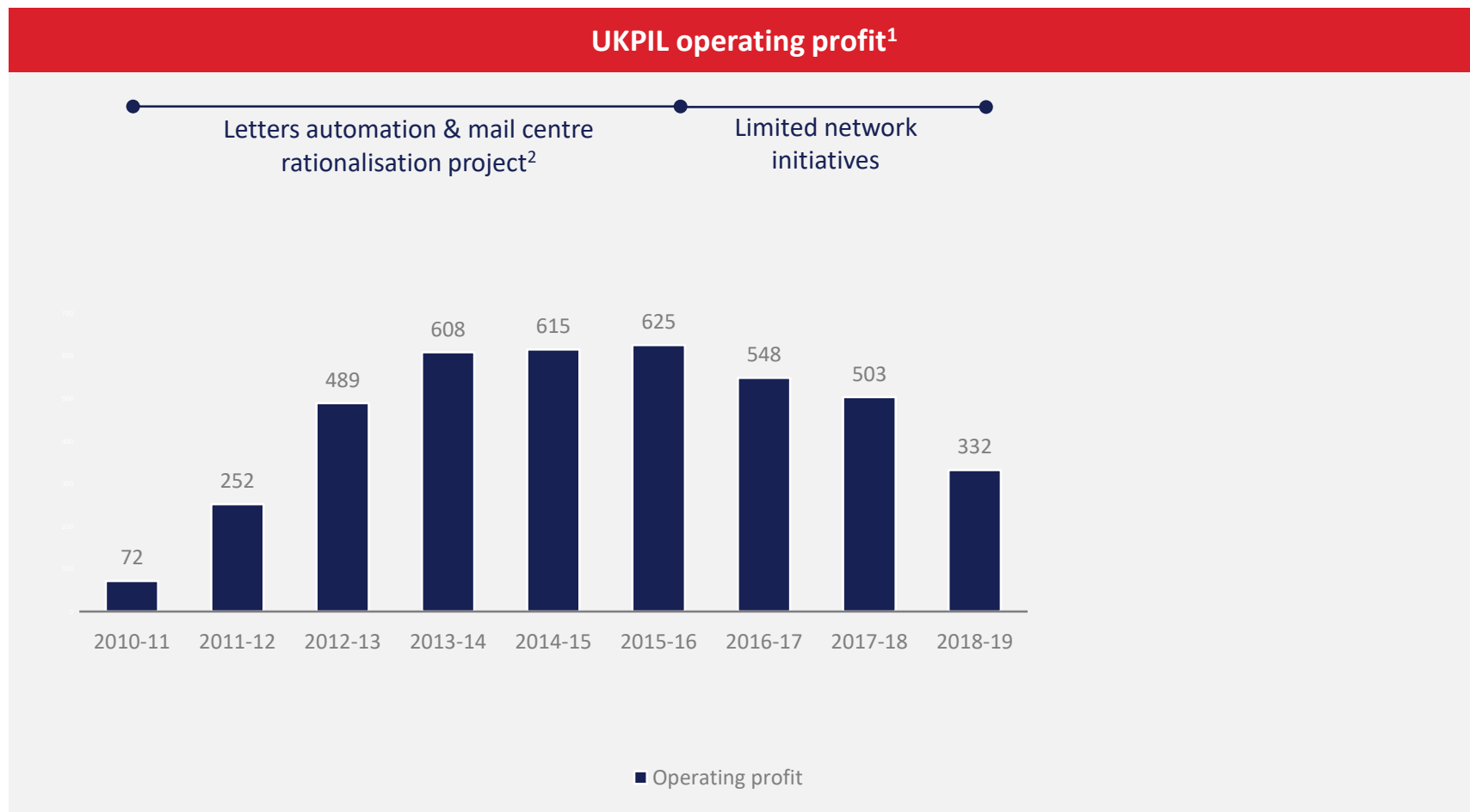
UKPIL parcels revenue: >5% CAGR

GLS revenue: >6% CAGR  
(c.€4.5bn in 2023-24)

**Royal Mail Group revenue CAGR 2-3% to 2023-24**

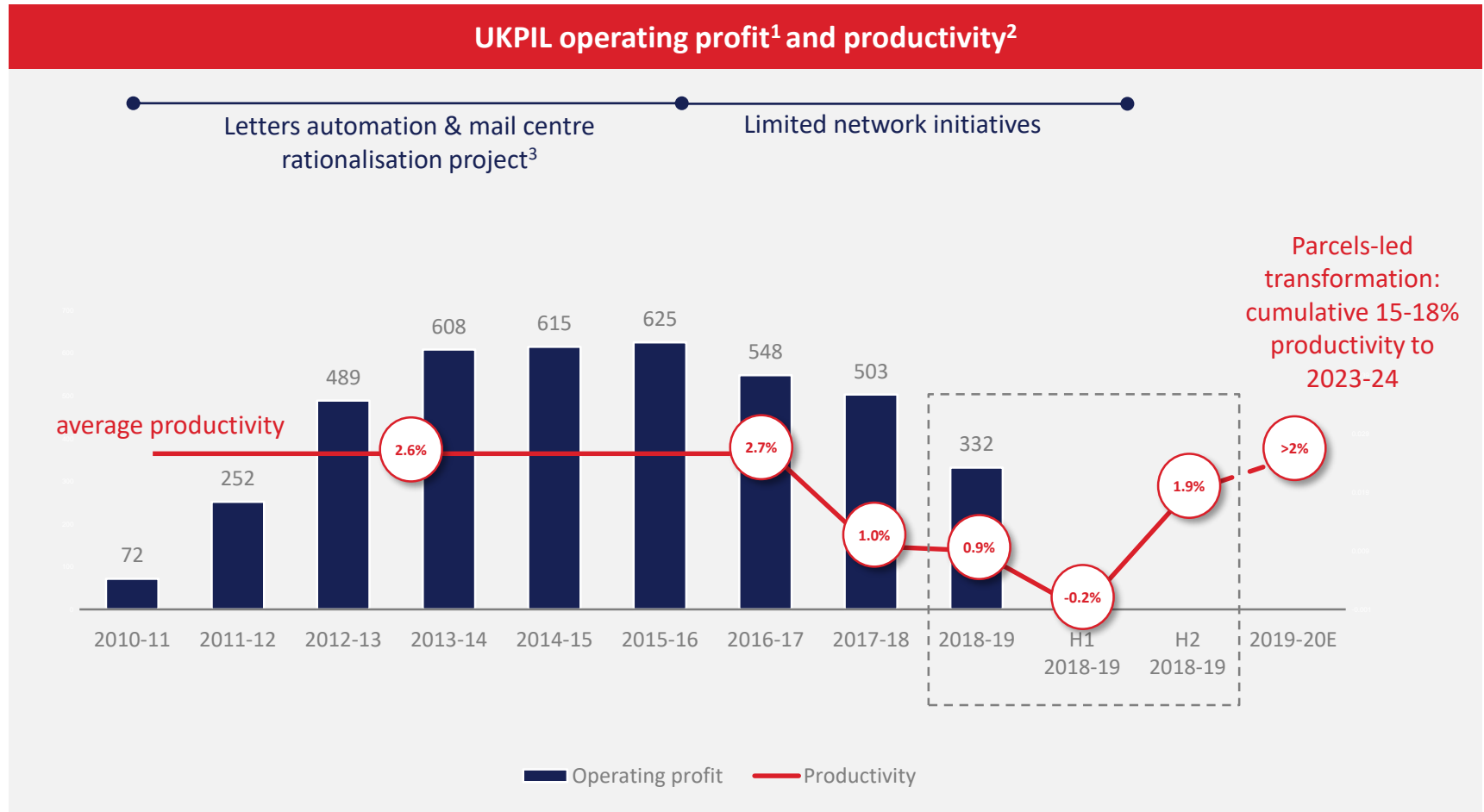
# Strategic priorities: turnaround and grow the UK

Our biggest challenge is UK cost and productivity



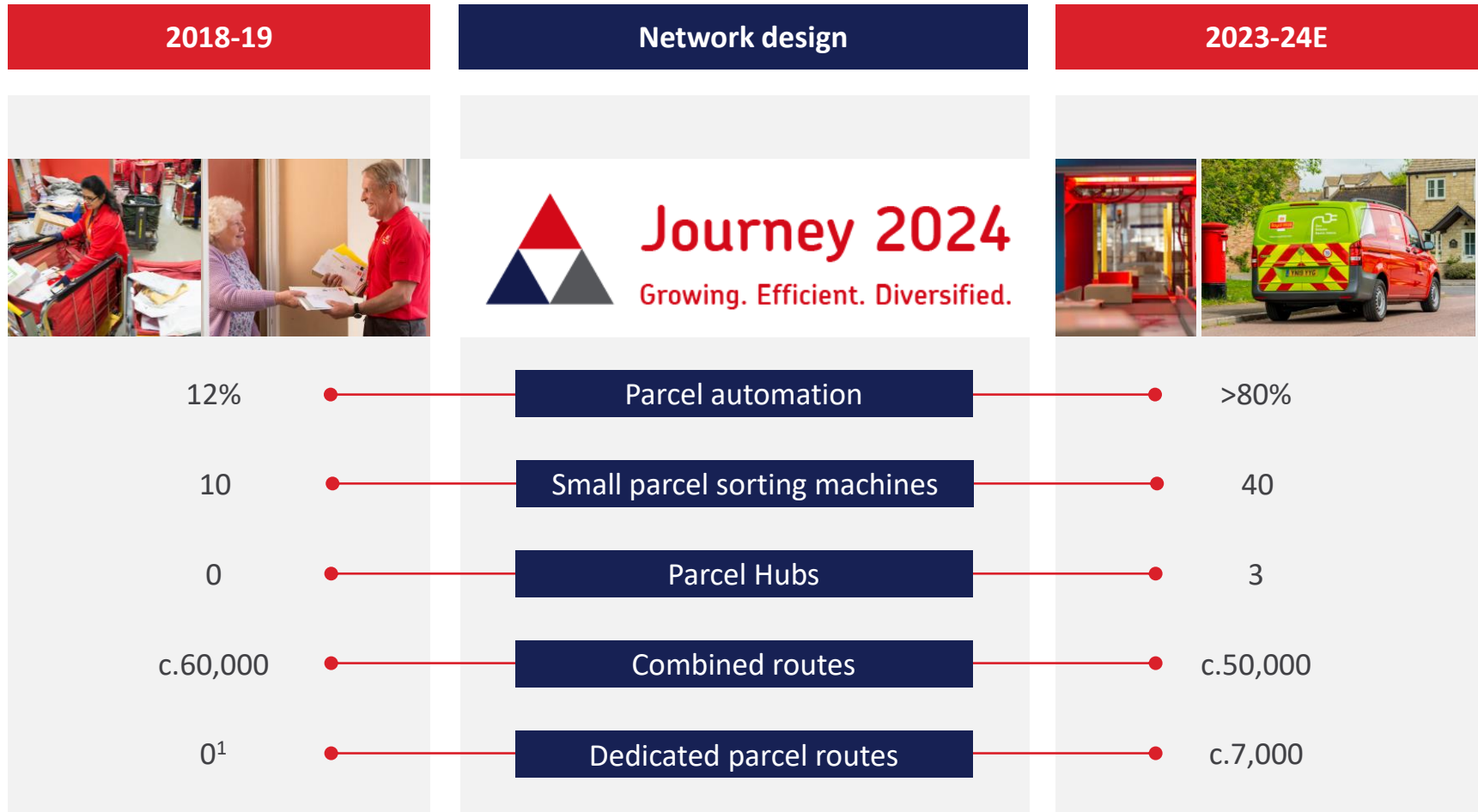
# Strategic priorities: turnaround and grow the UK

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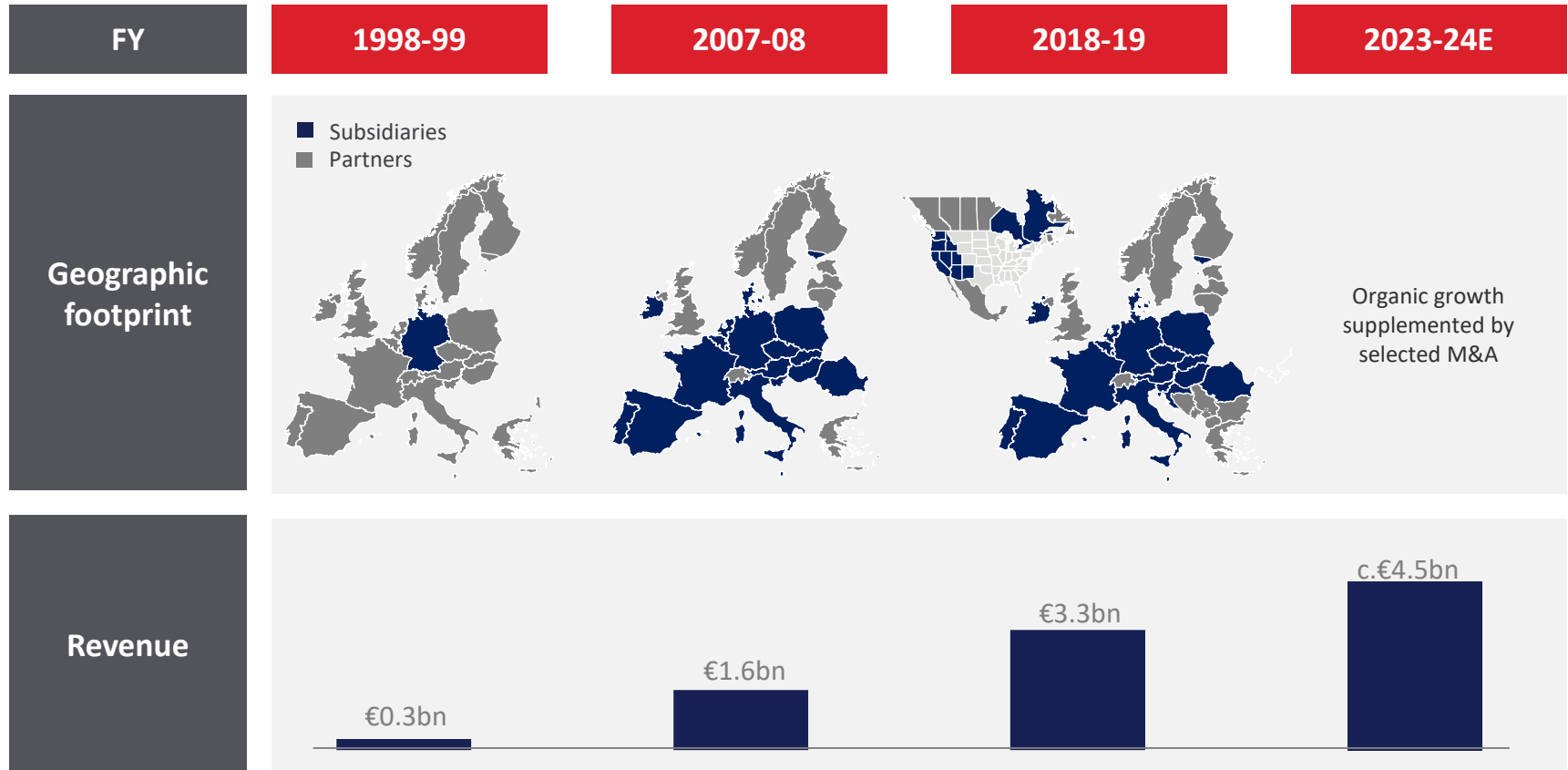
# Strategic priorities: turnaround and grow the UK

Royal Mail network being redesigned for parcels



# Strategic priorities: scale up and grow GLS

Building on 20-year track record of growth

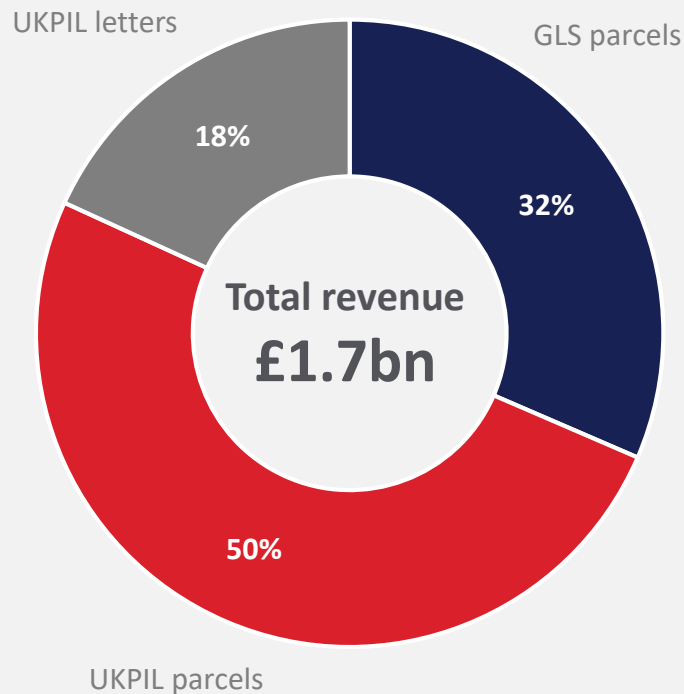


GLS will continue to drive profitable growth for Royal Mail Group

# Strategic priorities: expand cross-border

## Combining the best of Royal Mail and GLS

### Royal Mail Group 2018-19 cross-border revenue by product

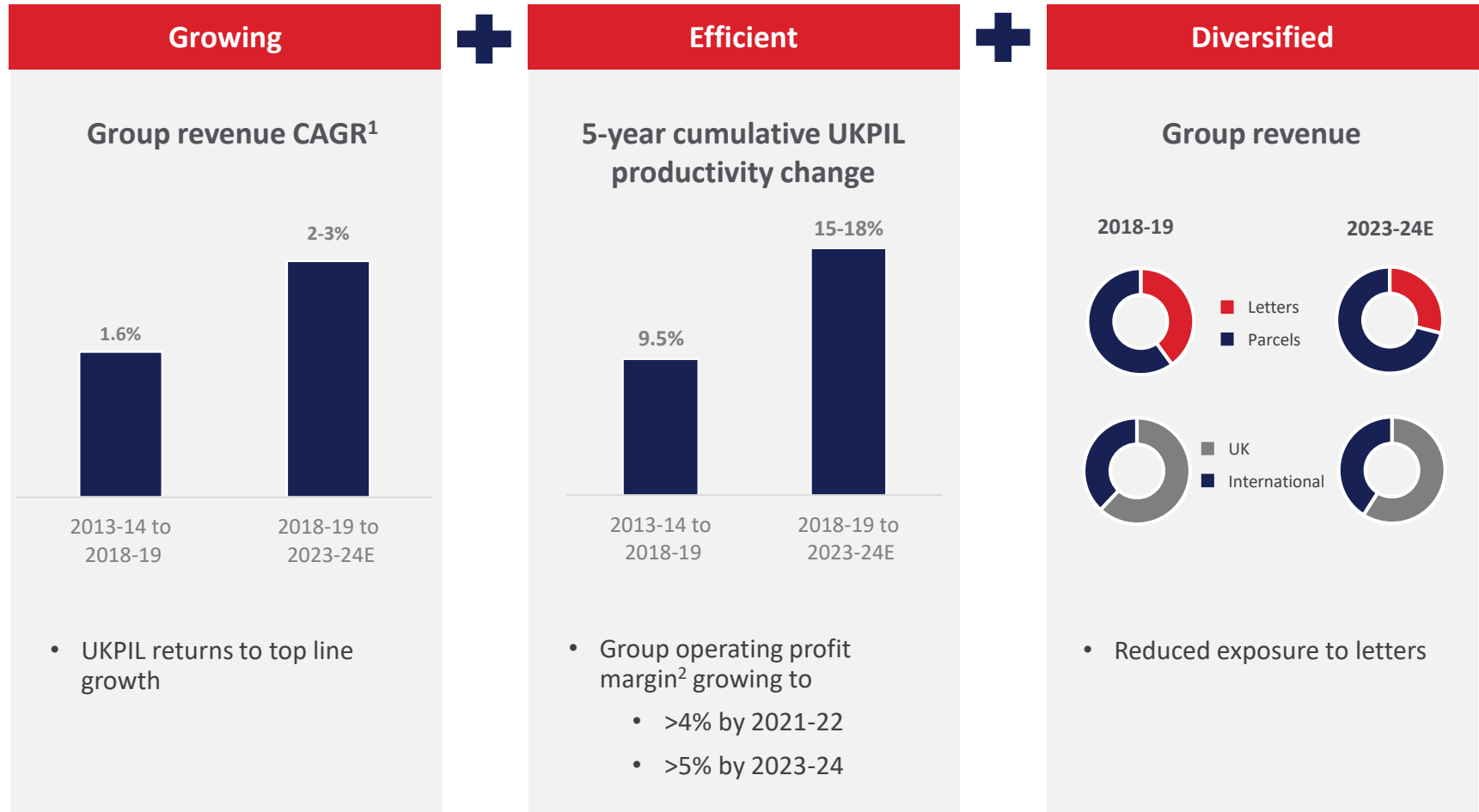


### Highlights

- Global cross-border parcels market valued in excess of \$60bn<sup>1</sup>
- Growing strongly driven by e-commerce
- Clear opportunities by combining best of Royal Mail and GLS
- Low investment requirements

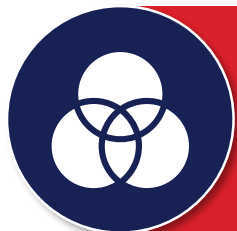
# Investing to change and grow

## Our 5-year ambition



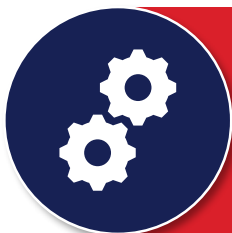
# Investing to change and grow

## Financial policy



### Investment

- Incremental cumulative capital expenditure of £400-500m to 2023-24
- Peak spend in 2020-21 to 2022-23



### Balance sheet

- Maintain low leverage given high operational gearing



### Dividend

- 15p underpin
- May be supplemented by additional payouts in years with substantial excess cashflow



# Ready to deliver



## Today's speakers



**Rico Back**  
Group CEO



**Achim Dünnwald**  
Chief Strategy and  
Transformation Officer



**Stuart Simpson**  
Group CFO and COO



**Sally Ashford**  
Chief HR Officer



**Stephen Agar**  
MD Letters



**James Rietkerk**  
GLS CEO



**Nick Landon**  
Chief Customer  
Officer



**Saadi Al-Soudani**  
Group International  
MD

# Strategy overview summary



# 2018-19 Results

**Stuart Simpson**  
Group CFO and COO



# 2018-19 Financial summary

£m	Adjusted 2018-19 53 weeks	Adjusted 2018-19 52 weeks	Adjusted 2017-18 52 weeks	Underlying change
Revenue	10,581	<b>10,444</b>	10,172	<b>2%</b>
Operating profit before transformation costs	544	<b>509</b>	694	<b>(26%)</b>
Transformation costs	(133)	<b>(133)</b>	(113)	
Operating profit after transformation costs	411	<b>376</b>	581	<b>(34%)</b>
<i>Margin</i>	<i>3.9%</i>	<b><i>3.6%</i></b>	<i>5.7%</i>	<b><i>(200bps)</i></b>
Earnings per share (basic)	<b>30.5p</b>	-	45.5p	
In-year trading cash flow	<b>117</b>	-	545	
<i>In-year trading cash flow adjusted for timing differences<sup>1</sup></i>	<b>282</b>	-	444	
Net (debt)/cash	<b>(300)</b>	-	14	
Recommended full year dividend per share	<b>25.0p</b>	-	24.0p	<b>4%</b>

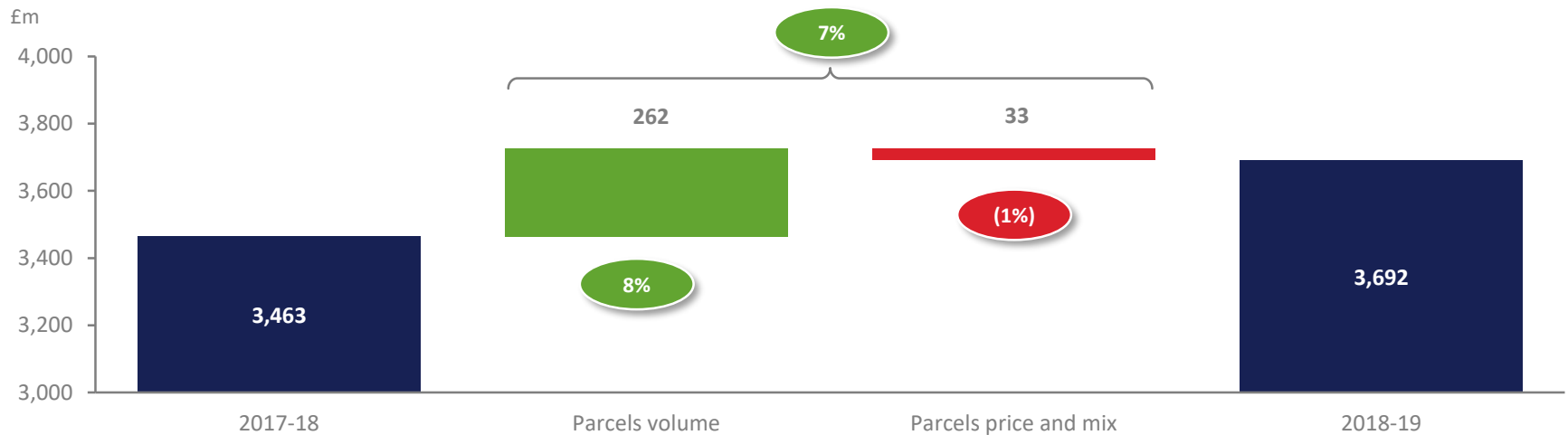
# UKPIL results (52 weeks)

£m	Adjusted 2018-19 52 weeks	Adjusted 2017-18 52 weeks	Underlying change
Revenue	7,595	7,615	Flat
Operating costs	(7,263)	(7,112)	2%
Operating profit before transformation costs	332	503	(32%)
Transformation costs	(133)	(113)	
Operating profit after transformation costs	199	390	(48%)
<i>Margin</i>	<b>2.6%</b>	5.1%	<b>(240bps)</b>

£m	2018-19	2017-18
Voluntary redundancy	(46)	(44)
Project costs	(87)	(69)
<b>Total transformation costs</b>	<b>(133)</b>	(113)

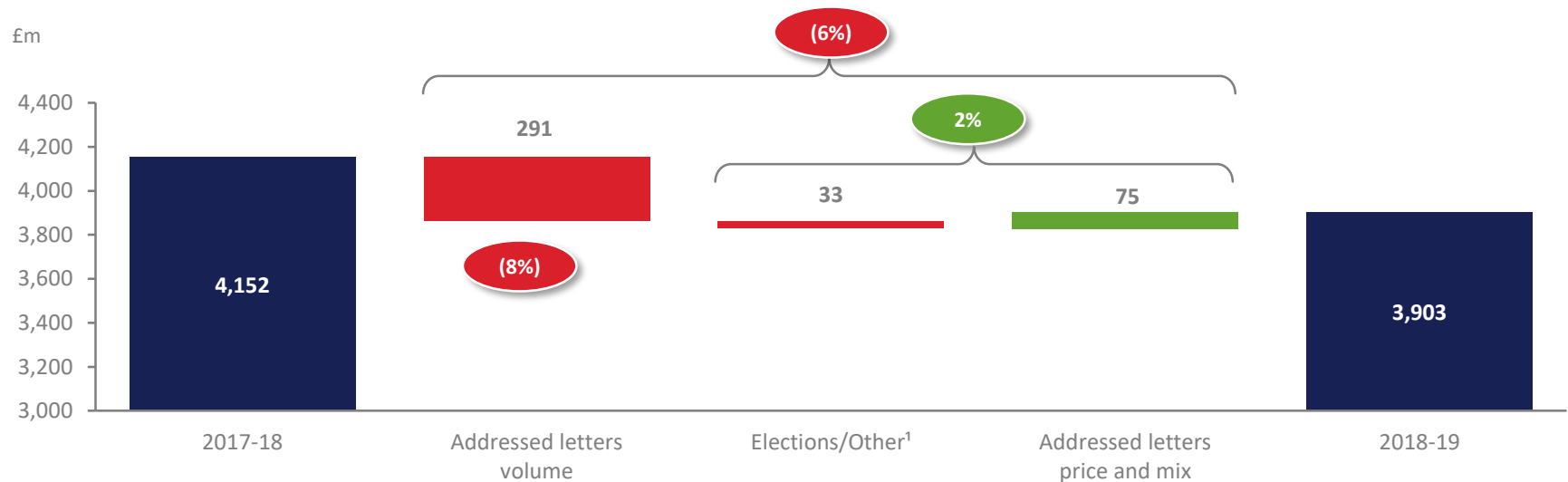
- Voluntary redundancy costs lower than expected due to lower levels of efficiencies
- Project costs higher driven by operations data projects to support future productivity improvements, IT upgrade, parcel projects and pension transformation costs

# UKPIL parcel revenue (52 weeks)



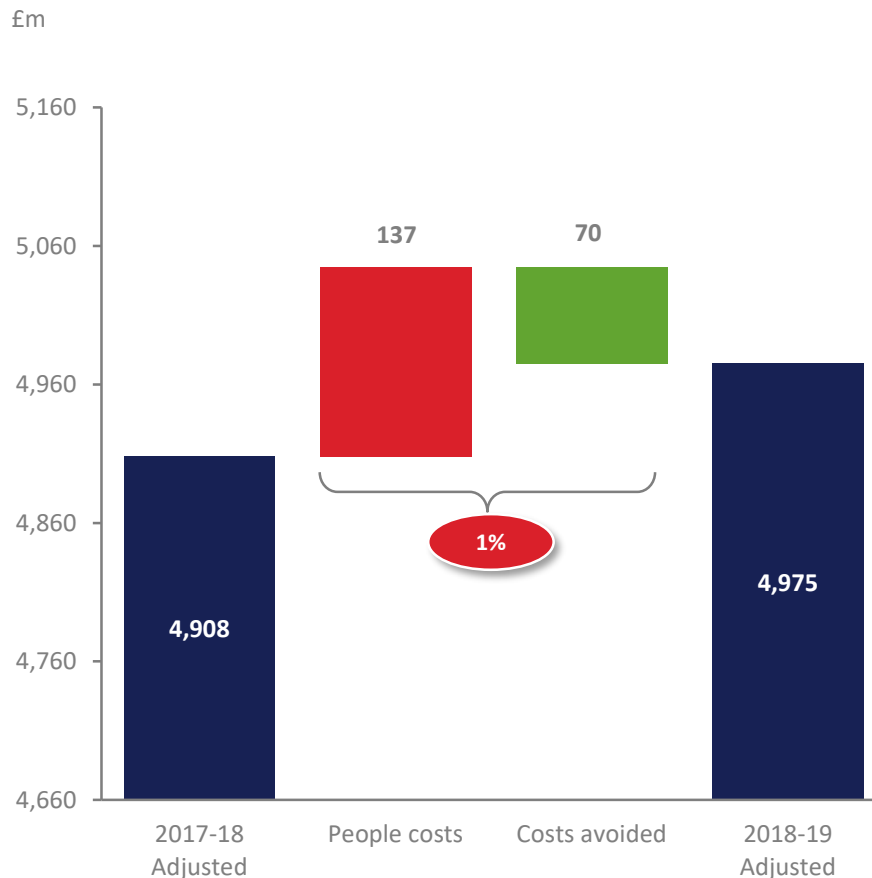
- Parcel volume up 8%; revenue up 7%
- Domestic account volumes (ex. Amazon) up 8%
  - won new customers and gained more traffic from existing customers
- Royal Mail Tracked 24<sup>®</sup>/48<sup>®</sup> and Tracked Returns<sup>®</sup> volumes 272m, up 24%
  - won new volumes having extended LATs for Tracked 24<sup>®</sup> product
  - growth supported by propositions targeting fast growing sectors and new features including estimated delivery times
- Strong growth in Amazon volumes
- International traffic
  - benefited from Asia – Europe/UK cross-border initiative
  - higher import volumes (excluding cross border)
  - contract export volumes lower due to competitive market
- Parcelforce volumes up 1% vs 2% in prior year
  - largely due to customer exiting online retail market

# UKPIL letter revenue (52 weeks)



- Addressed letter volume decline of 8%
  - GDPR accounted for c.2pp of decline
  - decline expected to be 5-7% in 2019-20
  - maintain medium-term outlook of 4-6% annual decline
- Total letter revenue down 6% including impact of business mail price rises
  - elections impact not material in full year
- Marketing mail<sup>2</sup> revenue down 10% at £994m
  - impacted by GDPR
- Unaddressed volumes down 7%
  - lapping strong growth last year

# UKPIL people costs (52 weeks)



## People costs up 1%

- Impact of:
  - frontline and manager pay awards
  - high level of sickness-related absences and adverse weather conditions in H1
  - additional investment to improve Quality of Service
  - higher PFW volumes and implementation of LATs

## Costs avoided £70m

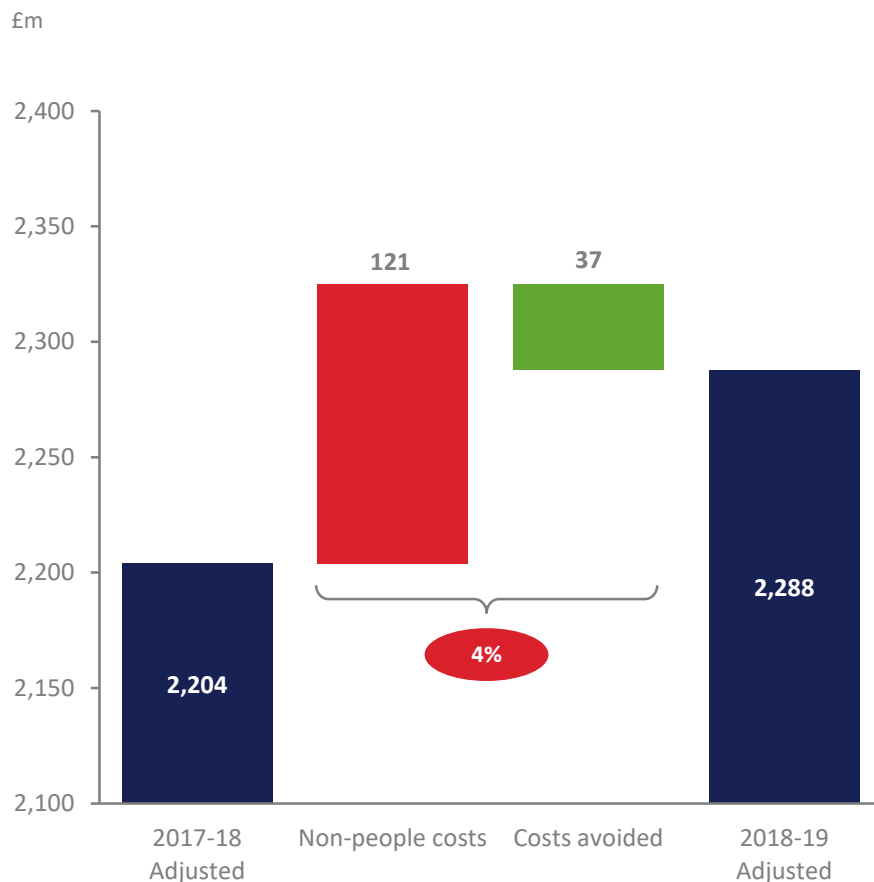
- Implemented and partially absorbed impact of one hour reduction in working week
- Reduction in management headcount will deliver benefits in 2019-20

	H1	H2	FY
Gross core network hours	(0.1%)	(2.0%)	(1.1%)
Workload	(0.3%)	(0.1%)	(0.2%)
Productivity	(0.2%)	1.9%	0.9%

- FTEs down c.840<sup>1</sup>
- Headcount up c.1,600



# UKPIL non-people costs (52 weeks)



## Non-people costs up 4%

### Distribution & conveyance - £827m, up 4%

- Vehicle repair costs £19m higher due to adverse weather and delays to delivery of new vehicles
- Fuel costs £156m, £9m higher due to higher than expected parcel volumes
- Terminal dues £6m higher due to adverse FX movement

### Infrastructure - £819m, up 9%

- Depreciation & amortisation £333m, up £44m, driven by:
  - £30m impairment costs due to investment portfolio review
  - £12m due to accelerated depreciation of letters sorting machinery
- £21m increase in technology costs largely due to data projects supporting operations

### Other - £642m, down 2%

- Largely due to the impact of the cost avoidance programme

### Costs avoided £37m

- HWDC modernisation
- Discretionary spend control
- Supplier contract renegotiation

# GLS results

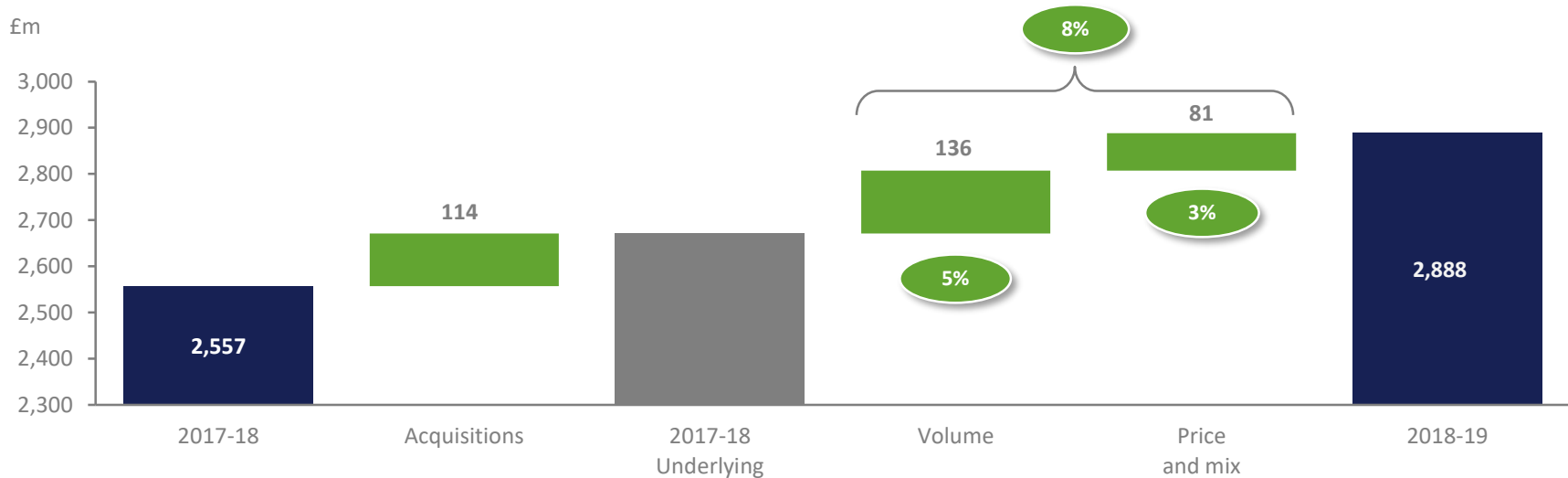
£m	Adjusted 2018-19	Adjusted 2017-18	Underlying change
Revenue	<b>2,888</b>	2,557	<b>8%</b>
Operating costs	<b>(2,711)</b>	(2,366)	<b>9%</b>
Operating profit	<b>177</b>	191	<b>(9%)</b>
<i>Margin</i>	<b>6.1%</b>	7.5%	<b>(120bps)</b>
Volumes (m)	<b>634</b>	584	<b>5%</b>
Average £1 = €	<b>1.13</b>	1.13	

## Adjusted results

- Continued good revenue performance
  - good domestic and international volume growth in most markets
- Operating profit margin 6.1% in line with target of over 6%
  - margin impacted by ongoing cost pressures, losses in France and the US and reduction in profitability in Spain
- Volume growth moderated from prior year largely due to general competitive environment and yield management activities
- Negligible Sterling impact

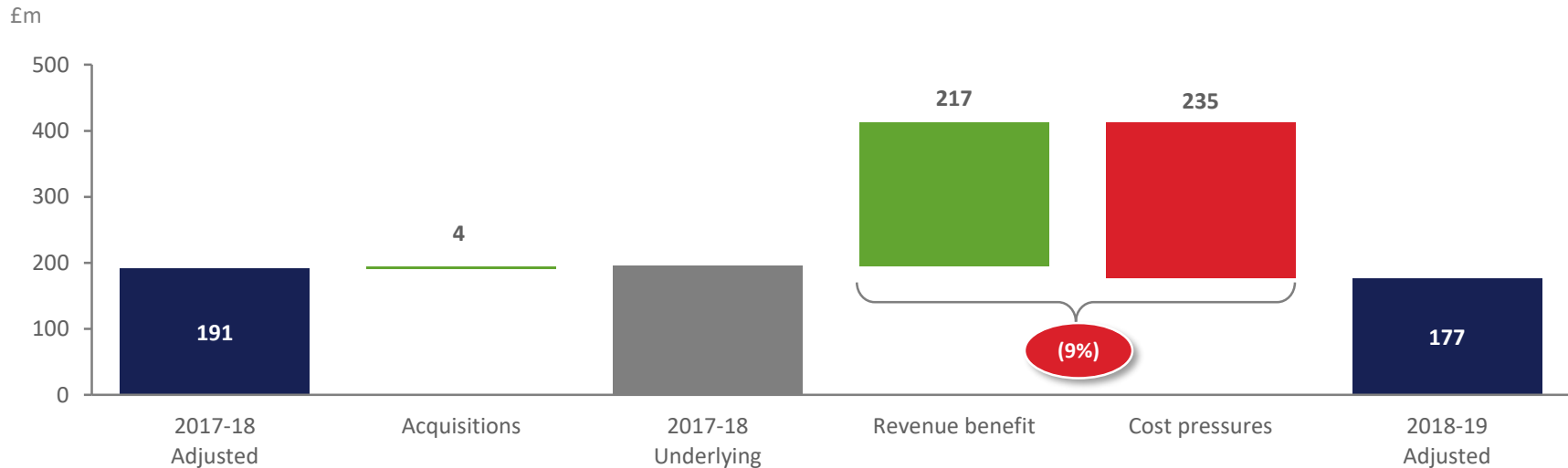
€m	Adjusted 2018-19	Adjusted 2017-18
Revenue	<b>3,274</b>	2,899
Operating costs	<b>(3,073)</b>	(2,682)
Operating profit	<b>201</b>	217

# GLS revenue



- Headline revenue up 13% including acquisitions
- Positive impact of price increases and customer mix changes
- Germany up 9%, driven by international volumes and improved pricing
- Italy up 5%, moderating in line with expectations due to competitive environment including launch of Amazon's own logistics network in Italy
- France up 4%, driven by improved pricing and higher export volumes
- Spain up 7%, driven by higher international volumes
- Strong revenue performance in Denmark driven by B2C
- Continued strong performance in Eastern Europe

# GLS profit/margin



## Adjusted operating costs up 9%

- Cost pressures not expected to ease in short term
- People costs up 4% driven by higher semi-variable costs linked to volumes and higher rates of pay
- Distribution and conveyance costs up 11%, driven by higher volumes and network costs
- Infrastructure costs up 7%, driven by higher rents and rates, repairs and maintenance costs and depreciation
- Other operating costs up 24% largely due to higher litigation and claims costs and impact of provision releases in prior year

## GLS operating profit margin 6.1%

- Dicom profit in line with expectations
- France losses increased to €18m (c.£16m)
- US losses €15m (c.£14m) impacted by cost pressures, refocusing customer base, and transitioning to new business model
- Spain profitability impacted by integration of Redyser and increasing proportion of domestic volumes from lower margin customers
  - Redyser integration expected to complete in 2019-20

# Group adjusted profit after tax

£m	Adjusted 2018-19 53 weeks	Adjusted 2017-18 52 weeks
<b>Operating profit after transformation costs</b>	<b>411</b>	581
Finance costs	(18)	(19)
Finance income	5	3
Net finance costs	(13)	(16)
<b>Profit before tax</b>	<b>398</b>	565
Tax charge	(93)	(111)
<b>Profit for the period</b>	<b>305</b>	454
Earnings per share (basic)	30.5p	45.5p

Group effective tax rate 23%

# Specific items and pension adjustment

£m	2018-19 53 weeks	2017-18 52 weeks
Impairment relating to US businesses	(68)	-
Accounting impact of RMSEPP buy-in	(64)	-
Employee Free Shares charge	(22)	(33)
Amortisation of acquired intangible assets	(20)	(16)
Legacy/other costs	(7)	(8)
<b>Total operating specific items</b>	<b>(181)</b>	<b>(57)</b>
Profit on disposal of property, plant & equipment	15	71
Net pension interest	79	91
<b>Total non-operating specific items</b>	<b>94</b>	<b>162</b>
Pension charge to cash difference adjustment	(70)	(458)
<b>Total specific items and pension charge to cash difference adjustment</b>	<b>(157)</b>	<b>(353)</b>

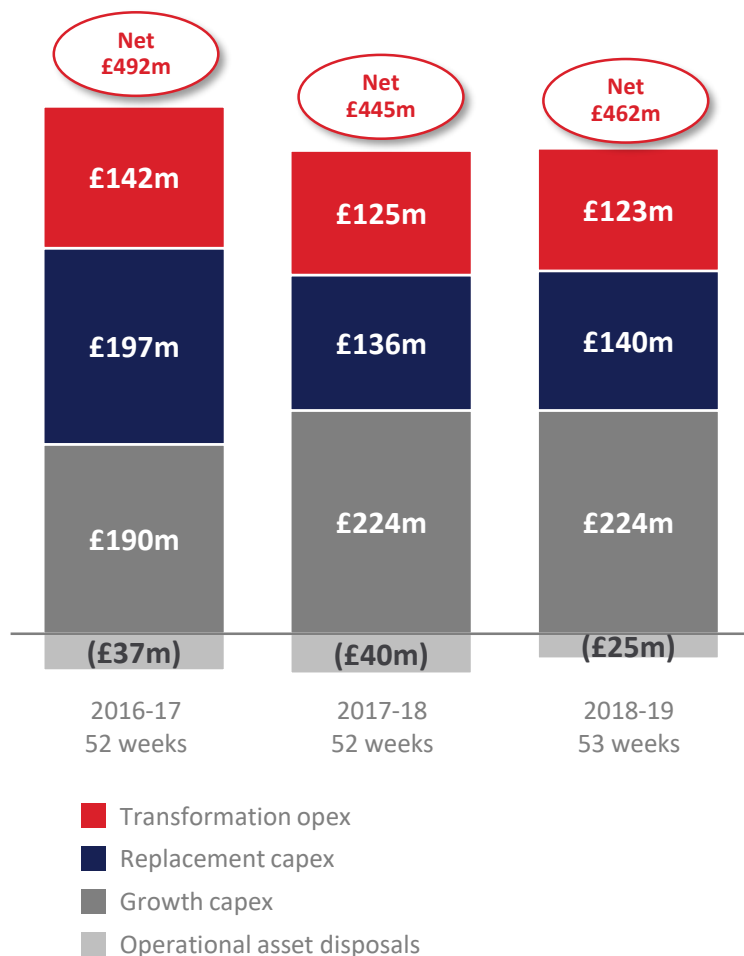
£m	2018-19	
	Reported	Adjusted
Profit before tax	241	398
Profit after tax	175	305
Earnings per share (basic)	17.5p	30.5p
<ul style="list-style-type: none"> <li>As announced at H1, £68m non-cash impairment of goodwill and other assets in relation to US acquisitions, and £64m non-cash charge in relation to purchase of further buy-in insurance policy for RMSEPP</li> <li>Employee free shares charge £22m <ul style="list-style-type: none"> <li>expected to be £8m in 2019-20 and not material thereafter</li> </ul> </li> <li>Prior year profit on PP&amp;E included overage payments on Rathbone Place and Paddington Mail Centre and completion on Phoenix Place plot at Mount Pleasant site</li> <li>Lower pension interest credit due to lower pension surplus <ul style="list-style-type: none"> <li>expected to be c.£86m in 2019-20</li> </ul> </li> <li>Pension charge to cash difference lower, reflecting closure of RMPP to future accrual <ul style="list-style-type: none"> <li>expected to be c.£85m in 2019-20</li> </ul> </li> </ul>		

# Group in-year trading cash flow

£m	2018-19 53 weeks	2017-18 52 weeks
Reported EBITDA before transformation costs	865	577
Pension charge to cash difference adjustment	70	458
Adjusted EBITDA before transformation costs	935	1,035
Trading working capital movements	(237)	74
Share-based awards (SAYE/LTIP/DSBP) charge	7	6
Total investment	(487)	(485)
Income tax paid	(91)	(75)
Research & development expenditure credit	2	5
Net finance costs paid	(12)	(15)
<b>In-year trading cash flow</b>	<b>117</b>	<b>545</b>
<i>Cash flows relating to timing differences</i>	<b>165</b>	<i>(101)</i>
<i>Adjusted in-year trading cash flow<sup>1</sup></i>	<b>282</b>	<i>444</i>

- Trading working capital outflow impacted by:
  - reversal of £101m benefit in prior year related to timing of 2017-18 frontline pay award
  - 53rd week impact from extra monthly payroll payment (£47m) and extra VAT payment (£17m)
  - trading working capital in 2019-20 expected to benefit from £64m of reversal of 53rd week timing differences
- Higher cash tax due to no tax relief on pension escrow payments

# Group investment - cash



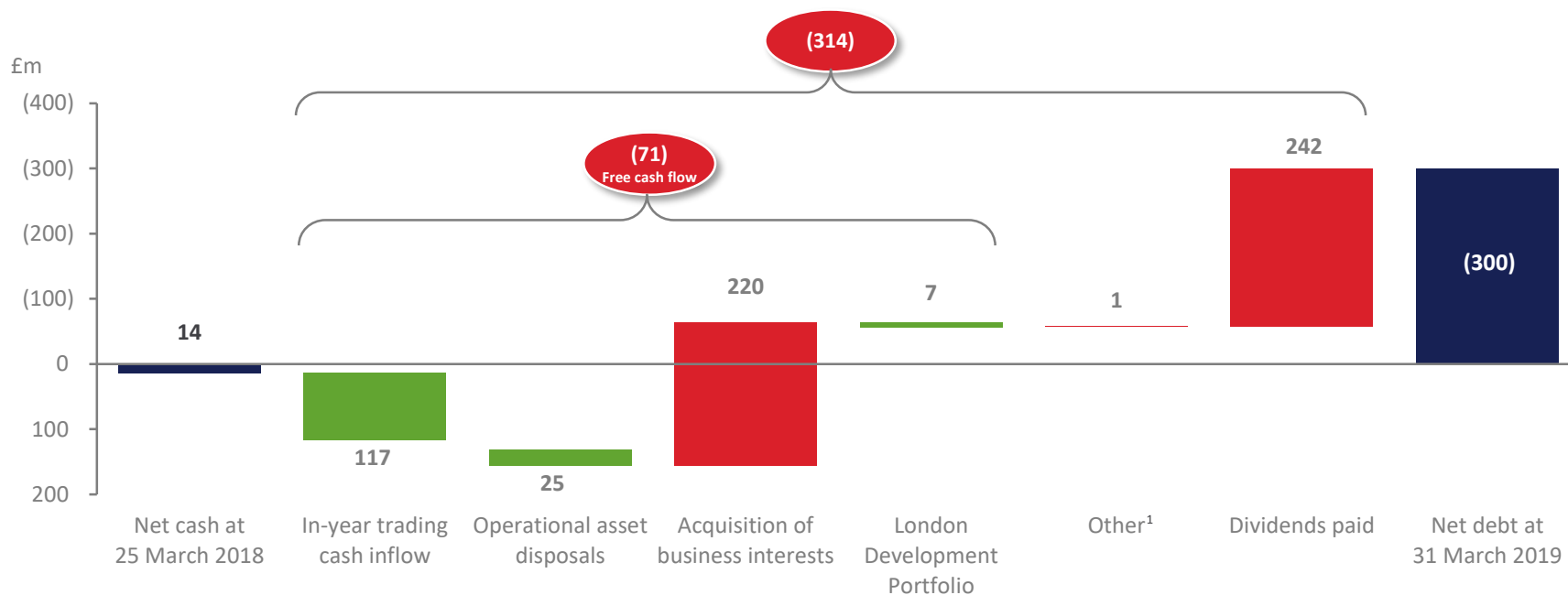
## Transformation opex

£m	2018-19 53 weeks	2017-18 52 weeks
Voluntary redundancy	36	56
Project costs	87	69
<b>Total</b>	<b>123</b>	<b>125</b>

- Net cash investment lower than expected due to portfolio review and lower than expected transformation opex
- GLS capex accounted for £113m of growth capex
- Replacement capex £4m higher due to higher vehicle purchases, partially offset by lower property spend and IT and data systems costs
- Transformation opex £2m lower due to £20m lower VR spend, partially offset by £18m higher project costs driven by data projects, IT upgrade, parcel projects and pension transformation costs



# Uses of cash



- Operational asset disposals – largely sale of Whetsone, Hendon, Hampton and other smaller DOs
- Acquisition of business interests – largely Dicom Canada
- London Development Portfolio - £21m received in relation to Mount Pleasant plots and £20m overage payment for Paddington net of £34m re-investment in Nine Elms and Mount Pleasant
- Net debt increased by £314m

# Financial Outlook

**Stuart Simpson**  
Group CFO and COO



# Summary

1

**UKPIL returned to revenue growth**

- UKPIL parcels revenue growth more than offsetting letters decline

2

**Contain UKPIL costs with productivity improvement**

- Cumulative productivity improvements of 15-18% over 5 years
- Supported by substantial improvement in digital capability, methods and network redesign

3

**GLS continued profitable growth**

- Targeting c.€4.5bn revenue in 2023-24
- Targeting operating profit margin of 6-7%

4

**Group financial performance turnaround**

- 2-3% revenue CAGR over 3 and 5 years
- Group operating margin<sup>1</sup> >4% in 2021-22 and >5% by 2023-24

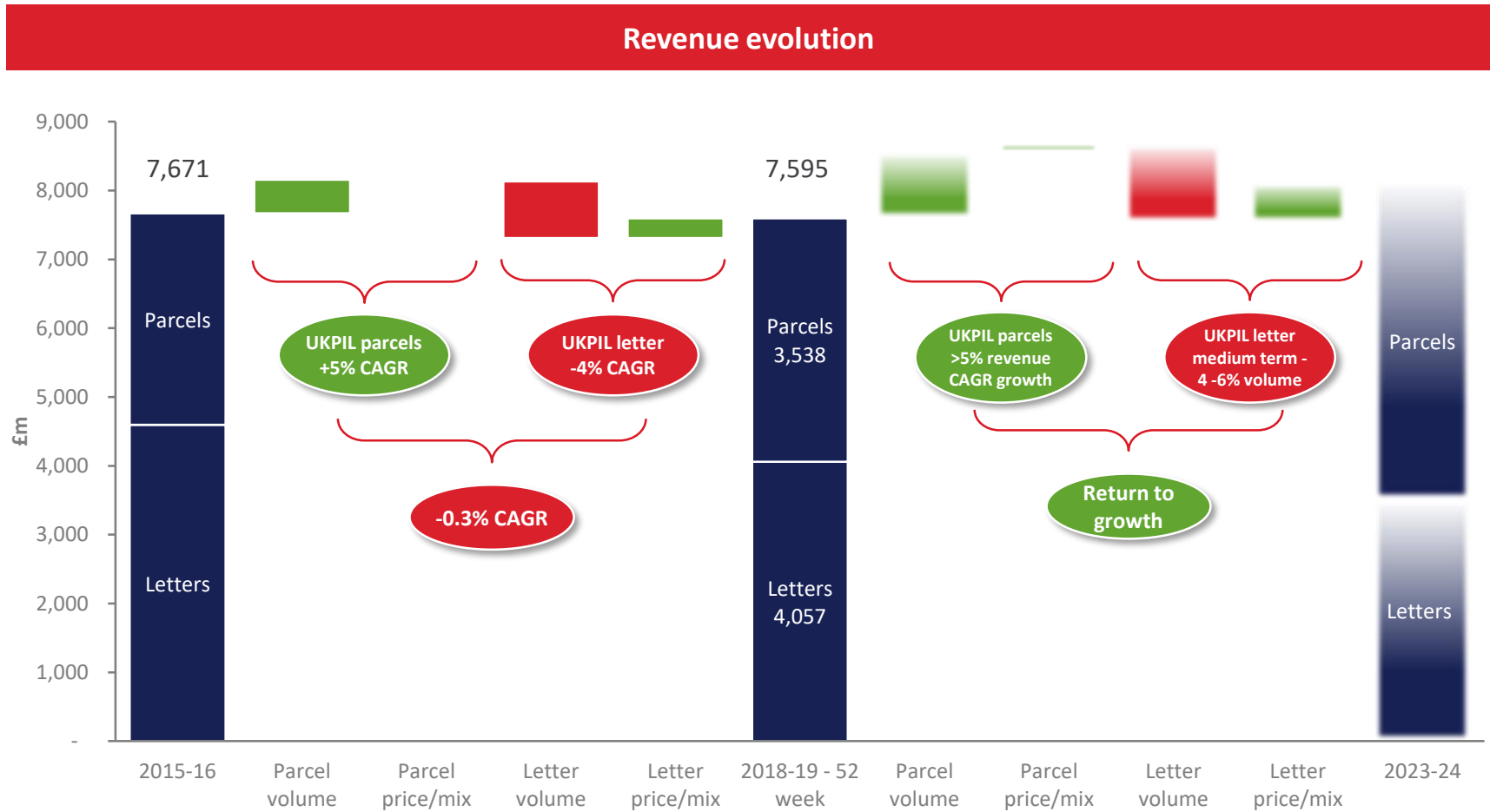
5

**Capital prioritisation**

- Cumulative incremental capex of £400-500m over 5 years
- 15p dividend underpin

# 1 UKPIL returned to revenue growth

## UKPIL revenue analysis



## 2 Contain UKPIL costs with productivity improvement

Why is productivity our key performance driver?

### Productivity calculation

### Outlook



**Workload**



- Increases as parcels replace letters with current operations
- Indexed



**Hours**



- Automation and operations initiatives drive hours reduction
- Hours reduction is equivalent to productivity increase, driving people cost down



**Productivity**

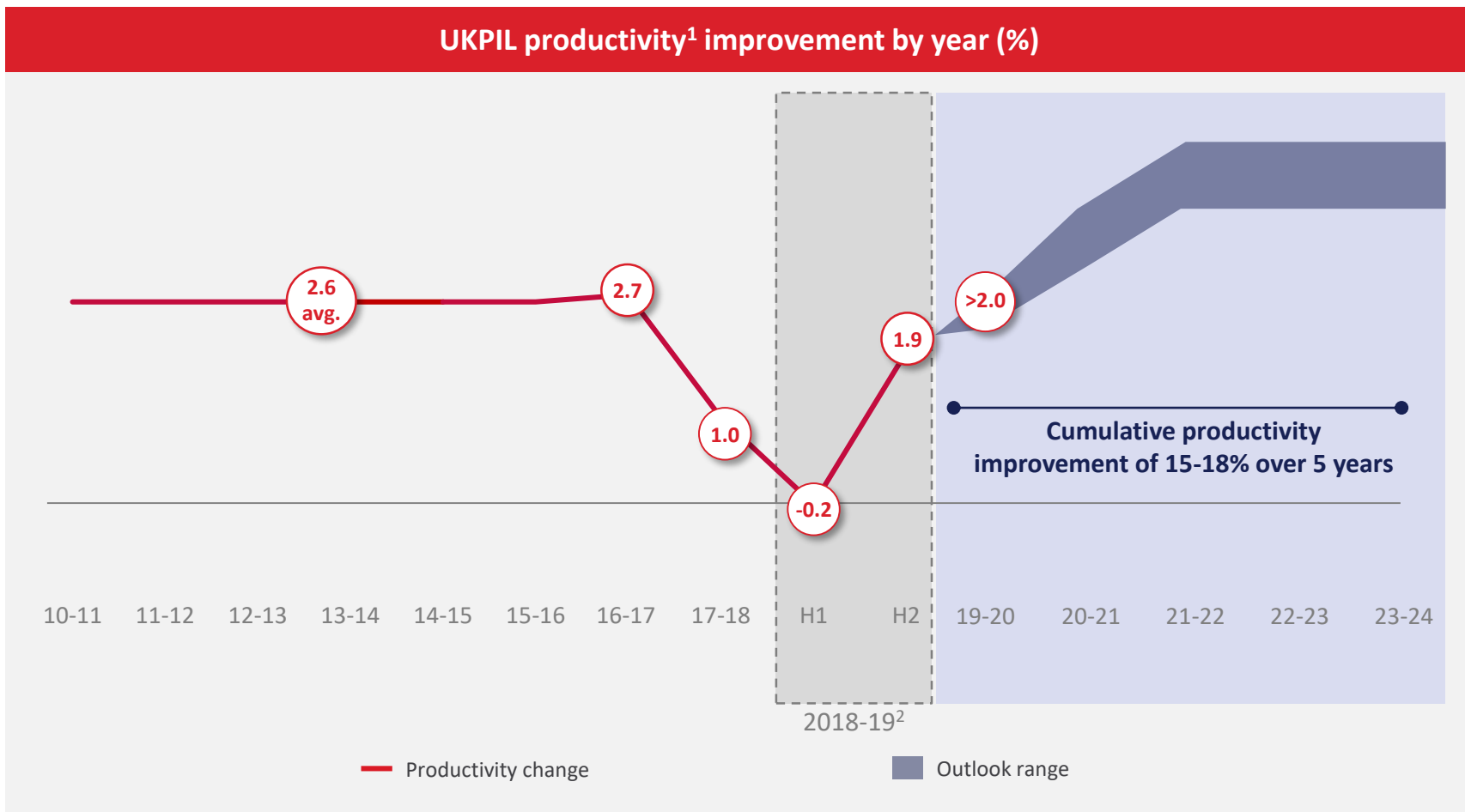
Workload handled per hour paid<sup>1</sup>



- Ratio of workload per item

# 2 Contain UKPIL costs with productivity improvement

Why is productivity our key performance driver?



Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide

<sup>1</sup> Productivity is defined as workload handled per gross hour, for collections, processing and delivery in core network only

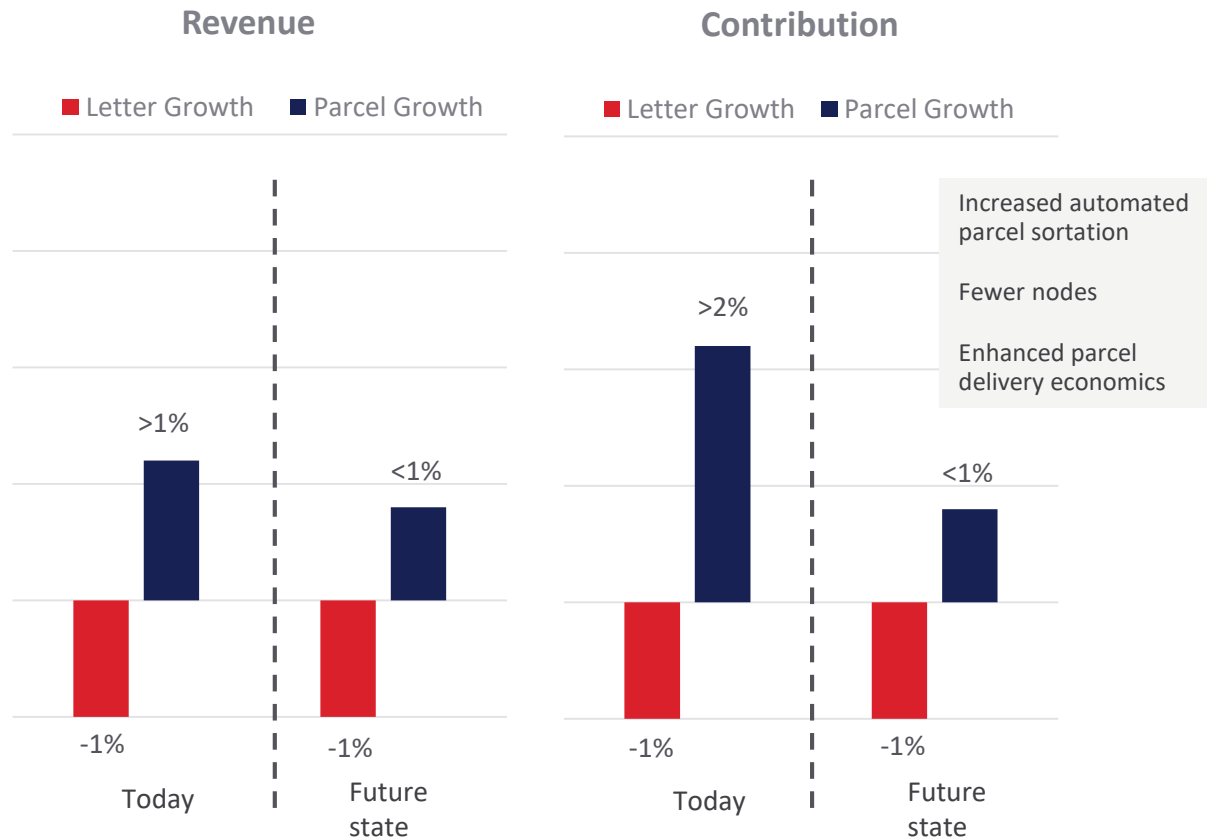
<sup>2</sup> Full year 2018-19 productivity change at 0.9%

# 2

## Contain UKPIL costs with productivity improvement

By the end of the plan less parcel growth is required to maintain revenue and contribution

**% Parcel growth required to maintain revenue/contribution for every 1% letters decline**



- Large and small parcels can go into Parcel Hubs
- Larger parcels go to 200-300 Delivery Offices for van delivery
- Efficient large parcel delivery
- LAT small parcels also go on the vans
- Foot delivery also made more efficient

## 2 Contain UKPIL costs with productivity improvement

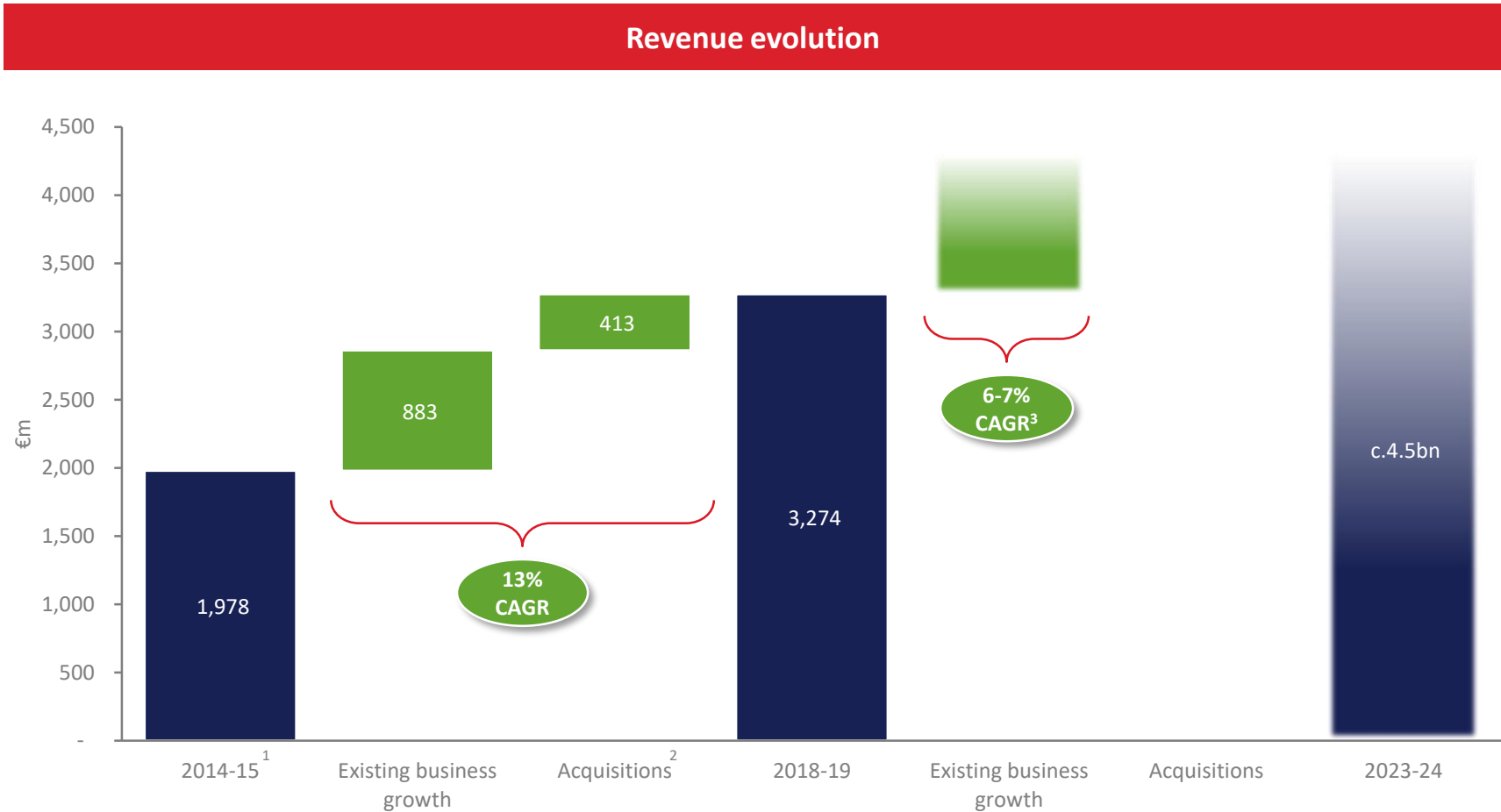
### UKPIL cost summary

£m	2015-16	2016-17	2017-18	2018-19	Short-term	2021-22 Ambition	2023-24 Ambition
People costs	4,841	4,865	4,908	4,975	Cost pressures not offset by productivity (2019-20)	Pressures more than offset by productivity/hours reduction	
Voluntary redundancy	117	62	44	46			
Non-people costs	2,279	2,320	2,273	2,375	Impacted by CPI and costs of parcels growth of c.£50m p.a.		
<b>Total operating costs</b>	<b>7,237</b>	<b>7,247</b>	<b>7,225</b>	<b>7,396</b>	<b>Cost avoided £150-200m (2019-20)</b>		
					<b>Cumulative cost avoided of c.£1bn</b>		
Operating margin <sup>2</sup>	5.7%	5.4%	5.1%	2.6%	Margin compression	3-4%	5%



# 3 GLS continued profitable growth

## GLS revenue analysis



<sup>1</sup> 2014-15 is adjusted to remove revenue attributable to DPD SL, disposed of in March 2015

<sup>2</sup> Revenues are classed as acquired in the first 12 months of ownership <sup>3</sup> Implied CAGR to achieve c.€4.5bn aspiration

# 3 GLS continued profitable growth

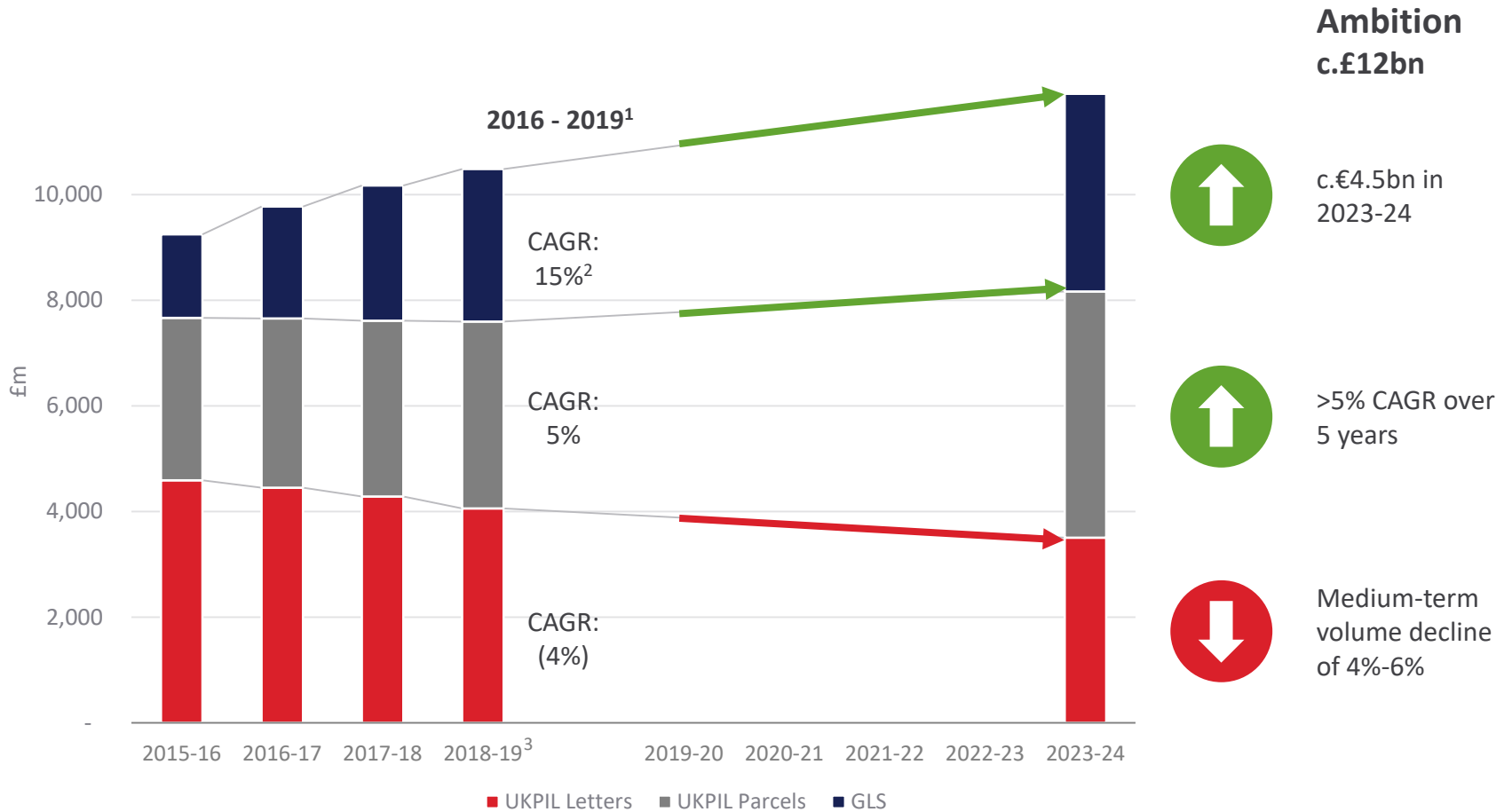
## GLS costs and profitability

€m	2014-15 <sup>1</sup>	2015-16	2016-17	2017-18	2018-19	Short-term	2021-22 Ambition	2023-24 Ambition
People costs	450	489	582	689	756			
Non-people costs	1,378	1,509	1,743	1,993	2,317			
<b>GLS operating costs</b>	<b>1,828</b>	<b>1,998</b>	<b>2,325</b>	<b>2,682</b>	<b>3,073</b>			
Operating margin	7.6%	7.4%	7.8%	7.5%	6.1%	6-7%	6-7%	6-7%

# 4

## Group financial performance turnaround

2-3% revenue CAGR over 3 and 5 years



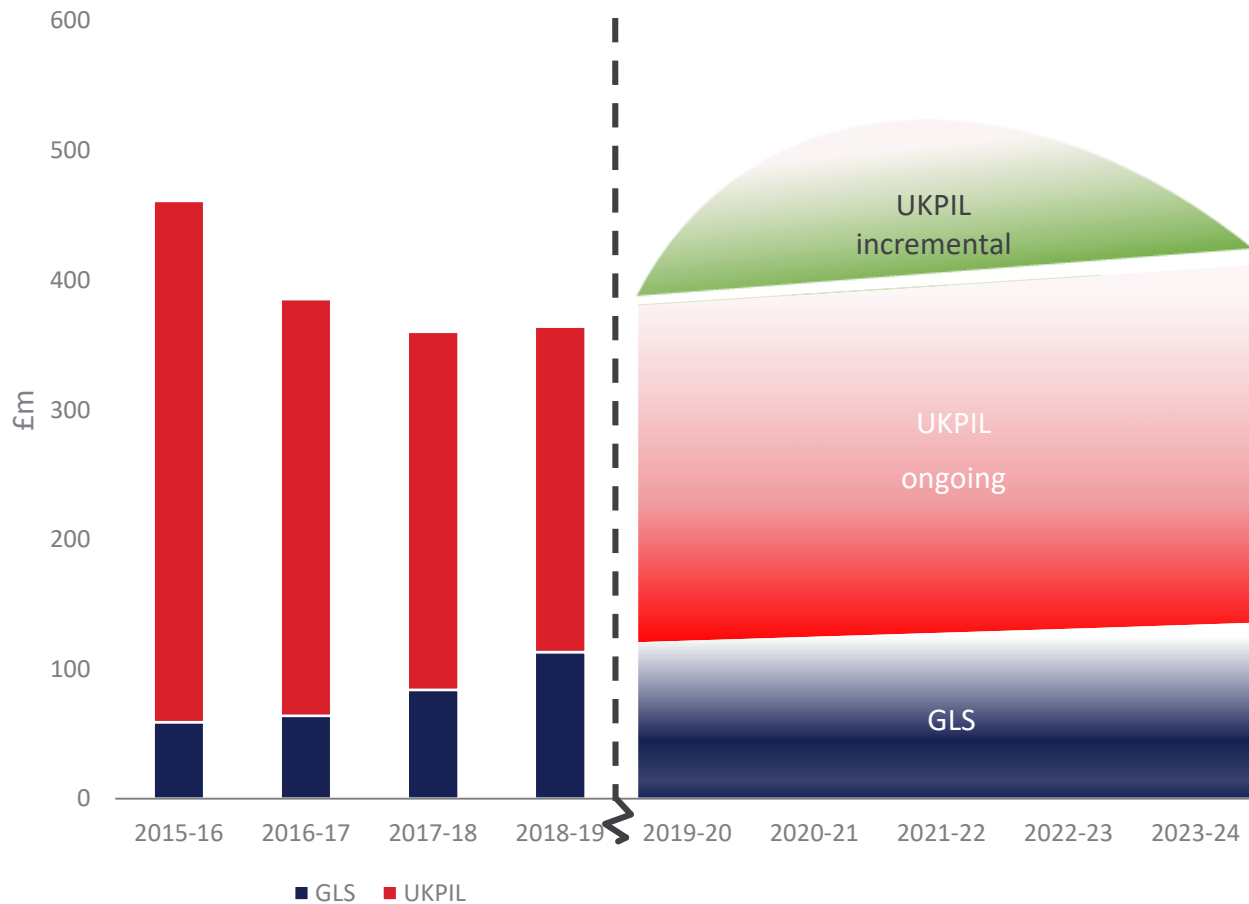
<sup>1</sup> Historic adjusted revenue and volume figures are based on estimates using the new methodology. 2018-19 is 52 week basis

<sup>2</sup> CAGR on a Euro Revenue basis (including acquisitions)

<sup>3</sup> 2018-19 includes intercompany revenue

# 5 Capital prioritisation

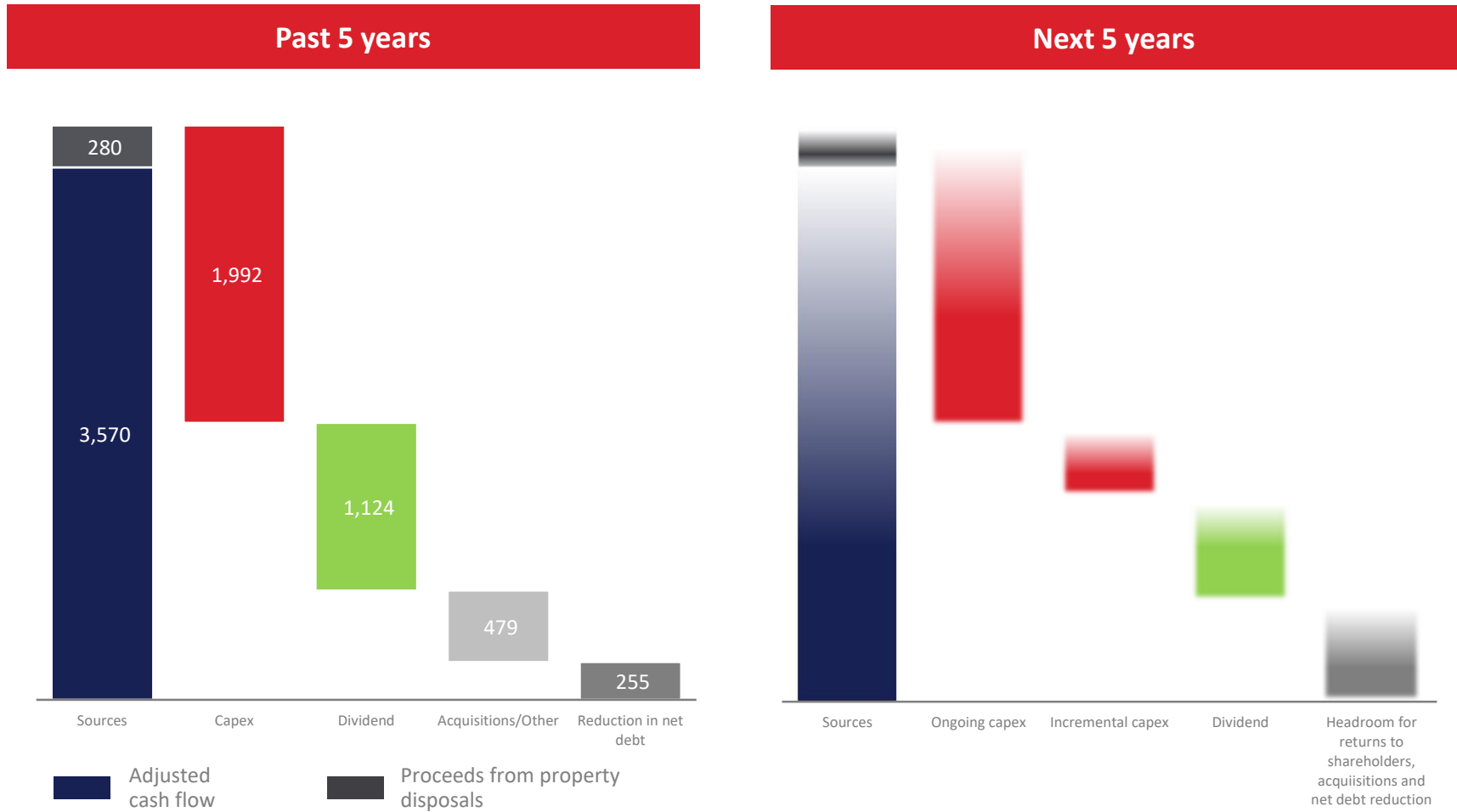
## Incremental capital expenditure to fund UK turnaround



- Total incremental cumulative capex of £400-500m
  - Incremental capex peaks in year 3 of the plan
- UK vehicles and property always need maintenance/replacement
- Ongoing investment in IT and parcel systems
- GLS investing behind growth areas and products to ensure capacity meets demand

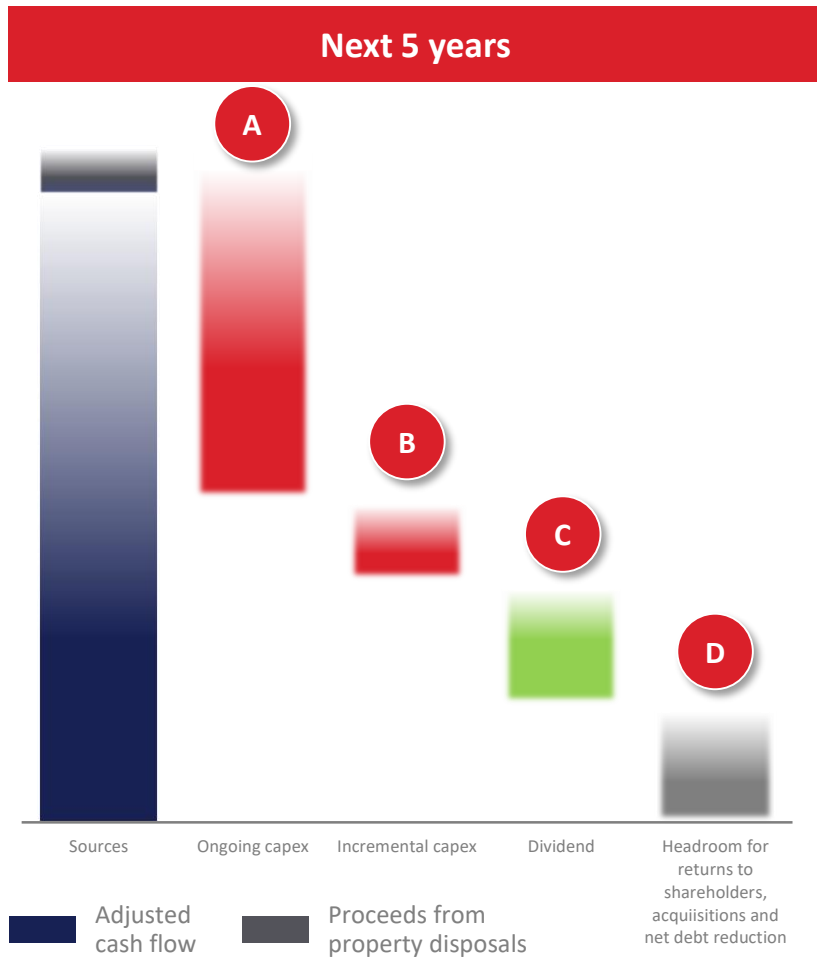
# 5 Capital prioritisation

## Historical and future sources and uses of cash



# 5 Capital prioritisation

## Future sources and uses of cash



- A Sustain existing businesses**

  - Ongoing capex broadly in line with historic levels of c.£400m p.a
  - GLS capex in line with growth
- B Incremental capex**

  - Cumulative incremental capex of £400-500m over period
    - Parcel Hubs
    - Automation
    - Data platforms
- C Dividend**

  - Dividend to be covered by cumulative trading cashflow over 3 and 5 years
  - 15p underpin
- D Other**

  - Excess capital may be returned to shareholders when cash flows allow
  - Selected bolt-on acquisitions in GLS

# Group outlook summary

£m	2018-19	Short-term	2021-22 Ambition	2023-24 Ambition
Revenue	10,444	2-3% CAGR over 3 and 5 years		c.£12bn
Operating costs	(10,068)			
<b>Adjusted operating profit<sup>1</sup></b>	<b>376</b>	<b>£300-340m</b>		
Adjusted operating profit margin	3.6%	Margin compression	>4%	>5%
<b>Total capex</b>	<b>364</b>	<b>Cumulative incremental capex of £400-500m</b>		
<b>Dividend per share</b>	<b>25p</b>	<b>15p underpin</b>		

# Summary

1

**UKPIL returned to revenue growth**

- UKPIL parcels revenue growth more than offsetting letters decline

2

**Contain UKPIL costs with productivity improvement**

- Cumulative productivity improvements of 15-18% over 5 years
- Supported by substantial improvement in digital capability, methods and network redesign

3

**GLS continued profitable growth**

- Targeting c.€4.5bn revenue in 2023-24
- Targeting operating profit margin of 6-7%

4

**Group financial performance turnaround**

- 2-3% revenue CAGR over 3 and 5 years
- Group operating margin<sup>1</sup> >4% in 2021-22 and >5% by 2023-24

5

**Capital prioritisation**

- Cumulative incremental capex of £400-500m over 5 years
- 15p dividend underpin



# Q&A

## Strategy and Outlook, 2018-19 Results

**Rico Back**

Group CEO



**Stuart Simpson**



Group CFO and COO







# Break

Resuming at 11:20

# Agenda

Strategy and Outlook, 2018-19 Results	
09:30	Presentation Commences
	Video – Our History
09:35	Strategy Overview and 2018-19 Results Summary  <b>Rico Back</b> Group CEO
10:00	2018-19 Results and Financial Outlook  <b>Stuart Simpson</b> Group CFO and COO
10:30	Q&A
11:05	Break

UK Commercial	
	Video – Letters
11:20	Letters  <b>Stephen Agar</b> MD Letters
11:40	Parcels  <b>Nick Landon</b> Chief Customer Officer
11:55	Q&A
12:15	Lunch

UK Operations	
12:55	Operations  <b>Stuart Simpson</b> Group CFO and COO  <b>Achim Dünnwald</b> Chief Strategy and Transformation Officer
13:15	People  <b>Sally Ashford</b> Chief HR Officer
13:30	Q&A
13:50	Break
GLS and Cross-border	
	Video – GLS
14:05	GLS  <b>James Rietkerk</b> GLS CEO
14:45	Cross-border  <b>Saadi Al-Soudani</b> Group International MD
15:00	Q&A
Summary	
	Video – Our Future
15:20	Closing Remarks  <b>Rico Back</b> Group CEO
15:30	Close

# Video

## Letters

# Letters

**Stephen Agar**  
MD Letters



# Summary

1

Letters are important to Royal Mail

- Deliver nearly 100% of UK letters, visiting every address
- Joint network supports parcel proposition

2

Structural volume decline is broadly stable

- The structural rate of e-substitution is broadly stable
- Volume outlook is 5-7% decline in 2019-20 and 4-6% p.a. decline in the medium-term<sup>1</sup>

3

We price for sustainable long-term revenue

- Segmented pricing, by using elasticities to optimise yield
- Regulatory and market headroom for future price change

4

We support volume by proving the value of mail

- Promoting, enabling and incentivising use of mail, to retain and stimulate demand
- Integrating seamlessly with other media

5

We use technologies to increase efficiency, protect revenue and add product features

- Migrating volume onto Mailmark<sup>®</sup> barcodes
- Process automation to improve account set up, billing, performance, analytics and revenue integrity

# 1 Letters are important to Royal Mail

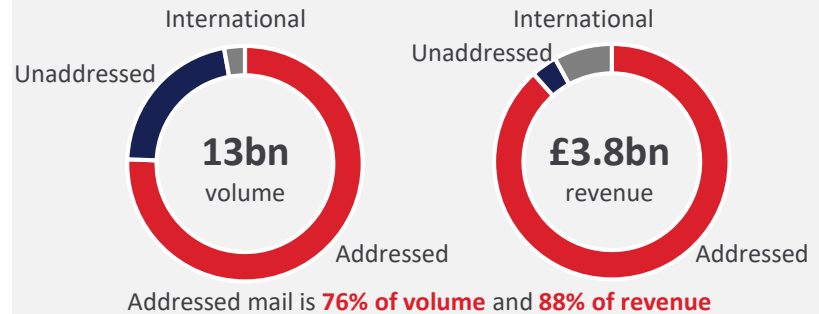
We deliver c.13bn letters, of which most are addressed

## I Deliver c.13bn letters<sup>1</sup>



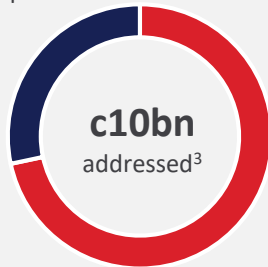
Universal service to over **30m addresses** in the UK, **6 days a week**  
Supporting a **joint network** with parcels

## II Addressed mail is the majority<sup>2</sup>



## III Most addressed is pre-sorted

Unsorted/single piece  
(stamp, meter  
and account)

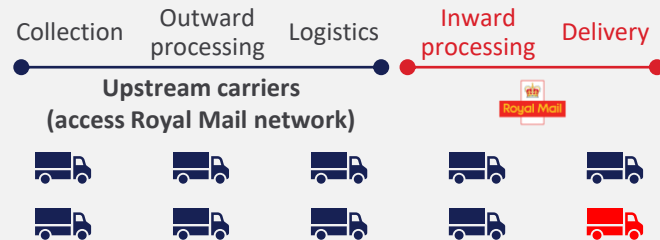


Pre-sorted  
(bulk)

**Over 70%** of addressed mail enters  
our network pre-sorted by customers

## IV Vast majority of pre-sorted is Access

**Access** is where other companies inject mail into  
our network at the Inward Processing point



**c.90%** of pre-sorted (bulk) mail is received via Downstream Access

<sup>1</sup> Letter volume and revenue on new methodology

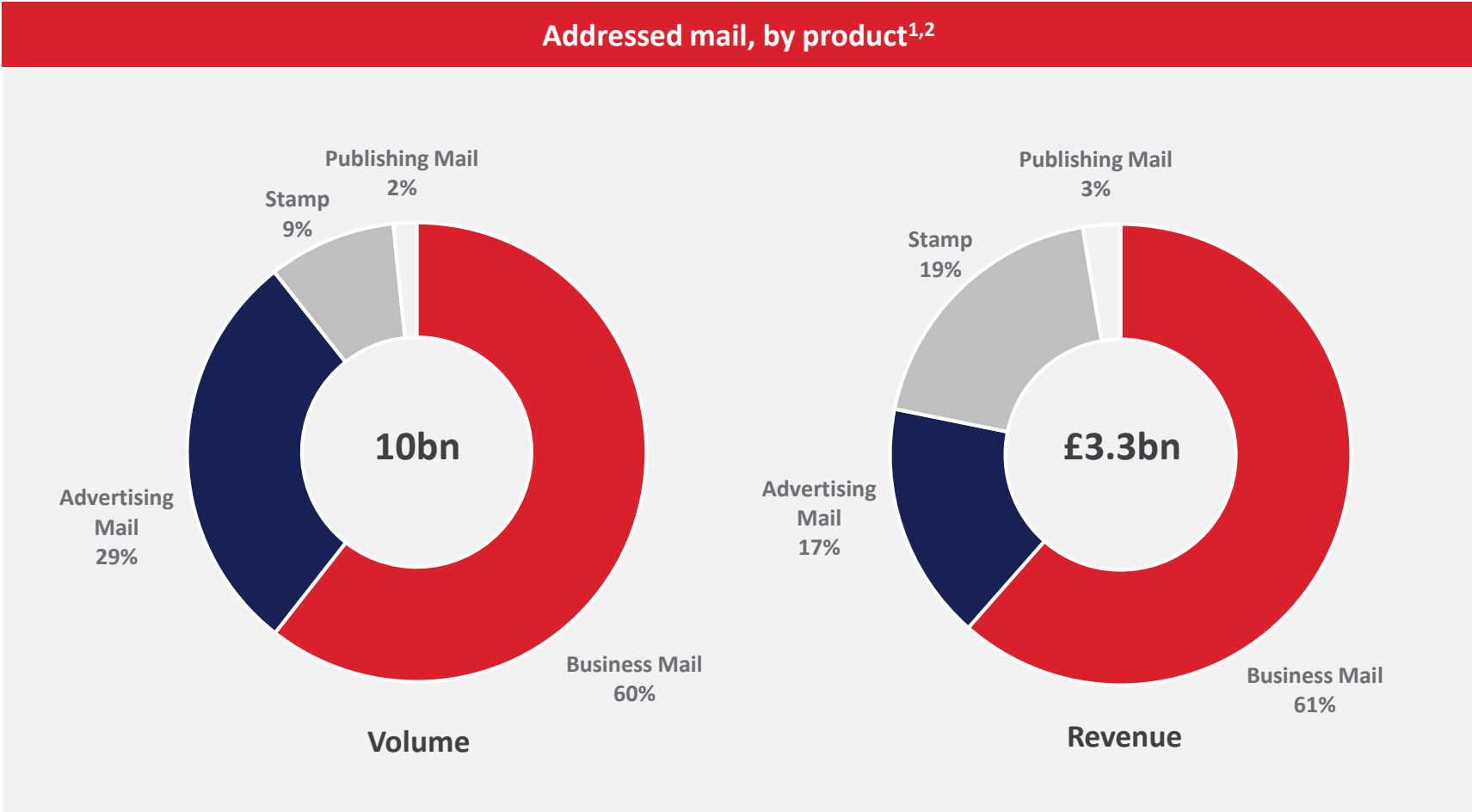
<sup>2</sup> Total excludes non volume related products

<sup>3</sup> Excludes International and Elections

# 1

# Letters are important to Royal Mail

Business mail accounts for a majority of addressed mail



<sup>1</sup> Letter volume and revenue on new methodology  
<sup>2</sup> Totals exclude Elections, International and non volume related products



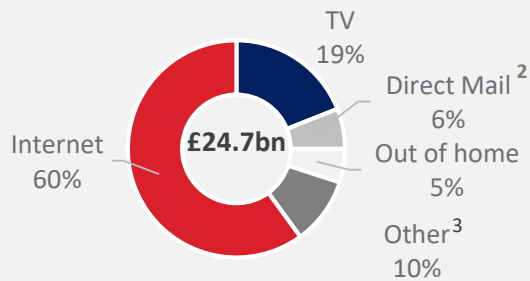
# 2

## Structural volume decline is broadly stable

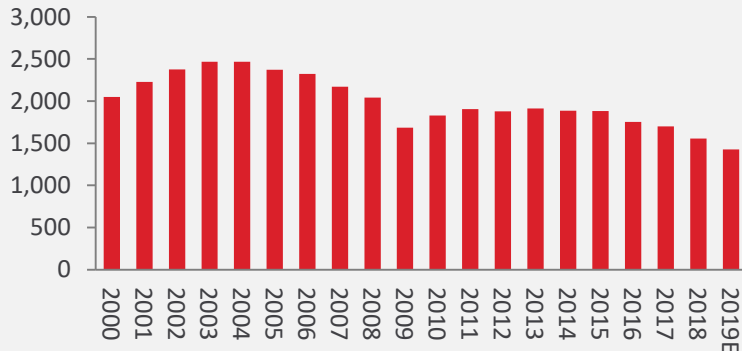
Advertising volume has been impacted by growth of digital media and GDPR

### UK advertising market share by media<sup>1</sup>

2019 total market forecast<sup>1</sup>

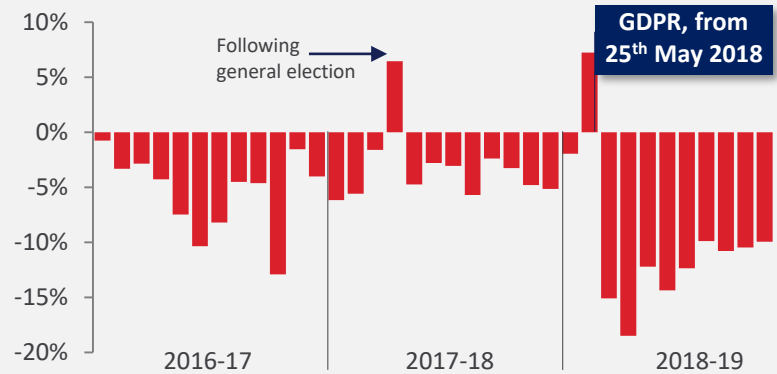


Direct mail market spend (£m)<sup>4</sup>



### Recent trend – GDPR effect

Royal Mail Advertising Mail volume: monthly variance vs. prior year



- GDPR negatively impacted volumes in 2018-19
- Rate of decline has somewhat recovered in recent months
- Will take 12-18 months from introduction of GDPR to evaluate long-term impact

**Customer feedback indicates that there is:**

- A better understanding of GDPR
- Increasing confidence in the quality of 3rd party data
- Strong interest in our new Partially Addressed Product

All of which points to improving conditions from Q2 2019-20

<sup>1</sup> Source: WARC <sup>2</sup> Direct mail excludes unaddressed <sup>3</sup> Other includes magazines, newsbrands, cinema and radio <sup>4</sup> Source: WARC; includes production costs which Royal Mail does not receive

# 2

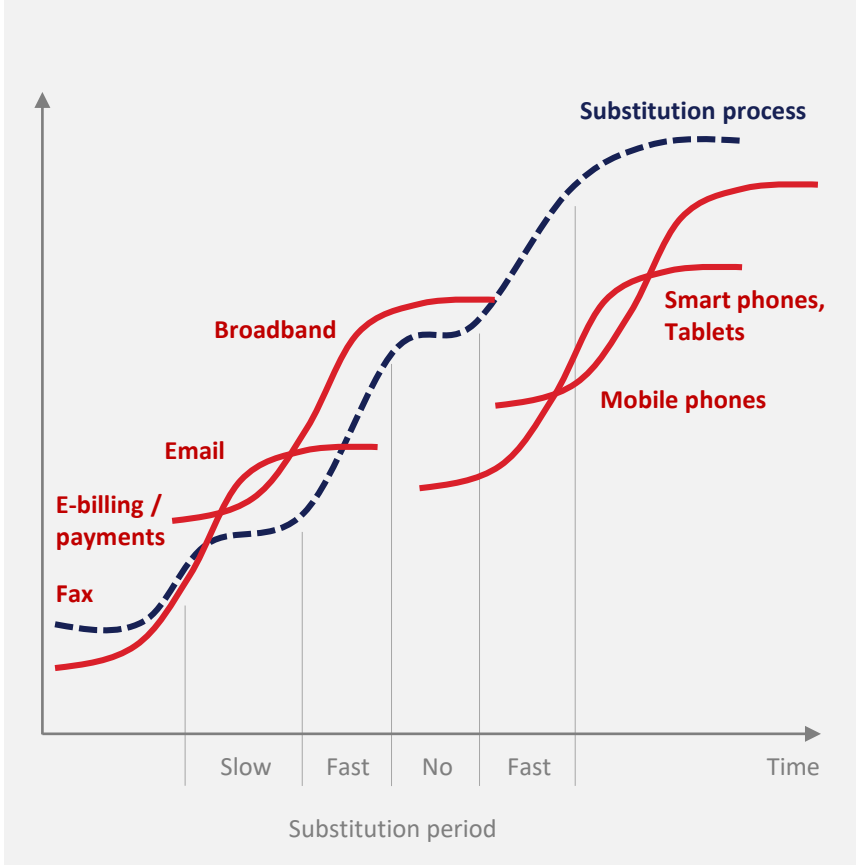
## Structural volume decline is broadly stable

Technology has created a disconnect between GDP and letter volume

### Technology wedge



### E-substitution is an evolving process



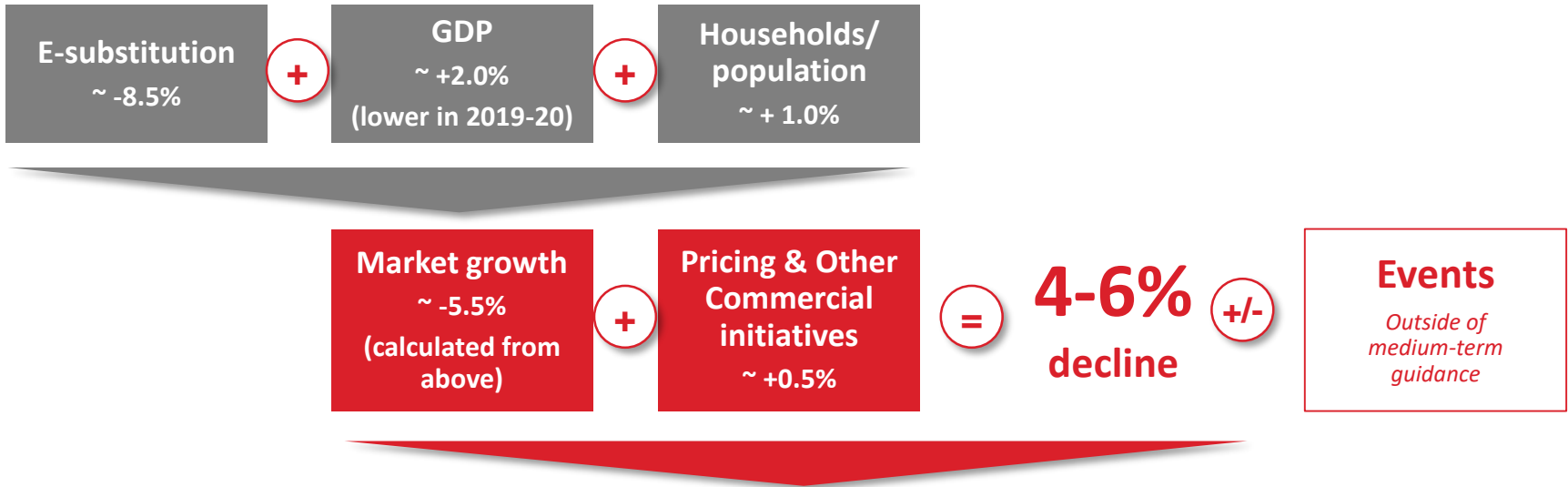
<sup>1</sup> Data smoothed using rolling 2 year averages

<sup>2</sup> Letter volume growth is on old methodology

## 2 Structural volume decline is broadly stable

Our letter volume modelling accounts for e-substitution, GDP and other factors

Our medium-term volume assumptions<sup>1</sup>



**Our outlook is for 5-7% decline in letter volume in 2019-20 (due to economic uncertainty and GDPR)**

### Findings from PwC market study into UK domestic letter volume

- “Our letters forecast suggests that the underlying long term rate of volume decline will revert to ~4-6% p.a. by 2021”
- “However, in the short term (2019 and 2020) we forecast a faster rate of decline of ~6-8% p.a., driven by specific events (impact of GDPR and economic uncertainty)”
- From 2023-28 PwC forecasts an annual decline over the period of 4%, trending down to 3.6% in 2027 and 3.3% in 2028

# 3 We price for sustainable revenue

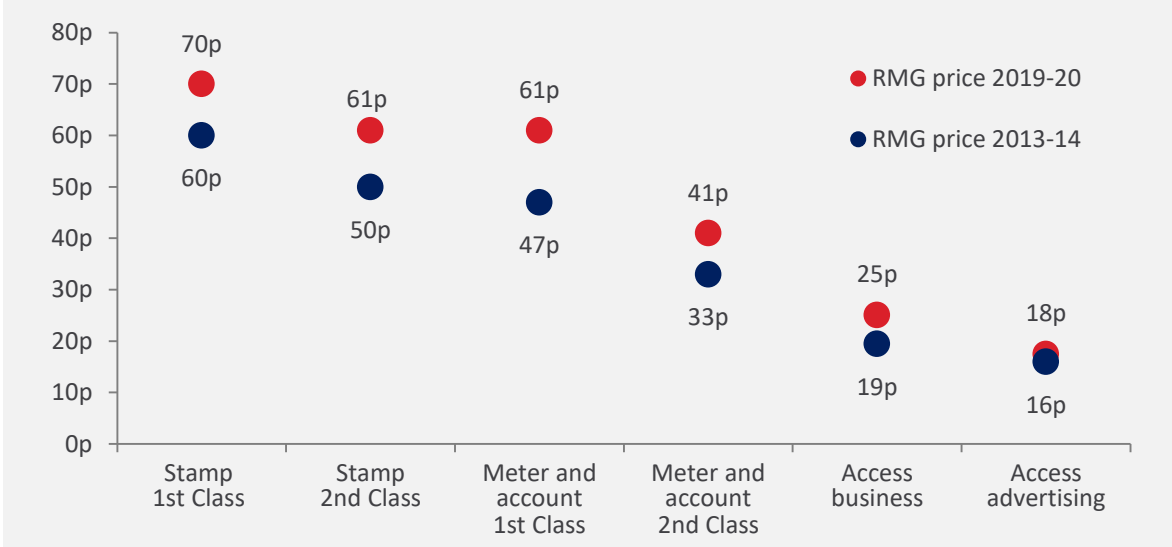
Market drivers vary across products and sectors

		Key volume drivers	Gearing to GDP	Price elasticity
Business	Financial services	<ul style="list-style-type: none"> <li>Regulatory interventions</li> <li>Brands promoting digital engagement</li> <li>Sender demand for paperless communications versus recipient preferences for paper communications</li> </ul>	M	L
	Public sector	<ul style="list-style-type: none"> <li>'Digital by Default'</li> <li>Budget pressure</li> <li>Citizen preferences and senders expected response</li> </ul>	L	L
	Utility & telco	<ul style="list-style-type: none"> <li>Regulatory requirements</li> <li>Growth of marketplaces</li> <li>Consumer attitudes</li> </ul>	M	L
	SME	<ul style="list-style-type: none"> <li>Marketing expertise and time constraints</li> <li>Perception of mail vs. digital</li> <li>Social media plays into local markets well</li> </ul>	M	M
Marketing		<ul style="list-style-type: none"> <li>Digital media growth</li> <li>Opening up the Agency Channel for mail</li> <li>Proving commercial value of mail</li> </ul>	H	H
Publishing		<ul style="list-style-type: none"> <li>Brand commitment to subscriptions</li> <li>Ability to monetise digital content</li> <li>Advertising revenue vs. reader revenue</li> </ul>	L	M
Social		<ul style="list-style-type: none"> <li>E-substitution for key moments for mail</li> <li>Online form submissions and payments</li> <li>Availability and awareness of stamp sales</li> </ul>	L	M

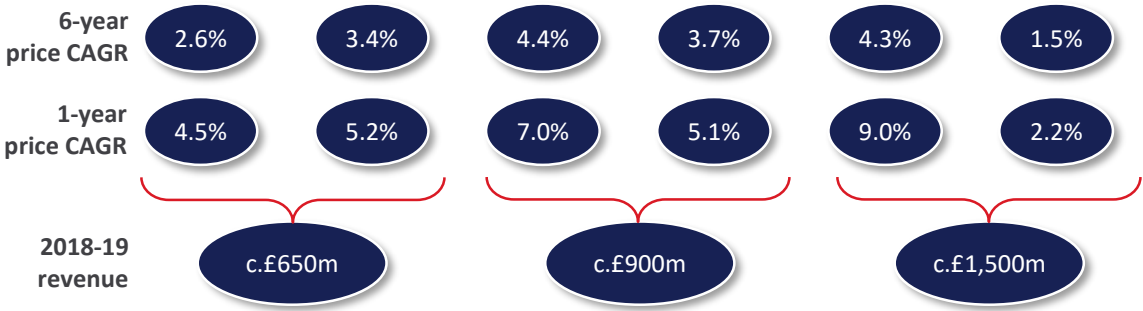
# 3 We price for sustainable revenue

We have a segmented pricing strategy

Prices of key domestic addressed letter products<sup>1</sup>, 2019-20 vs. 2013-14



- Balanced approach to adjusting prices, recognising revenue opportunities while ensuring we do not drive volume out in the long-term
- Business mail prices (lower elasticity) increasing more than those for advertising mail



# 4 We support volume by proving the value of mail

## Proving, promoting, enabling and incentivising

**Prove**  
commercial  
value of mail



Research proving mail is a highly effective medium  
Reach and frequency metrics

**Promote**  
value to  
target  
segments



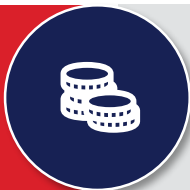
Enabling agencies to trade mail  
Proactive relationships with mail supply chain partners

**Enable**  
customers  
to realise  
value



Practical guides and training programmes  
Mail on marketing automation platforms

**Incentivise**  
customers  
to act



Portfolio of incentives and offers

## Extended product offering for specific segments

**For  
advertisers**



Partially Addressed Product  
Unaddressed Mail Late Booking

**For  
publishers**



Magazine subscription product, based on Mailmark®

**For the  
public sector**



New options for poll card distribution

**For  
bulk mailers**

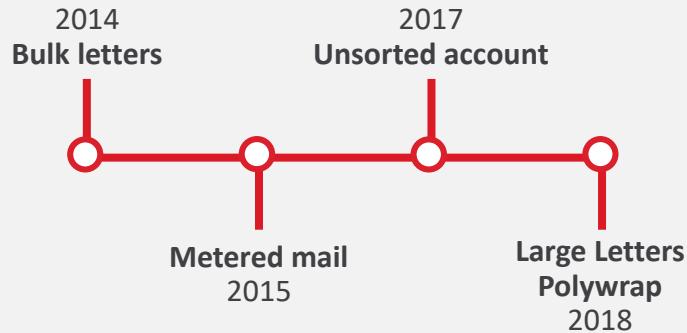


Reduced sortation levels

# 5 Using technologies

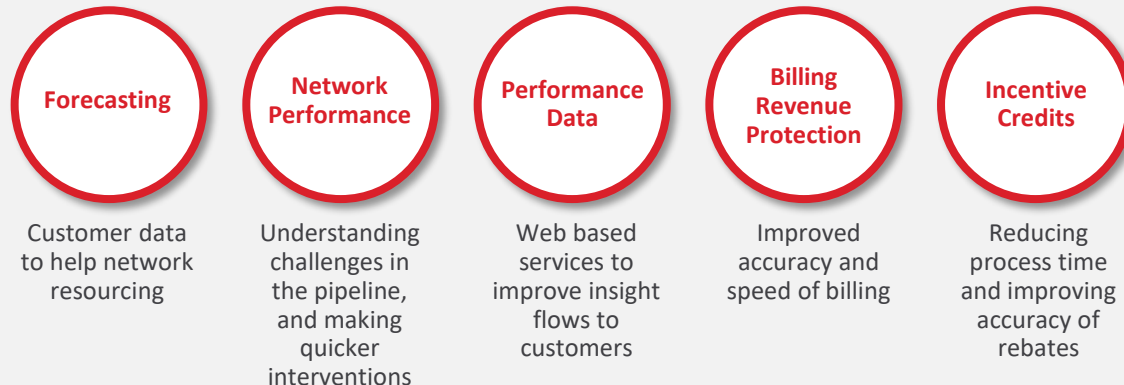
We are increasing efficiency, protecting revenue and adding product features

## Barcoding journey



- Migrating volume onto Mailmark® barcodes since 2014
  - 68% of addressed mail is barcoded<sup>1</sup>
- Mailmark contains much more information than an address
- Enables item level billing based on what is seen in the network rather than sampling
- Customers enjoy improved visibility of their mail
- Barcoding supports revenue protection

## Enables Process Automation



**Forecasting**

Customer data to help network resourcing

**Network Performance**

Understanding challenges in the pipeline, and making quicker interventions

**Performance Data**

Web based services to improve insight flows to customers

**Billing Revenue Protection**

Improved accuracy and speed of billing

**Incentive Credits**

Reducing process time and improving accuracy of rebates

# Summary

1

Letters are important to Royal Mail

2

Structural volume decline is broadly stable

3

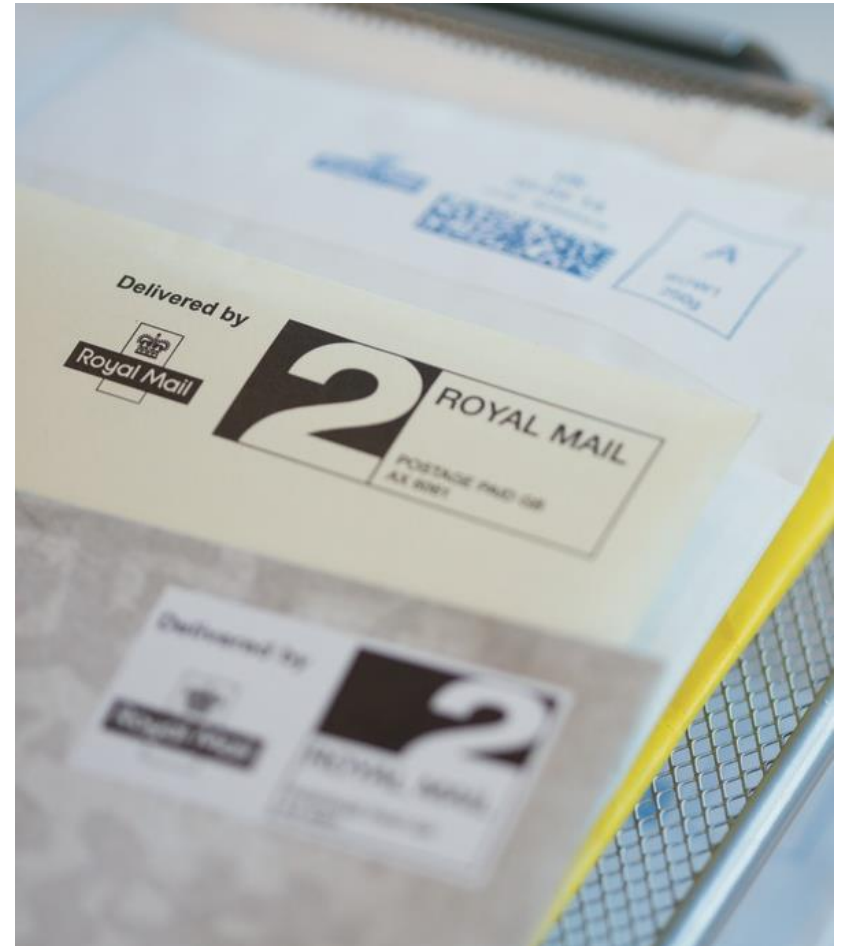
We price for sustainable long-term revenue

4

We support volume by proving the value of mail

5

We use technologies to increase efficiency, protect revenue and add product features





# UK Parcels

**Nick Landon**  
Chief Customer Officer



# Summary

**1**

**No. 1 parcel carrier**

- We have over half of our addressable market (51% of volume)

**2**

**A growing market**

- The addressable market is forecast to grow at 4-5% p.a.

**3**

**Growing domestic market share**

- We are growing share by targeting fast growing sectors to generate above 5% CAGR over 5 years

**4**

**Innovating with customer-led investments**

- We are developing features that customers want

**5**

**A clear plan moving forward**

- Adding features, reducing cost and increasing network speed to maximise profit

# 1 No. 1 parcel carrier

On our busiest day<sup>1</sup> this year we handled approximately

**9m parcels**

For the whole of 2018-19<sup>2</sup> in the UK we handled

**1.3bn parcels**

Laid end-to-end, they would form a line

**over 400,000km long**

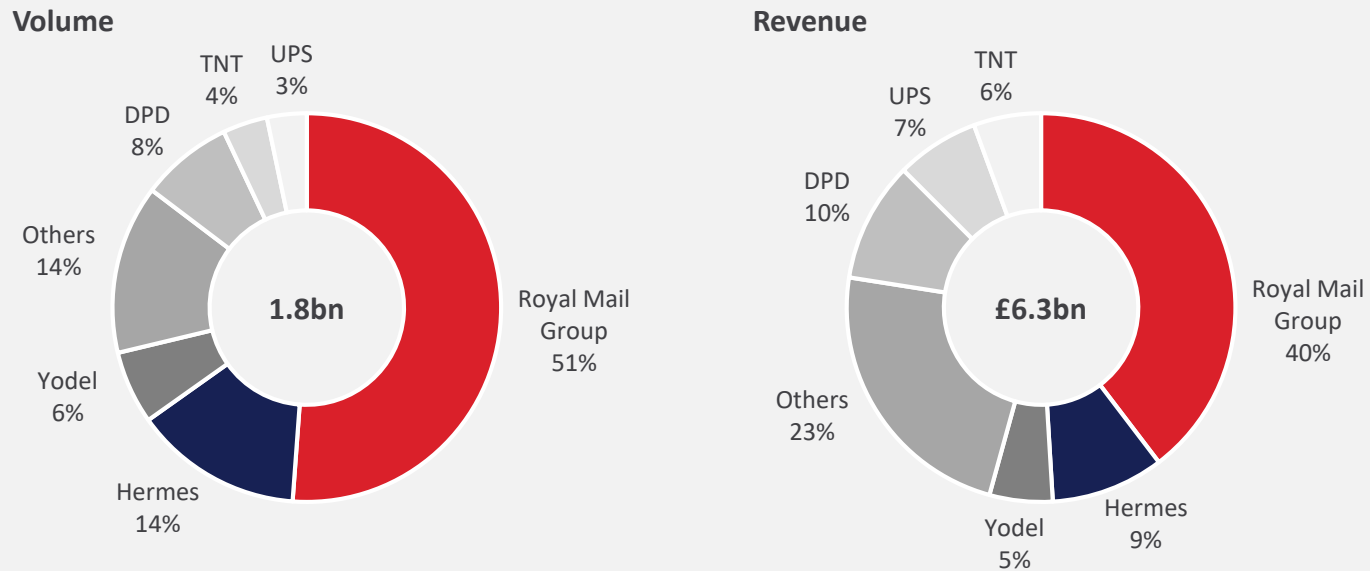
and reach

**from the Earth to the Moon**



# 1 No. 1 parcel carrier

## Addressable UK domestic parcel market – 2017

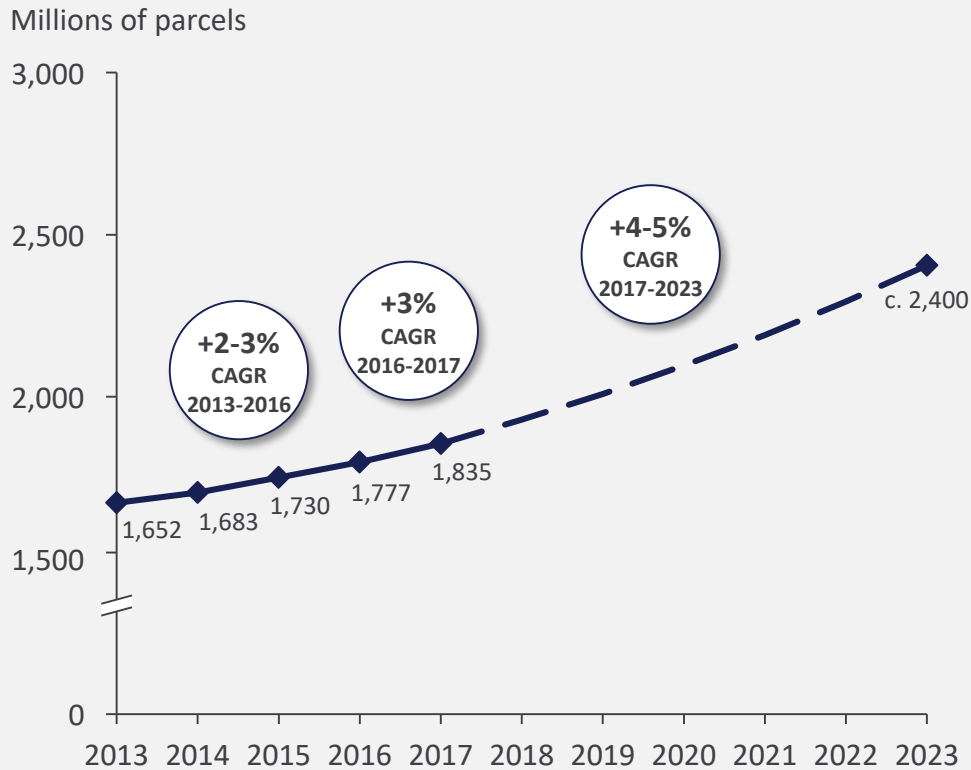


- Our market share has been resilient through a period of significant market change
- Our 'value for money' proposition matches requirements of c.70% of the market
- We aim for the best overall combination of quality, service attributes and price
- Excess market capacity will restrict price rises so our focus is on volume growth and cost

## 2 A growing market

The addressable market is forecast to grow at 4-5% p.a.

### Addressable UK domestic parcel market volume



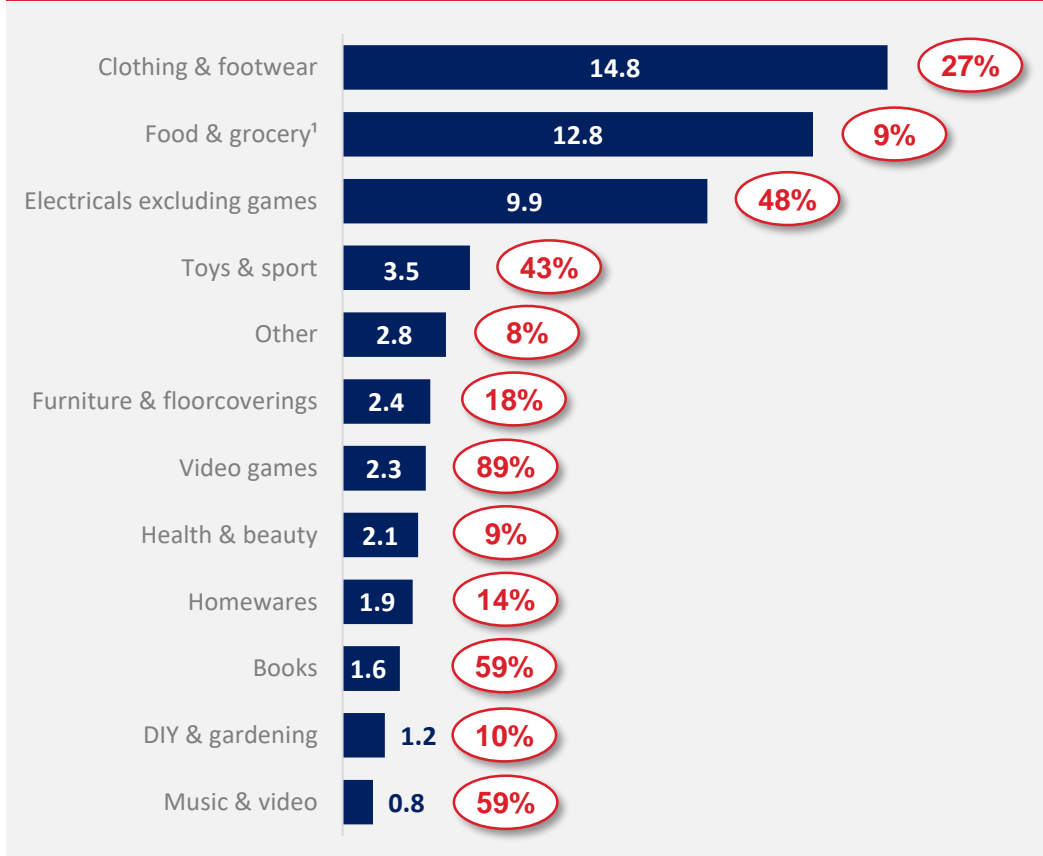
### Market growth factors

- E-commerce continues to drive market growth
- Online sales have been very resilient even when the economy has been impacted by external factors
- Key retail sectors underpin growth
- Significant further runway for e-commerce growth
- Strong growth in letterboxable items expected to continue

## 2 A growing market

We are targeting and winning important growing sectors and customers

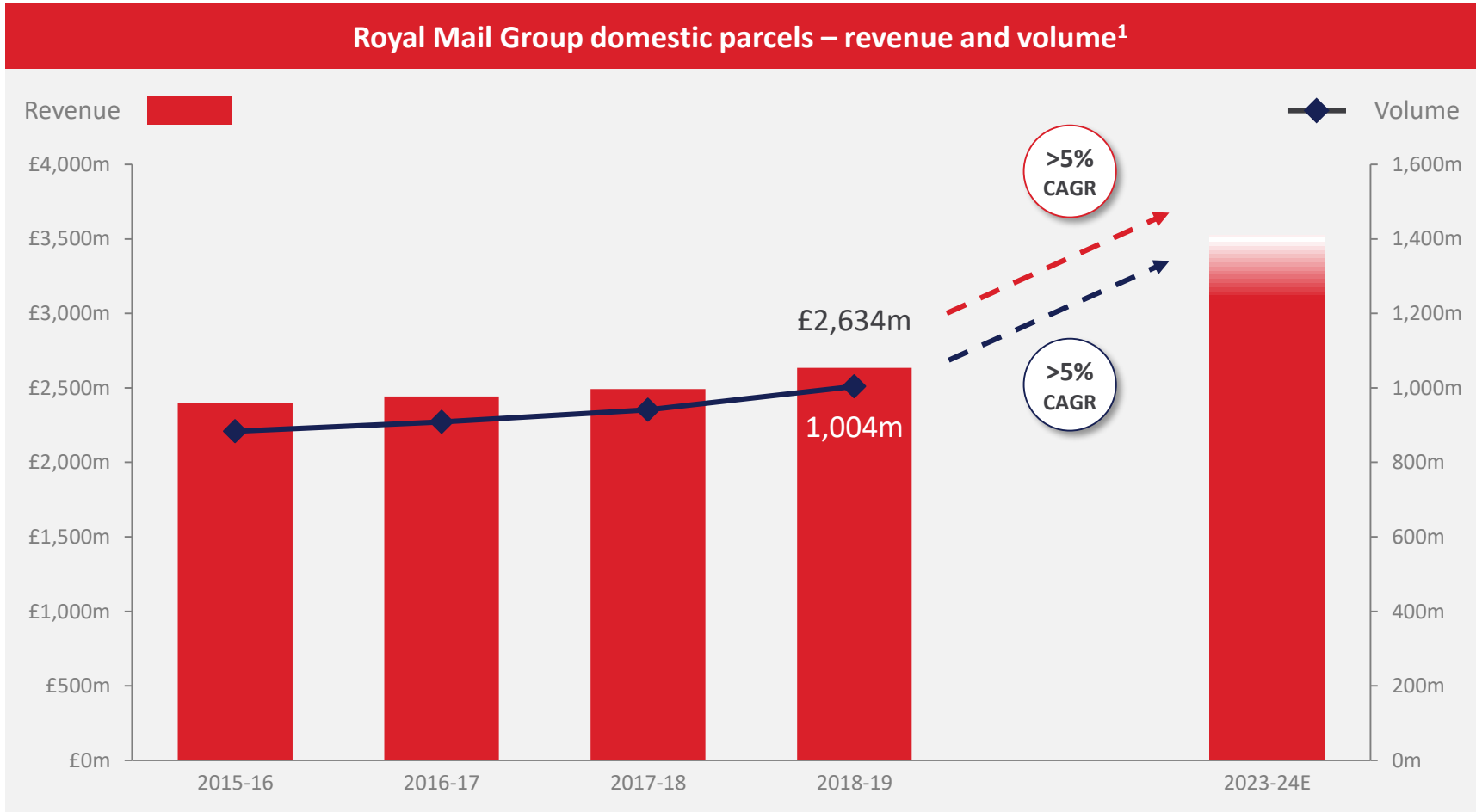
Online spend (£bn) and penetration (%) by sector – 2018



- Non-food online spend represents just 24% of total non-food retail
- 5G should boost growth and online switching further
- We continue to target the top 1,000 retailers to grow our share of the market
- Winning customers growing faster than the market supports our growth
- As does a focus on growing and large sectors
- And our work with key marketplaces

### 3 Growing domestic market share

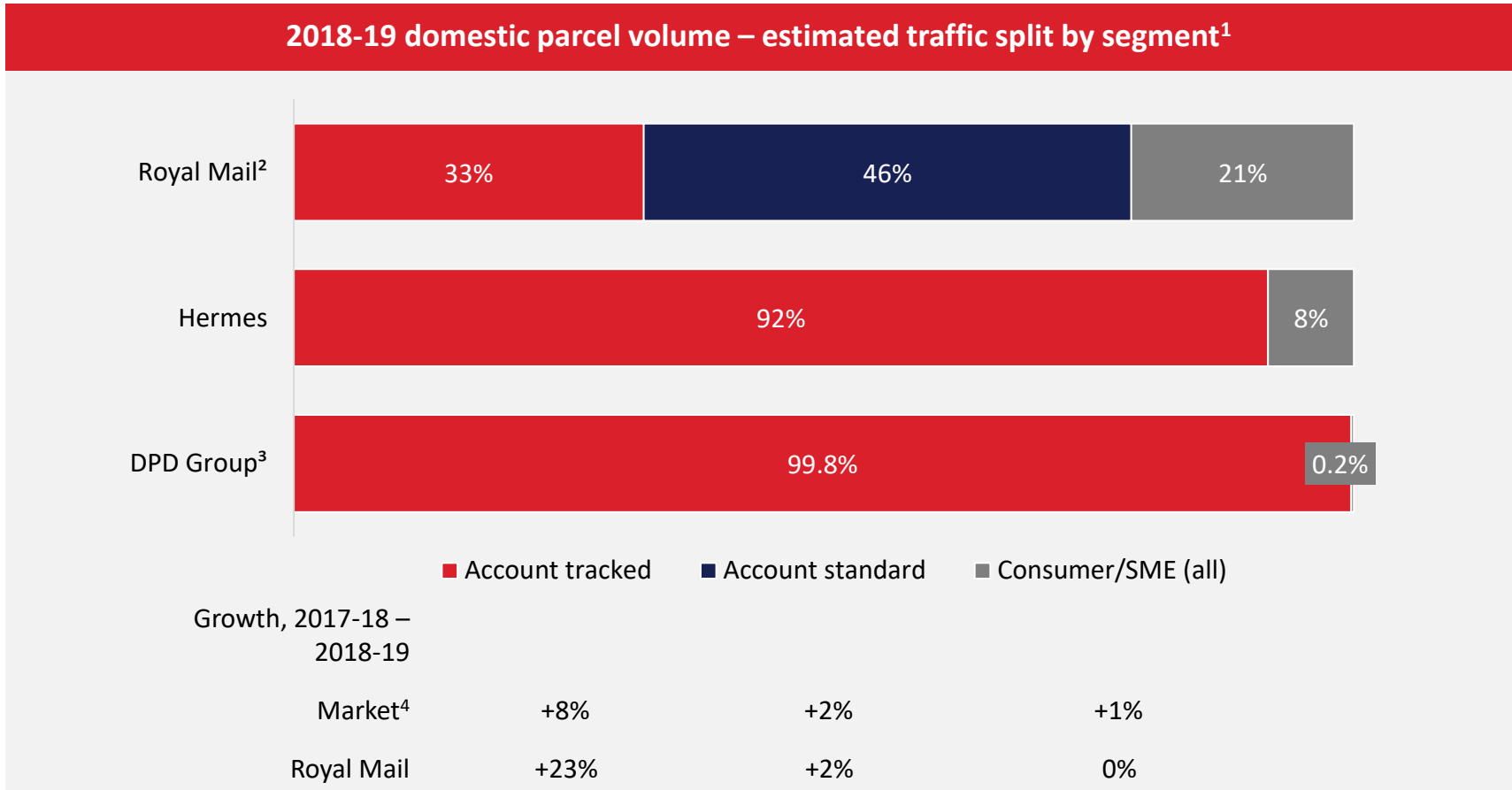
We expect to outpace addressable market growth over the next five years



# 3 Growing domestic market share

## As our mix changes it supports future growth

- Tracked is our growth engine and is growing faster than the market
- As it progressively increases its proportion of our mix it provides a growth tailwind



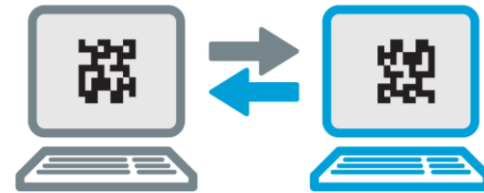


## 4 Innovating with customer-led investments

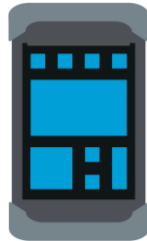
To support this we invested in our technology and processing infrastructure



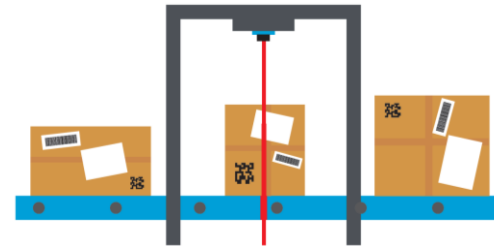
Built the **UK's largest parcel tracking** system and are now using this for all the parcels scanned in our network



Built our own 'in-house' shipping systems to generate 2D barcodes  
Barcoding more parcels



Rolled out **80,000 PDAs**, the largest PDA estate in the UK



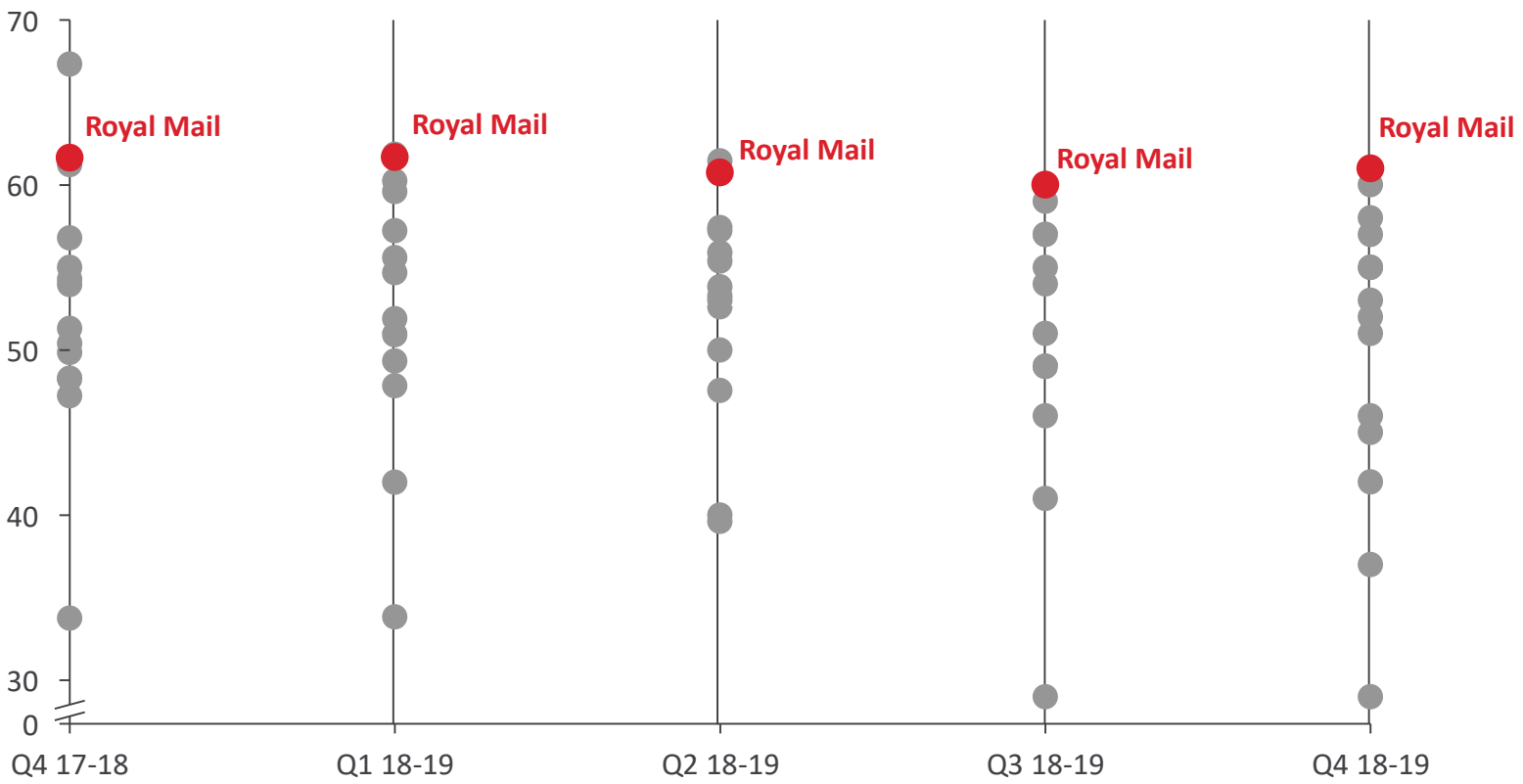
**10 small parcel sorting machines**, sorting 12% of our parcels<sup>1</sup>, with 30 more machines in plan

# 4

## Innovating with customer-led investments

As a result our customers consistently rate us above our key competitors

Customer satisfaction score (%)



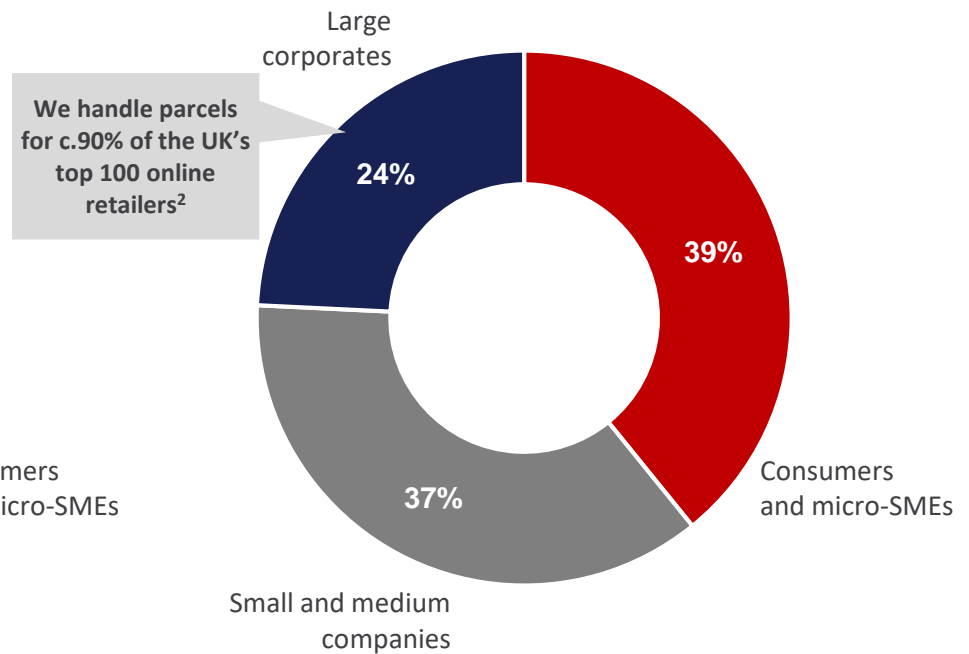
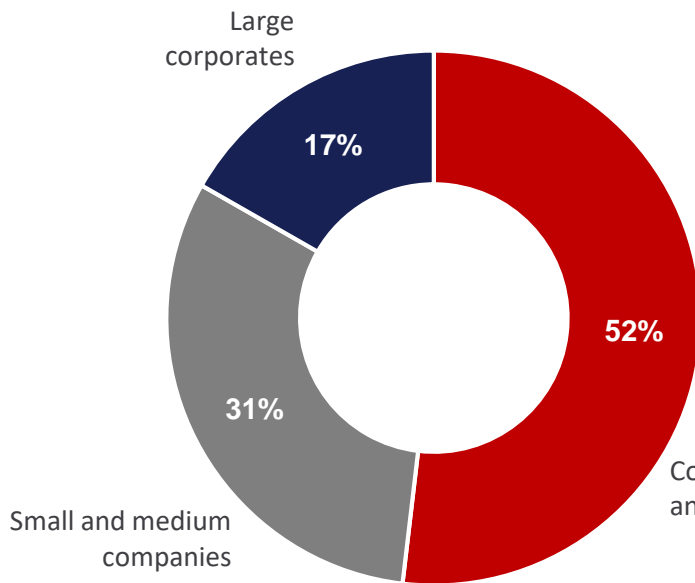
# 4

## Innovating with customer-led investments

Our activities have driven a change in customer mix that supports growth

Revenue by customer segment – 2013-14<sup>1</sup>

Revenue by customer segment – 2018-19<sup>1</sup>



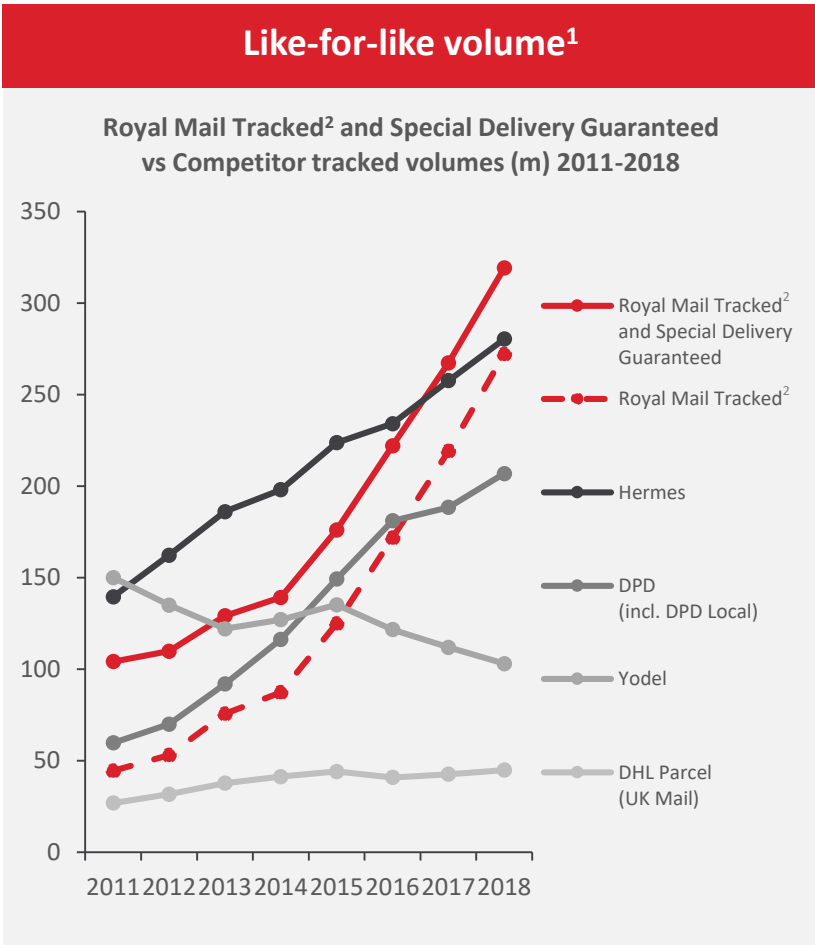
**We expect this customer mix change to continue, underpinning our future growth**

<sup>1</sup> Based on sales data, excluding Parcelforce Worldwide, RM International, RM Specialist Services and Network Access. Figures calculated using new methodology <sup>2</sup> Based on GlobalData Top 100 Online Sellers by Revenue (2017) and analysis of sales data

# 4

## Innovating with customer-led investments

And we are winning in a highly competitive market



**No.1**

**Highest customer satisfaction<sup>3</sup>**

Ahead of all competitors in latest customer satisfaction survey

**75%**

**Most trusted delivery provider<sup>4</sup>**

More people trust Royal Mail to deliver their online purchases than any other carrier  
Nearest competitor is at 45%

**72%**

**Most trusted alternative delivery location<sup>4</sup>**

Post Offices are convenient and trusted  
No other parcel shops or locker bank networks are in the Top 5 choices

<sup>1</sup> Internal estimate based on Triangle / RMG UK Fulfilment Market Measure. 2018 figures are estimates based on 2017 financial reports. <sup>2</sup> Includes Royal Mail Tracked 24®, Royal Mail Tracked 48® and Royal Mail Tracked Returns®, 2018 adjusted for 52 weeks. <sup>3</sup> Illuminas / RMG Business Customer Satisfaction Survey, Q4 2018/19. <sup>4</sup> Delivery Matters 2018 UK Report

# 5 A clear plan moving forward

Building on recent innovations to keep us the No. 1 choice for shippers

## We have already achieved



Accepting parcels up to 1:30am for delivery the same day



Accepting and processing parcels 7 days a week



Branded tracking notifications



Cutting edge shipping systems



Closely integrated with major e-commerce platforms

## Our plans for the next 5 years



Ensuring our services let merchants meet marketplace requirements



Deliveries to locker banks



Rollout of Parcel Posting Boxes



ID verification on delivery/collection



Enhanced customer reporting

# 5 A clear plan moving forward

Making deliveries and returns more convenient for recipients

## We have already achieved



Estimated delivery windows



Tracking updates through Alexa



Safespace images and Delivery to Neighbour notifications



Label-less returns in Post Offices and Customer Service Points



Online Returns Portal

## Our plans for the next 5 years



In-flight redirections



Predicted day of delivery and shorter delivery windows



Continuous innovation on the Royal Mail app and voice channels



Doorstep collections



Automated self-service at Customer Service Points

# Summary

1

No. 1 parcel carrier

2

A growing market

3

Growing domestic market share

4

Innovating with customer-led investments

5

A clear plan moving forward



# Q&A

## UK Commercial

**Stephen Agar**

MD Letters

**Nick Landon**





Chief Customer Officer









# Lunch

Resuming at 12:55

# Agenda

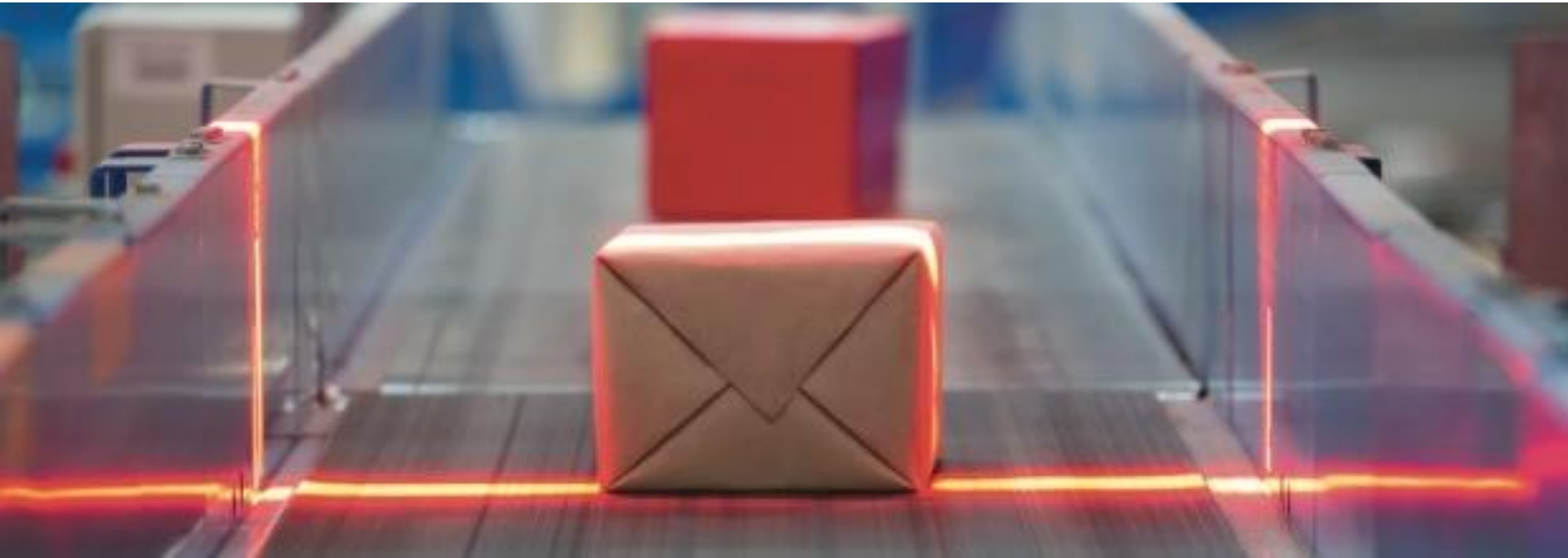
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11:40	Parcels  <b>Nick Landon</b> Chief Customer Officer
11:55	Q&A
12:15	Lunch

UK Operations	
12:55	Operations  <b>Stuart Simpson</b> Group CFO and COO  <b>Achim Dünnwald</b> Chief Strategy and Transformation Officer
13:15	People  <b>Sally Ashford</b> Chief HR Officer
13:30	Q&A
13:50	Break
GLS and Cross-border	
	Video – GLS
14:05	GLS  <b>James Rietkerk</b> GLS CEO
14:45	Cross-border  <b>Saadi Al-Soudani</b> Group International MD
15:00	Q&A
Summary	
	Video – Our Future
15:20	Closing Remarks  <b>Rico Back</b> Group CEO
15:30	Close

# Operations

**Stuart Simpson**  
Group CFO and COO

**Achim Dünwald**  
Chief Strategy and Transformation Officer



# Summary

1

## Competitive network, big challenges

- Largest UK delivery network for letters and parcels
- Limited change activity since 2015

2

## Turnaround journey launched

- Operations reorganised
- Improving existing processes

3

## Redesigning network around parcels

- Complete small parcel sorting machine roll out in Mail Centres
- Build 3 new automated Parcel Hubs
- Launch dedicated van delivery for larger parcels

4

## Productivity improvement of 15-18% over 5 years

- Returning to >2% productivity improvement in 2019-20, accelerating from 2020-21 onwards

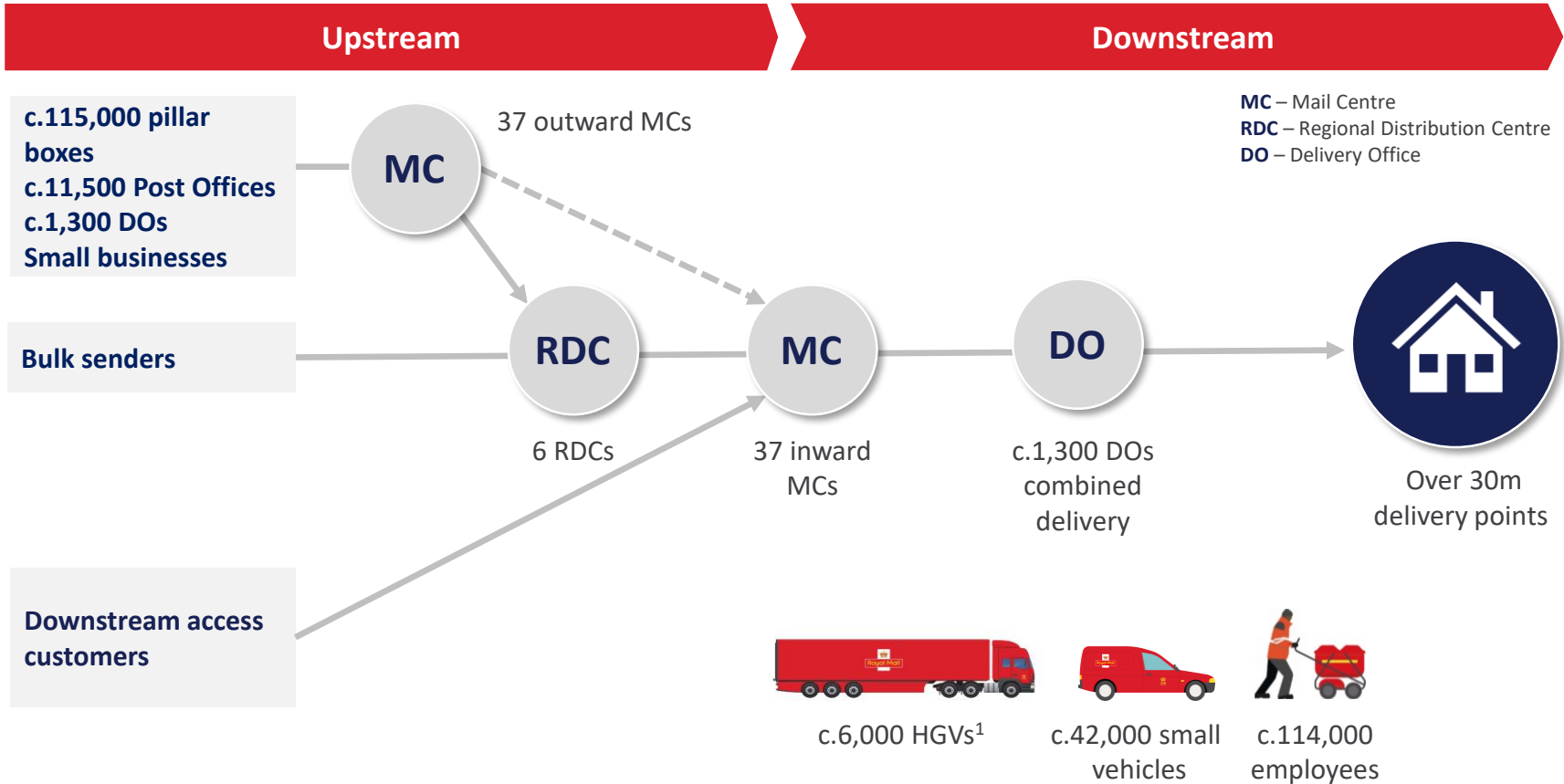
5

## Deployment over 3 horizons

- 2018 to 2020: lay foundations and improve performance
- 2020 to 2023: build our redesigned network
- 2023 and beyond: roll-out and run the redesigned network

# 1 Competitive network, big challenges

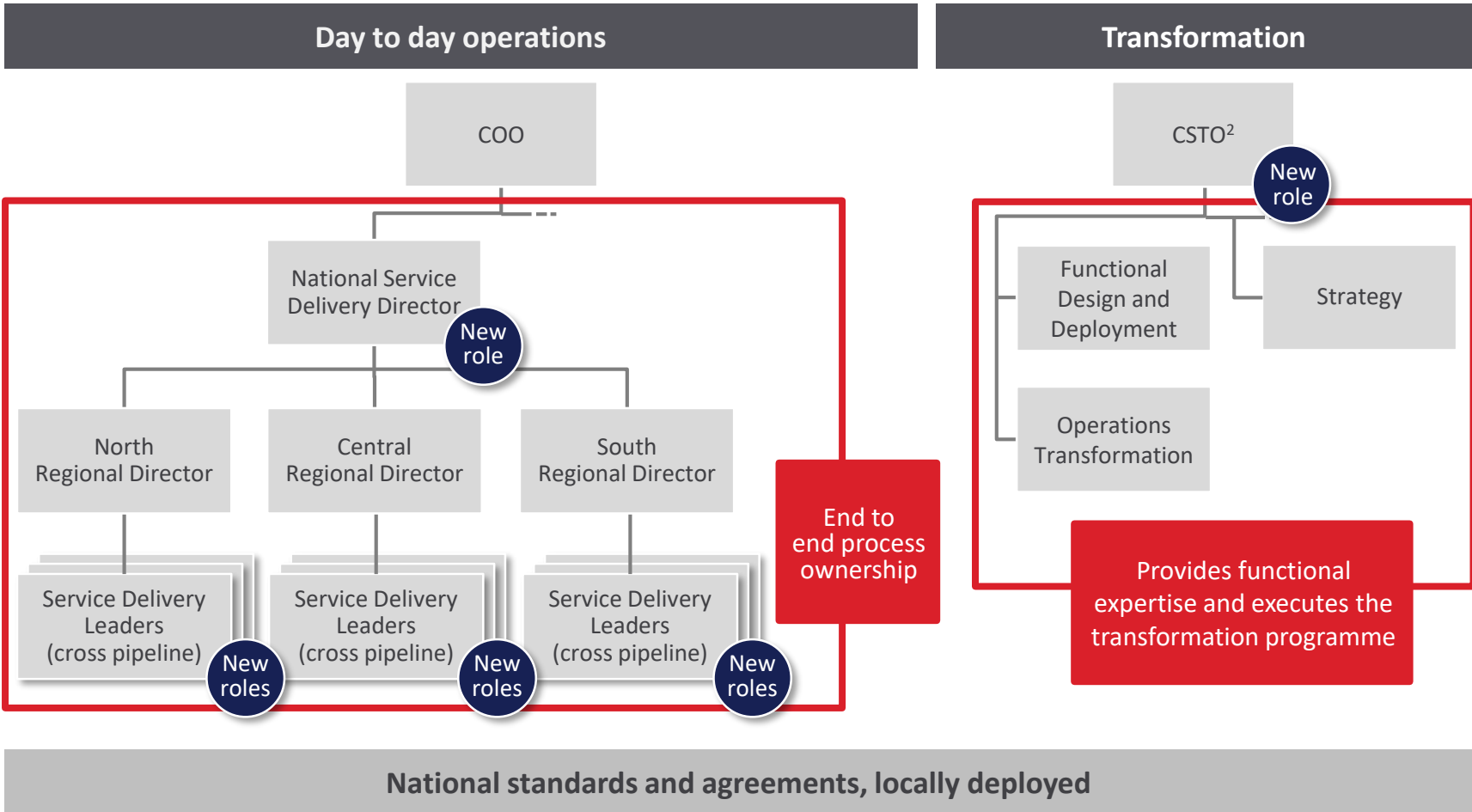
Largest UK delivery network, delivering to over 30m delivery points, 6 days per week



Limited change activity since 2015

# 2 Turnaround journey launched

We have reorganised operations<sup>1</sup>



Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.  
<sup>1</sup> The diagrams shown are simplified from the full organisation chart; <sup>2</sup> Chief Strategy and Transformation Officer

## 2 Turnaround journey launched

Improving existing processes and redesigning our network, supported by digital transformation

### Improving existing processes

- A Restore 1C quality of service
- B Remove unnecessary work
- C Resource closer to demand
- D Get paid for everything we do

### Redesigning network around parcels

- I Complete small parcel sorting machine roll out in Mail Centres
- II Build 3 new automated Parcel Hubs
- III Launch dedicated van delivery for larger parcels

Digital transformation supporting the change



Cumulative productivity improvement over 5 years of 15-18%

## 2 Turnaround journey launched

Functional programme to improve existing processes



### Selected initiatives

	 Delivery	 Processing
<b>A</b> Restore 1C quality of service	<ul style="list-style-type: none"> <li>Collect and deliver to time</li> </ul>	<ul style="list-style-type: none"> <li>Move all work to time</li> </ul>
<b>B</b> Remove unnecessary work	<ul style="list-style-type: none"> <li>Improve delivery preparation methods</li> </ul>	<ul style="list-style-type: none"> <li>Improve Mail Centre flow and layouts</li> </ul>
<b>C</b> Resource closer to demand	<ul style="list-style-type: none"> <li>Match resourcing closer to demand</li> </ul>	<ul style="list-style-type: none"> <li>Track work hours automatically</li> </ul>
<b>D</b> Get paid for everything we do	<ul style="list-style-type: none"> <li>Ensure 100% scanning on delivery of barcoded parcels</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen revenue integrity through barcoding</li> </ul>

**RM Tracked and Special Delivery quality of service above 97% for last year and continued improvement into this year<sup>1</sup>**



## 2 Turnaround journey launched

Functional programme to improve existing processes



### Selected initiatives



#### Delivery



#### Processing

**A**

Restore 1C quality of service

- Collect and deliver to time

- Move all work to time

**B**

**Remove unnecessary work**

- **Improve delivery preparation methods**

- **Improve Mail Centre flow and layouts**

**C**

Resource closer to demand

- Match resourcing closer to demand

- Track work hours automatically

**D**

Get paid for everything we do

- Ensure 100% scanning on delivery of barcoded parcels

- Strengthen revenue integrity through barcoding

## 2 Turnaround journey launched

### B Processing: Improving Mail Centre flow and layouts



#### Reconfiguring a typical Mail Centre towards processing parcels



Current



Future

Layout of Mail Centre	<ul style="list-style-type: none"><li>• Evolved through incremental changes - sub-optimal flows</li></ul>	<ul style="list-style-type: none"><li>• Designed to minimise movement of work and optimise flow</li></ul>
Movement of mail	<ul style="list-style-type: none"><li>• Manual</li></ul>	<ul style="list-style-type: none"><li>• Automated e.g., Automated Guided Vehicles</li></ul>
Letter sorting machines	<ul style="list-style-type: none"><li>• 4-6</li></ul>	<ul style="list-style-type: none"><li>• &lt;4-6, consolidate and reduce based on lower volumes</li></ul>
Large letter sorting machines	<ul style="list-style-type: none"><li>• 1</li></ul>	<ul style="list-style-type: none"><li>• 1</li></ul>
Parcels processes	<ul style="list-style-type: none"><li>• Manual</li></ul>	<ul style="list-style-type: none"><li>• Automated sorting systems</li></ul>

## 2 Turnaround journey launched

Functional programme to improve existing processes



### Selected initiatives



#### Delivery



#### Processing

**A**

Restore 1C quality of service

- Collect and deliver to time

- Move all work to time

**B**

Remove unnecessary work

- Improve delivery preparation methods

- Improve Mail Centre flow and layouts

**C**

Resource closer to demand

- **Match resourcing closer to demand**

- **Track work hours automatically**

**D**

Get paid for everything we do

- **Ensure 100% scanning on delivery of barcoded parcels**

- **Strengthen revenue integrity through barcoding**

## 2 Turnaround journey launched

Enabling improved resourcing and revenue integrity with digital transformation

### Initiatives enabled by technology

- C** Resource closer to demand
- D** Get paid for everything we do

### Digital transformation

Capture hours worked automatically, improve planning and schedule resources to demand

Employ predictive analytics to forecast demand and improve planning

Expand bill on scan for payment, and support revenue integrity with advanced analytics

# 3 Redesigning network around parcels

Network review identified changes to improve efficiency and meet customer expectations

## Rationale for redesigning network around parcels

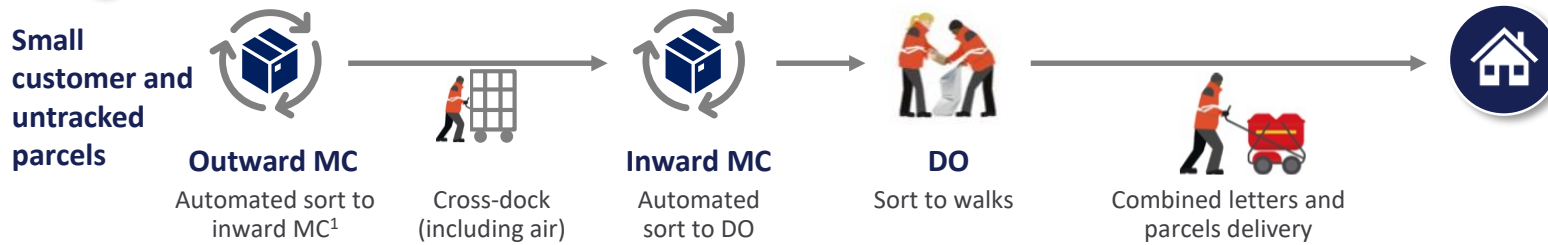
Conclusions of network review	Implications for future network design
<ul style="list-style-type: none"><li>• High efficiency where parcels and letters combined, but joint delivery not optimal for larger and Latest Acceptance Time parcels</li><li>• Limited capacity for parcel growth (e.g. space requirements, cost structure)</li><li>• Upstream inefficient as a result of multiple, manual sorts</li><li>• Pipeline setup restricts capacity for next day and Latest Acceptance Time products</li></ul>	<ul style="list-style-type: none"><li>• Keep joint delivery where possible, dedicated van delivery for larger and Latest Acceptance Time parcels</li><li>• Create infrastructure/sorting capacity to underpin parcels growth</li><li>• Sort parcels automatically and eliminate inward sort (“hub2DO”)</li><li>• “Shorten” the value chain to grow next day and Latest Acceptance Time products</li></ul>

**Main benefits: Significantly reduced upstream production cost and incremental operating profit from additional volume**

# 3 Redesigning network around parcels

We will move to a largely automated processes for parcels

## I Complete small parcel sorting machine roll out in Mail Centres

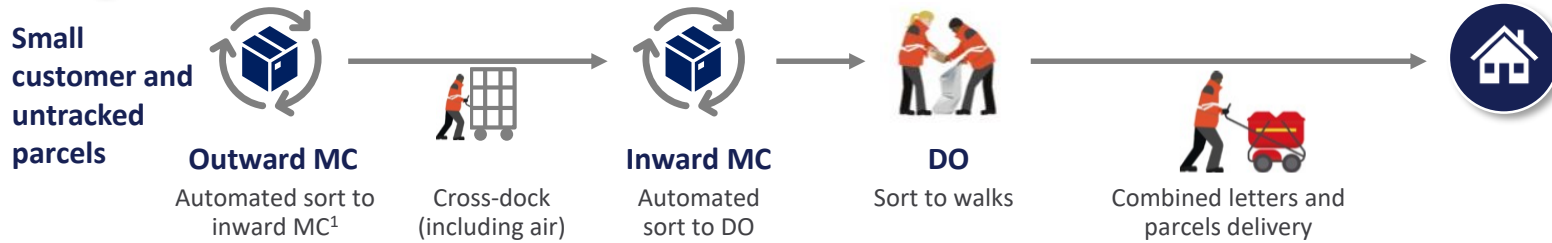


MC – Mail Centre  
DO – Delivery Office

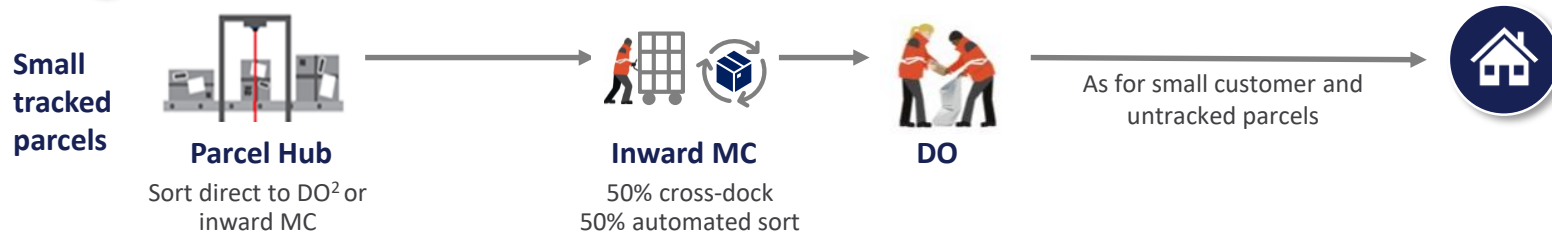
# 3 Redesigning network around parcels

We will move to a largely automated processes for parcels

## I Complete small parcel sorting machine roll out in Mail Centres



## II Build 3 new automated Parcel Hubs



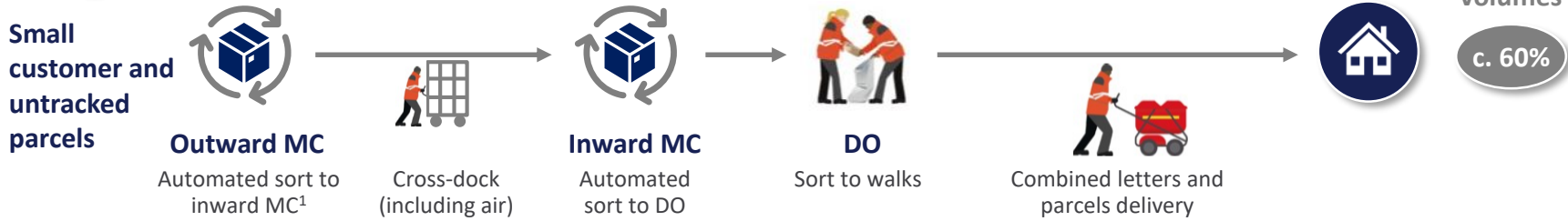
MC – Mail Centre  
DO – Delivery Office

# 3 Redesigning network around parcels

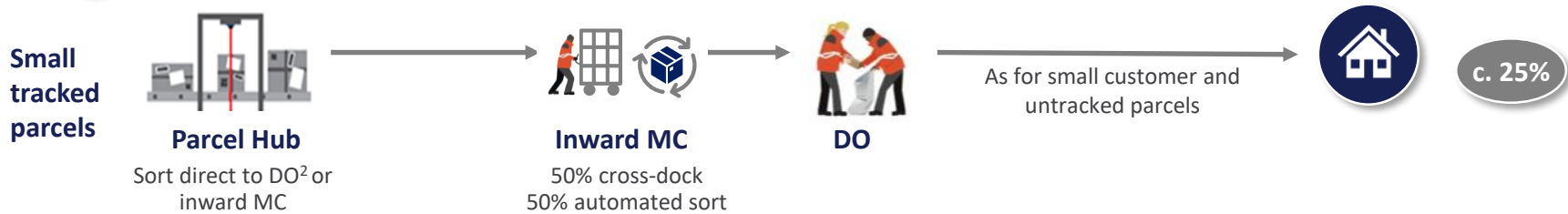
We will move to a largely automated processes for parcels

2023-24  
parcel  
volumes

## I Complete small parcel sorting machine roll out in Mail Centres



## II Build 3 new automated Parcel Hubs



## III Launch dedicated van delivery for larger parcels

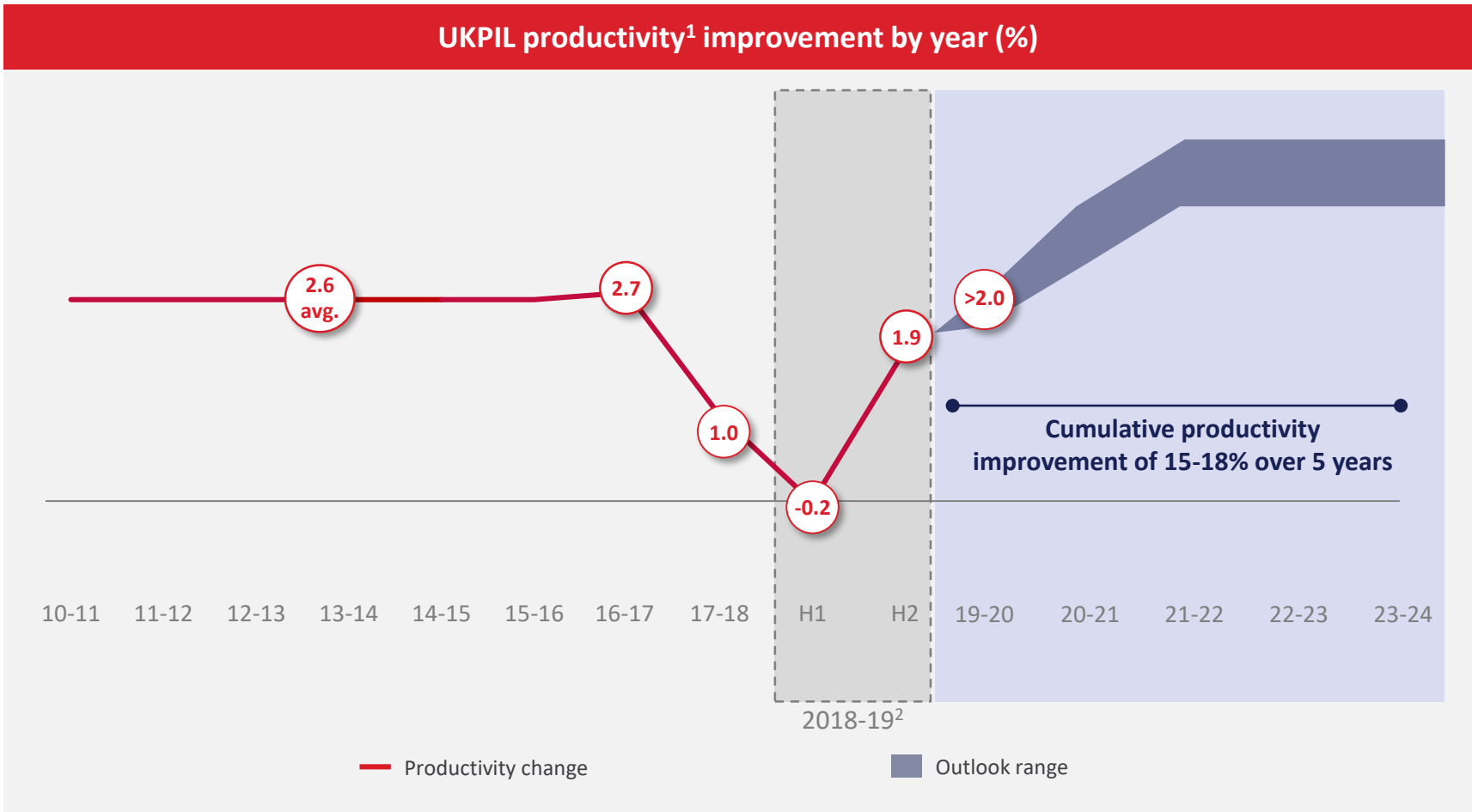


MC – Mail Centre  
DO – Delivery Office

Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.  
<sup>1</sup> Small parcel sorting machines currently in 10 Mail Centres as at end 2018-19; <sup>2</sup> 200-300 designated DOs for dedicated parcels van deliveries, covering the entire country



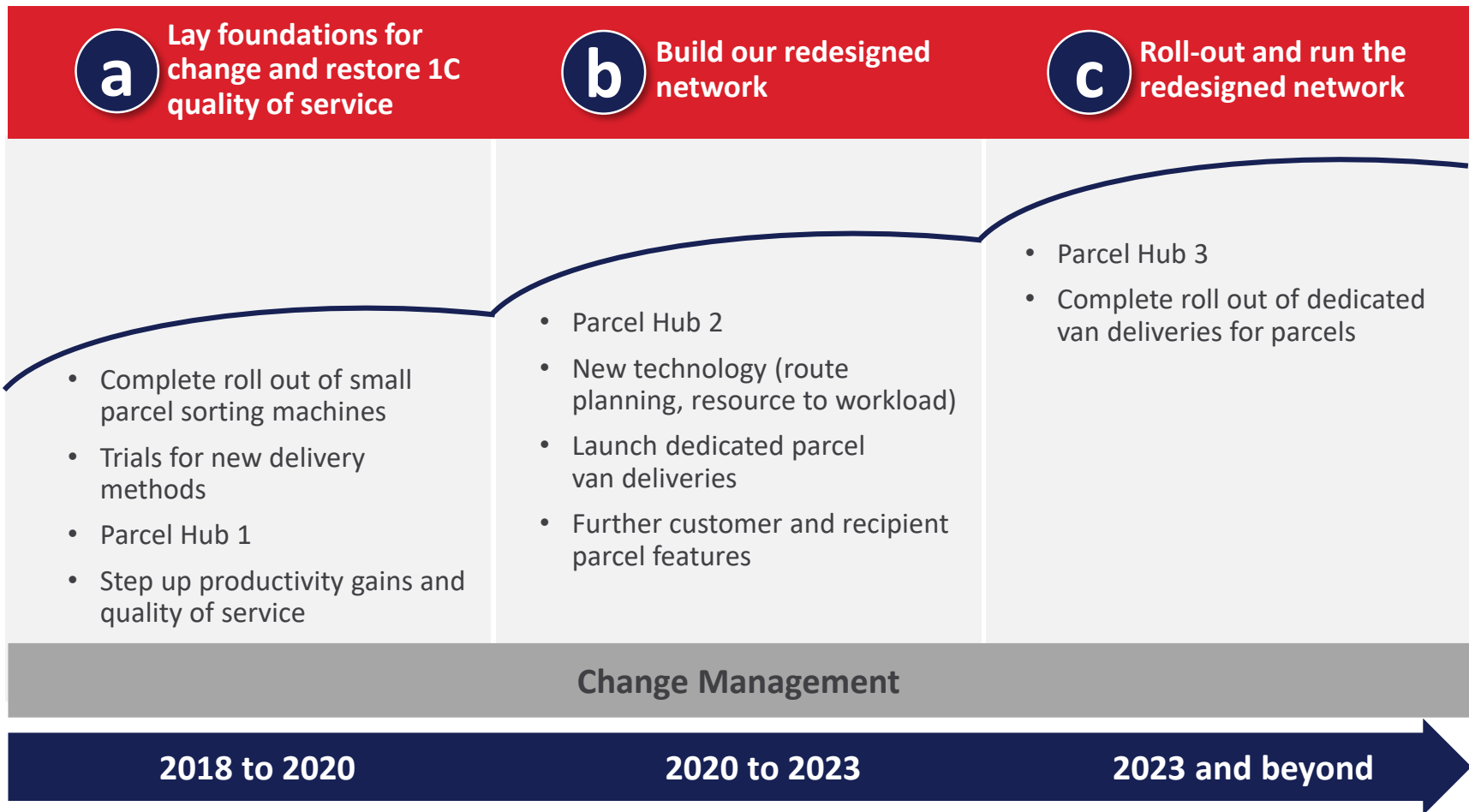
# 4 Productivity improvement of 15-18% over 5 years



Note: Royal Mail domestic operations, excluding Royal Mail International and Parcelforce Worldwide.

<sup>1</sup> Productivity is defined as workload handled per gross hour, for collections, processing and delivery in core network only; <sup>2</sup> Full year 2018-19 productivity change at 0.9%

# 5 Deployment over 3 horizons



# Summary

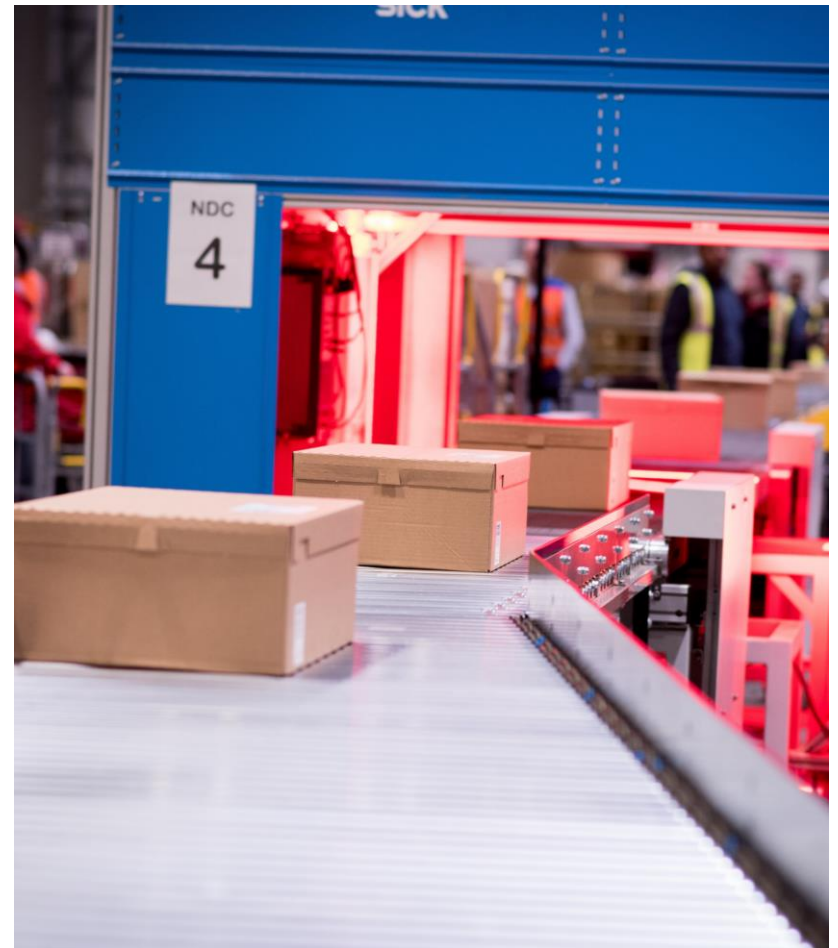
**1** Competitive network, big challenges

**2** Turnaround journey launched

**3** Redesigning network around parcels

**4** Productivity improvement of 15-18% over 5 years

**5** Deployment over 3 horizons



# People

**Sally Ashford**  
Chief HR Officer



# Summary

1

Royal Mail and its brand are built on its people

2

A reduction in overall hours worked

3

A more flexible workforce fit for a parcels-led business

4

Working collaboratively with our unions

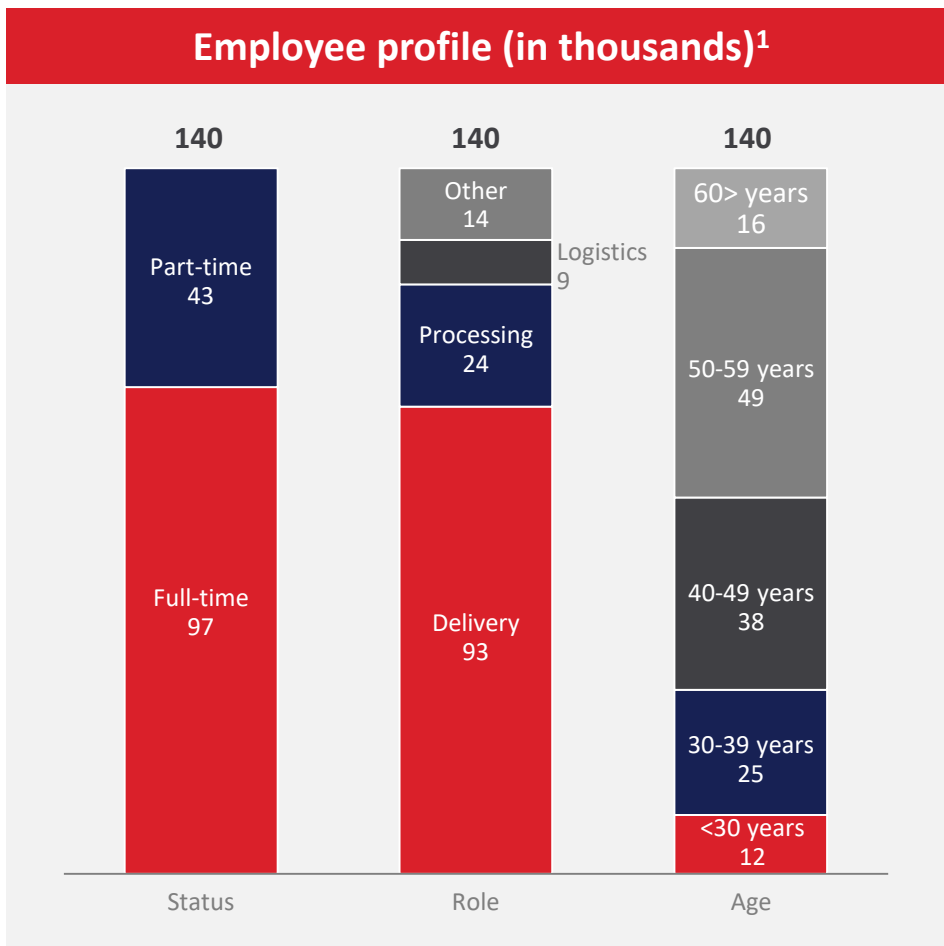
5

Capability to deliver change



# 1 A people business

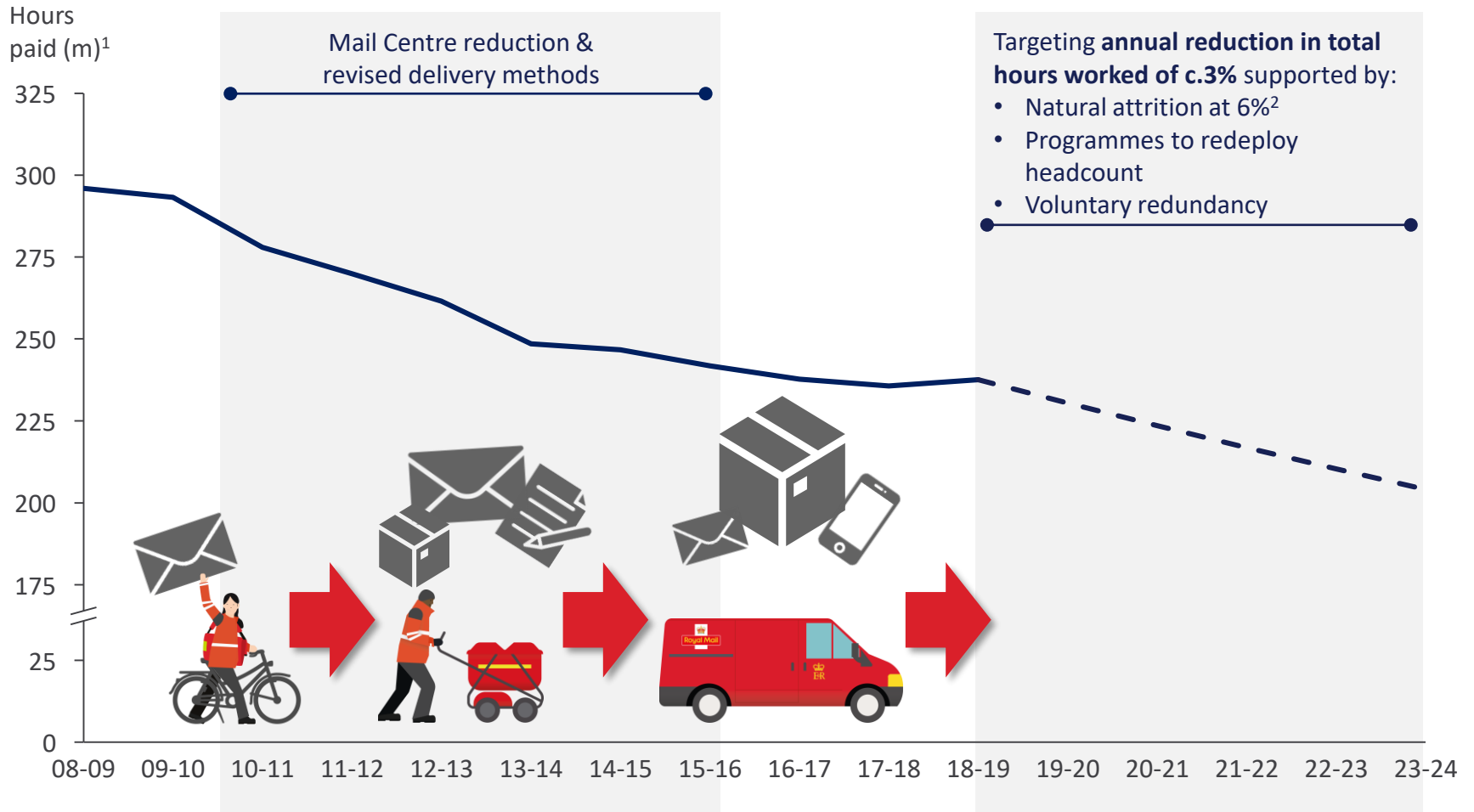
We are proud of our UK workforce, which is uniquely experienced



- **People love their postie**
  - The face of Royal Mail present on every street
- **Our people have pride in what they do**
  - Employee engagement 60% vs. 49% in 2012
  - 8% of shares in employee share plans<sup>2</sup>
- **Progress on diversity**
  - Ethnically representative
  - Times Top 50 Employer for Women for 6th year running
- **Loyal workforce**
  - Average length of service 17 years
  - 70% proud to work for Royal Mail

## 2 Future-fit workforce

We anticipate a reduction c.3% p.a. in hours worked



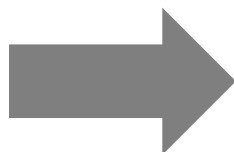
<sup>1</sup> UKPIL frontline collections, processing and delivery, in the core network only

<sup>2</sup> Average natural attrition over three years 2016-17 to 2018-19

### 3 Flexible workforce

Building on our track record of flexing our workforce to meet workload and customer needs

#### The role of a postie is constantly evolving



#### Planned initiatives in operations will have a further impact for our people

A

Restore 1C quality of service

B

Remove unnecessary work

C

Resource closer to demand

- Technology will enable **better forecasting and resource planning**, so our people will know what they are doing and when they are doing it
- **Automation upstream in processing** will reduce FTEs in our Mail Centres
- Underpinned by improvements in the ways of working and **culture at a local level** with a greater connection between employees and the business
- Separating larger parcel delivery will require changes in working times and delivery methods **aligned to customer needs**



# 4

## Working with our unions

A history of collaboration to deliver change

### Our two recognised trade unions



- Agenda for Growth has facilitated a collaborative approach to change, without national strike action
- We work together on training, absence and service improvements
- Have also jointly designed and advocated a new CDC pension scheme



### A decade of peace since 2010



# 5 Capability to deliver change

New building blocks to support our transformation



- New executive board
- Geographical operations structure established
- Reduced HQ
- Across the organisation to bring in young talent
- Enhancing our engagement with frontline employees
- Local team action plans
- With KPIs to underpin our focus on transformation
- Streamlining policies and processes
- Introducing new digital tools to make managing easier

Supported by market leading T&Cs and strong focus on health and wellbeing of our employees

# Summary

1

Royal Mail and its brand are built on its people

- 140,000 permanent UK employees, of which 90,000 are posties
- Uniquely experienced workforce

2

A reduction in overall hours worked

- Not met productivity targets in the last two years
- Targeting c.3% reduction in hours p.a.

3

A more flexible workforce fit for a parcels-led business

- Flexing our workforce to meet workload and customer needs

4

Working collaboratively with our unions

- Track record of achieving change collaboratively
- Working with our unions to achieve this change in the future

5

Capability to deliver change

- An organisation that has stayed relevant over 500 years points to a long term track record of change

# Q&A

## UK Operations

**Stuart Simpson**

Group CFO and COO

**Achim Dünwald**

Chief Strategy and Transformation Officer





**Sally Ashford**







Chief HR Officer

# Break

Resuming at 14:05

# Agenda

Strategy and Outlook, 2018-19 Results	
09:30	Presentation Commences
09:35	Video – Our History
	Strategy Overview and 2018-19 Results Summary  <b>Rico Back</b> Group CEO
10:00	2018-19 Results and Financial Outlook  <b>Stuart Simpson</b> Group CFO and COO
10:30	Q&A
11:05	Break
UK Commercial	
	Video – Letters
11:20	Letters  <b>Stephen Agar</b> MD Letters
11:40	Parcels  <b>Nick Landon</b> Chief Customer Officer
11:55	Q&A
12:15	Lunch

UK Operations	
12:55	Operations  <b>Stuart Simpson</b> Group CFO and COO  <b>Achim Dünnwald</b> Chief Strategy and Transformation Officer
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GLS and Cross-border	
	Video – GLS
14:05	GLS  <b>James Rietkerk</b> GLS CEO
14:45	Cross-border  <b>Saadi Al-Soudani</b> Group International MD
15:00	Q&A
Summary	
	Video – Our Future
15:20	Closing Remarks  <b>Rico Back</b> Group CEO
15:30	Close

# Video

GLS

# GLS

**James Rietkerk**  
GLS Group CEO





# Summary

1

International deferred parcel network built on local market presence

2

Continue to focus on profitable revenue growth

3

Stabilising and improving operating profit margins

4

Continue to invest with focus on network and technology

5

Selective acquisitions to support future growth



# 1 International deferred parcel network

International network primarily serving the deferred parcel market

## GLS in figures



€3.3 billion revenue in 2018-19



634 million parcels delivered in 2018-19



>200,000 customers



c.19,000 employees<sup>1</sup>



70 hubs<sup>2</sup> and c.1,400 depots<sup>3</sup>



c.23,000 parcel shops



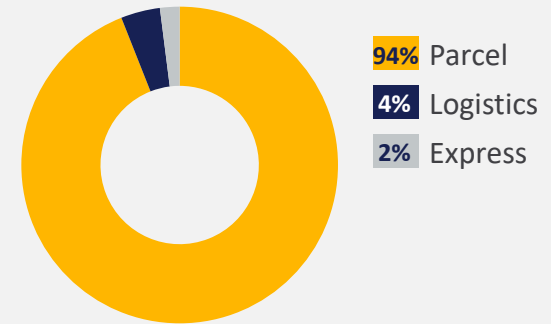
c.26,000 delivery vehicles<sup>4</sup>



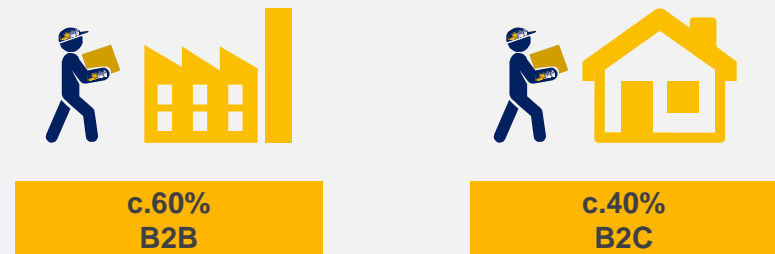
c.3,500 long-distance trucks<sup>4</sup>

## Market positioning and focus

### 2018-19 GLS revenue split



### 2018-19 GLS parcel volume split<sup>5</sup>



# 1 International deferred parcel network

Strong international network connecting local subsidiaries meeting local market needs

## Core values



## Key strengths



### Physical footprint

Extensive European coverage and a developing footprint in North America



### Local market presence

Local management teams ensure close proximity to customers and markets



### Culture

Entrepreneurial business culture within clearly defined corporate governance framework



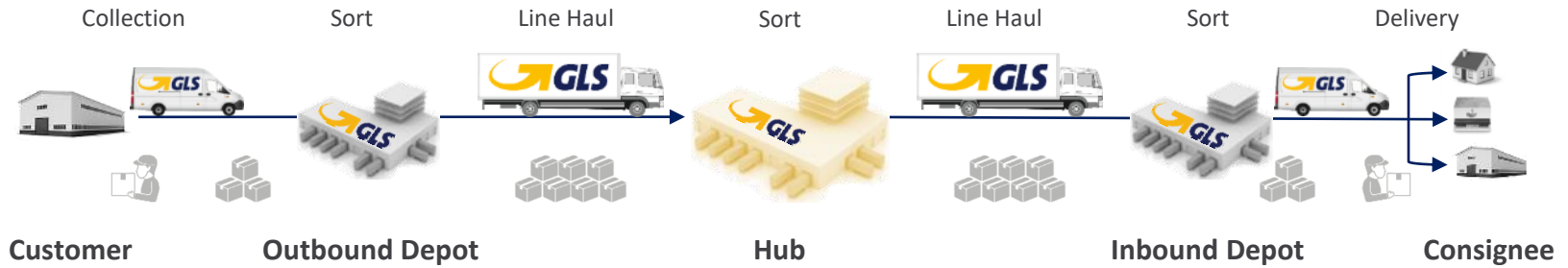
### Customer base

Balanced portfolio of small, mid-sized and large customers none of whom expected to represent more than 1% of GLS revenue in 2019-20

GLS is local, flexible and close to customers

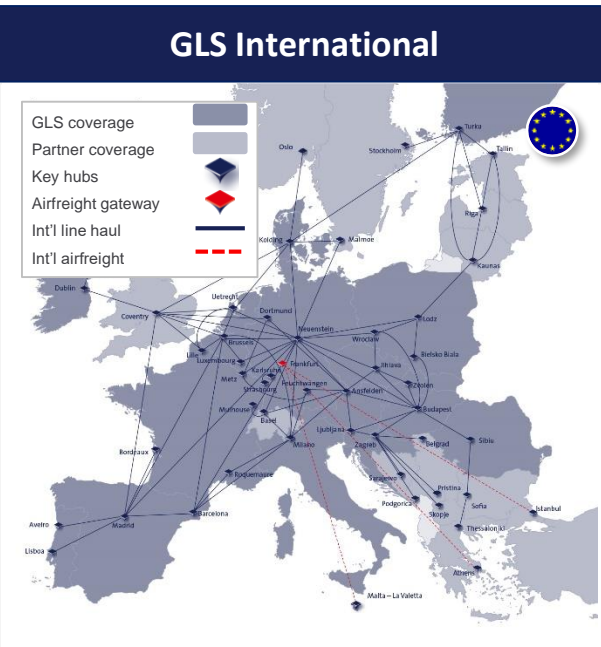
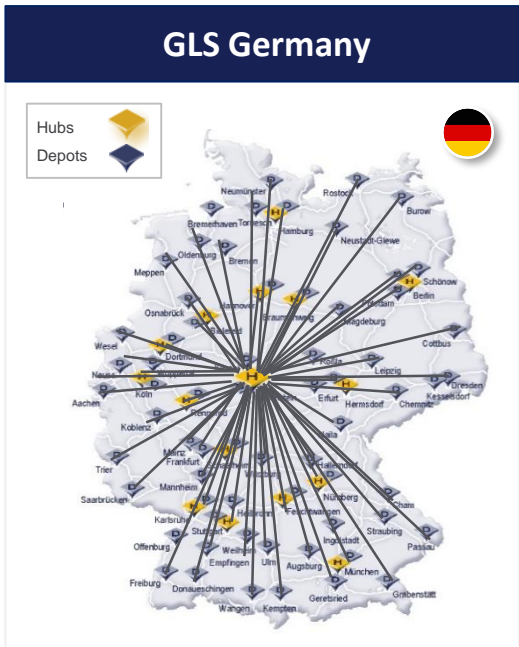
# 1 International deferred parcel network

Extensive network delivering domestic and international deferred parcels



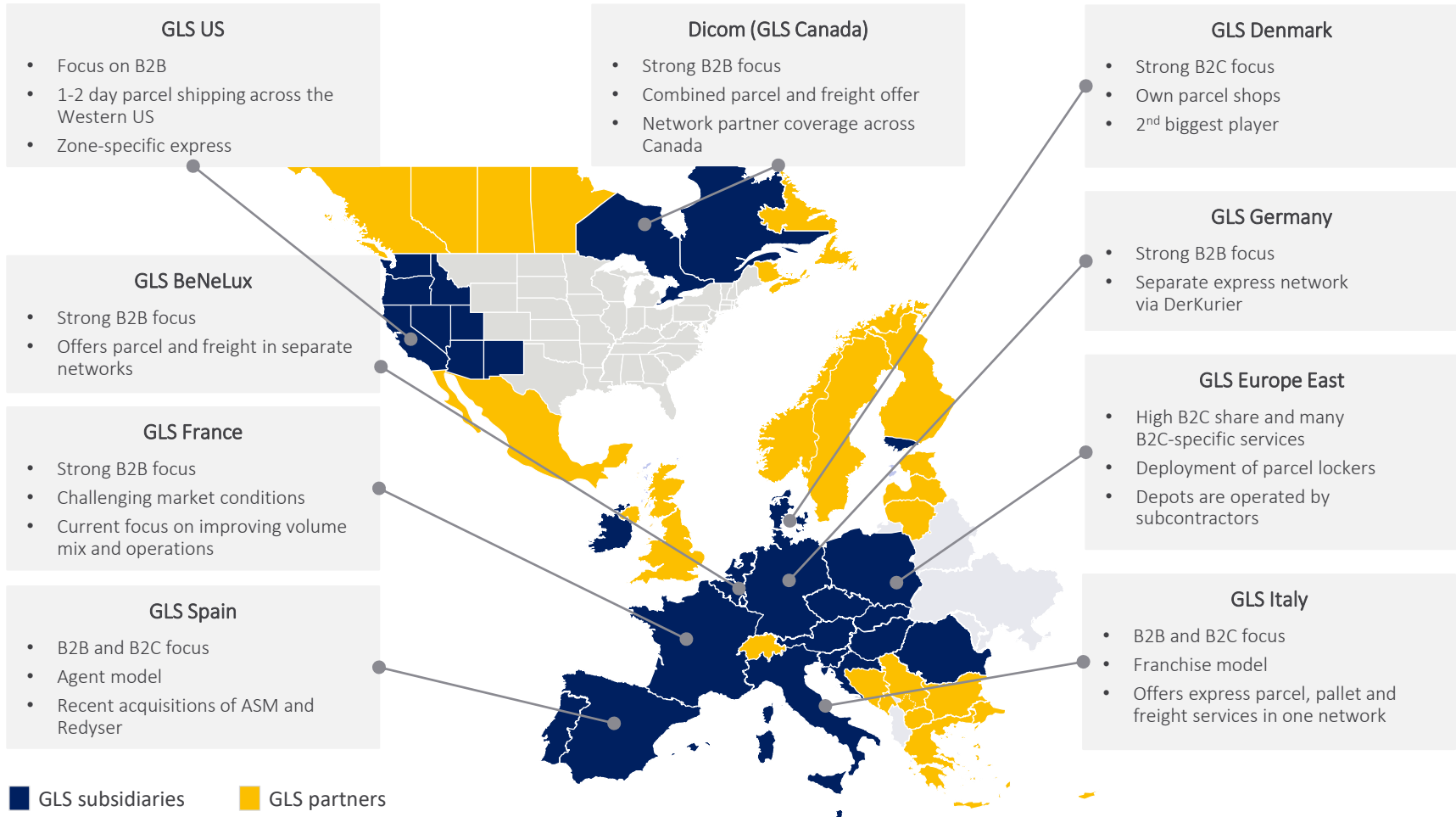
### GLS network structure

- Road based network delivering parcels up to 40kg
- Domestic parcels generally delivered within 24 hours from pick-up through to delivery
- Majority of international parcels delivered within 24-72 hours




















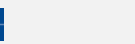
# 1 International deferred parcel network

Germany, Italy and France represent c.60% of revenue, North America c.9%



# 1 International deferred parcel network

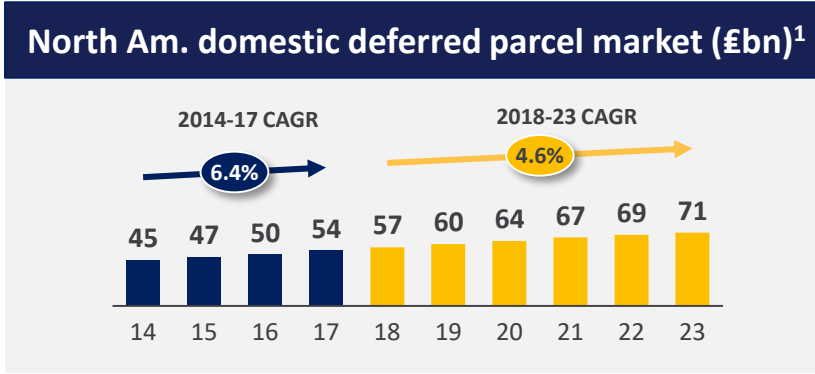
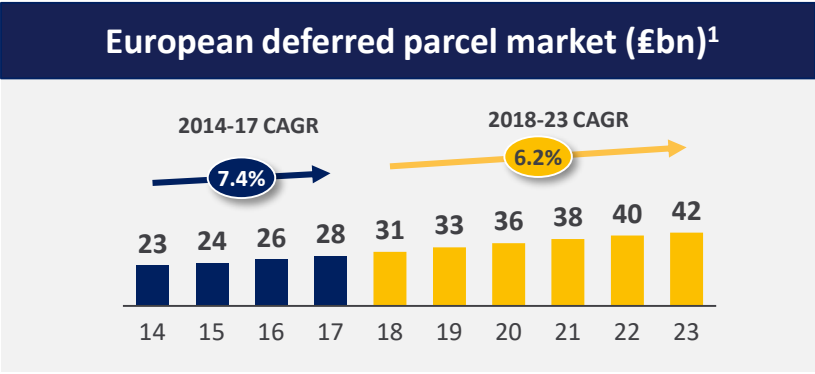
Main competition varies by market and requires a local approach

Key competitors domestic parcel markets	Local posts	Integrators			Local competitors		amazon Logistics <sup>1</sup>
						Others	
Germany		✓	✓		✓		✓
Italy		✓	✓	✓			✓
France			✓	✓	✓		✓
Spain		✓	✓	✓		 	✓
Austria		✓	✓		✓		✓
The Netherlands		✓			✓		
Belgium		✓	✓	✓	✓		
Denmark						 	
Poland		✓	✓	✓	✓	 	
Europe East	     	✓	✓		✓	 	
USA (West Coast)			✓	✓			✓
Canada (Ontario, Quebec)	 		✓				

# 2

## Continue to focus on profitable revenue growth

GLS is well positioned to meet the changing requirements of growing parcel markets



### Market trends

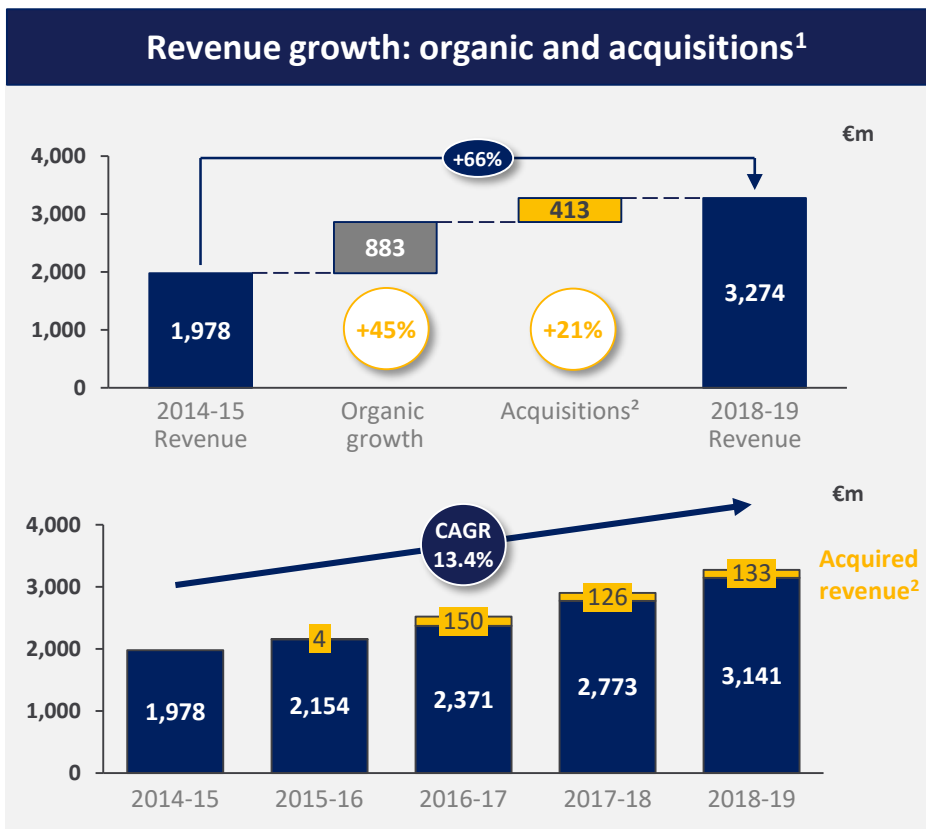
- Increase of international shipments
- B2C growth
- Digitalisation
- Labour shortage
- City regulation

### Response

- Strengthen and invest in international network
- Development and roll-out of B2C services, flexible re-routing of parcels and use of parcel shops
- Digital developments to increase consignee convenience
- Improving driver working conditions and providing tools (e.g. route planning and pre-sorts)
- Alternative methods of transport (e.g. use of electric vans and cargo bikes in city centres)

## 2 Continue to focus on profitable revenue growth

Revenue growth has been driven by a combination of organic growth and acquisitions



### Revenue CAGR 2014-15 – 2018-19

GLS organic	GLS total
+ 9.7%	+ 13.4%

Historic growth partly driven by exposure to fast growing East European markets and strong performances in Italy and Denmark

**Outlook:**

- Profitability focus and generally lower growth rates expected to lead to slower revenue growth
- Markets will continue to be competitive
- Strong international network will remain a source of competitive advantage

**Target 2023-24 revenue c.€4.5bn (excluding any future acquisitions)**

<sup>1</sup> Adjusted for disposal of DPD Systemlogistik (March 2015)

<sup>2</sup> Revenue is classified as acquired revenue in the first 12 months of GLS ownership



## 2 Continue to focus on profitable revenue growth

Grow in B2B, selective B2C and cross-border



**B2B**

- More parcels per stop
- Maintain focus on B2B
- Provide high quality services
- Maintain a balanced mix of customers



**B2C**

- Fewer parcels per stop
- Focus on profitable volumes
- Adapting local operating model to market needs
- Ensuring a balanced customer mix of e-tailers
- Strengthening the GLS parcel shop network
- Expanding value-added B2C services (consignee convenience)



**Cross-border**

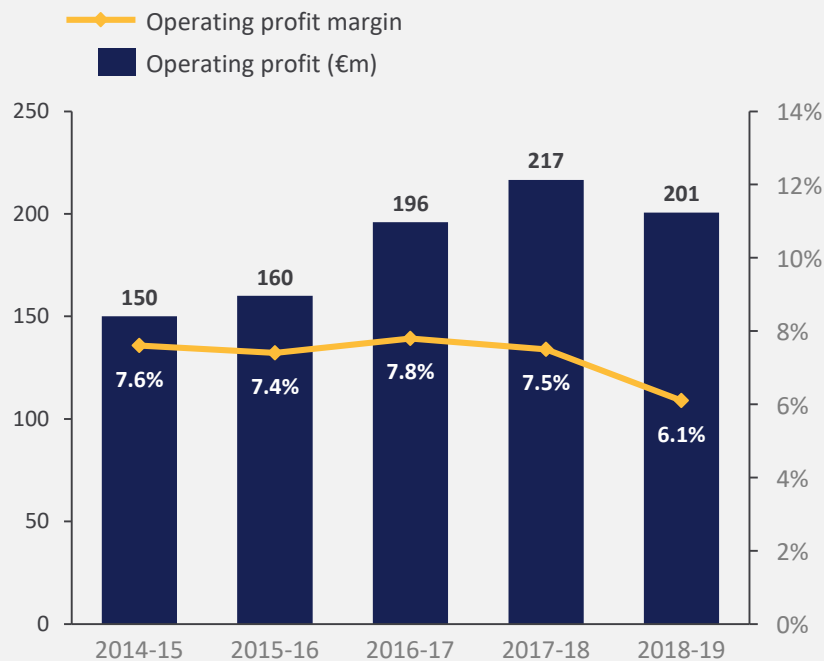
- Maintain focus on high growth cross-border traffic
- Continue development of international services
- Connect the UK and GLS European networks to the North American GLS networks
- Continue developing the cross-border network via partners

**Maintain B2B and cross-border focus, selective B2C focus adapted to individual markets**

# 3 Stabilising and improving operating profit margins

Profit growth has been steady up to and including 2017-18

## GLS operating profit performance<sup>1</sup>



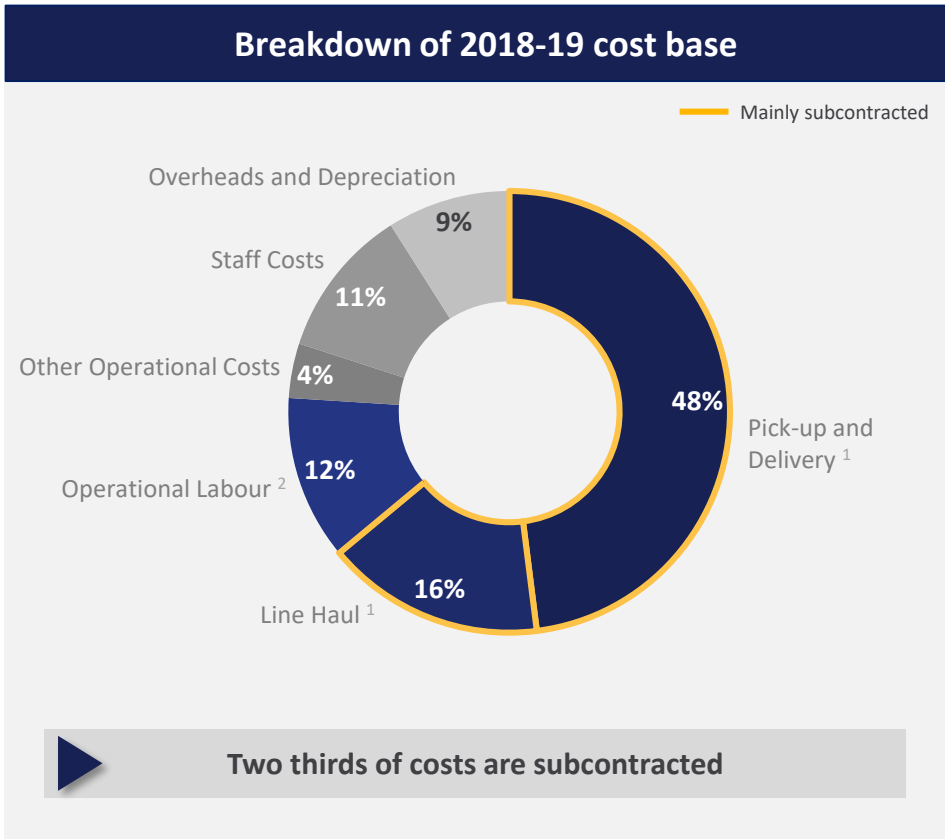
## Factors impacting 2018-19

- 1 Tight labour markets resulting in cost pressures in all markets
- 2 13 of 19 countries reported year on year lower margins in 2018-19
- 3 Acquired company synergies and restructuring benefits taking longer to realise
- 4 Turnaround in France remains challenging

Targeted operating profit margin range 6-7%

# 3 Stabilising and improving operating profit margins

Pick-up, delivery and line haul costs are the main cost drivers



- ### Main cost drivers
- Volumes
  - Labour costs
  - Parcel size / weight
  - Network density
  - Delivery stop factors
  - Inflation

Main cost driver is labour and due to the tight labour market has impacted margins

# 3 Stabilising and improving operating profit margins

Initiatives to address general cost pressure



## Profitable revenue growth and pricing

- Increase prices necessary to offset cost increases and yield management
- Service fees (e.g. residential delivery service fee)
- Ensure the right traffic for the network



## Cost management

- Depot, hub and line haul efficiency
- Support tools for drivers (e.g. route optimisation tools)
- Optimise depot pre-sort processes to improve driver productivity

Success results from relentless focus on the details throughout the complete network

# 3 Stabilising and improving operating profit margins

Focus on underperforming countries US, France and Spain representing c.20% of GLS revenue

US

Change of operating model from own drivers to subcontractors and improve yield

- Finalise and optimise model change
- Engineered depot processes and selective automation
- Optimise line haul network (tighter scheduling for better quality, improve equipment to secure efficiencies)
- Grow volumes in Pacific Northwest

France

Difficult turnaround in challenging market

- Improve quality
- Improve brand awareness
- Selective volume acquisitions
- Improve driver productivity
- Improve depot and hub productivity

Spain

Complex integration of acquired businesses

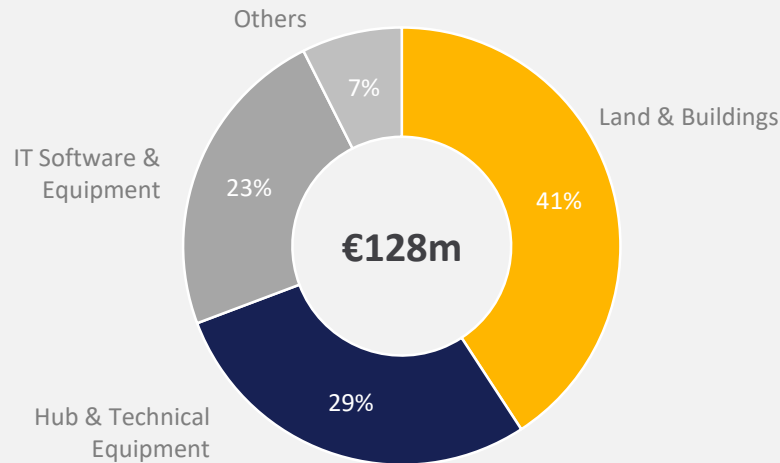
- Eliminate hub and line haul inefficiencies
- Optimise final mile
- Price increase and yield management

Improvements will support GLS margin progression

# 4 Continue to invest

## Investments in physical network infrastructure and IT

### Capital expenditure 2018-19



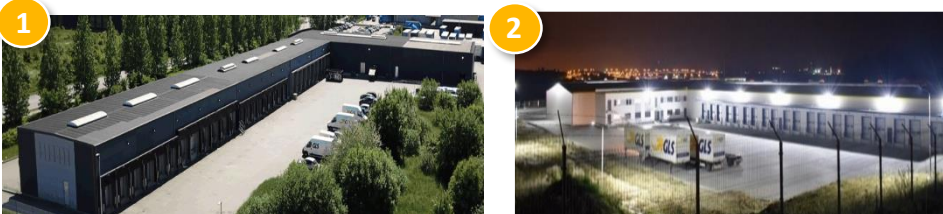
### Planned investments 2019-20

#### Examples of network infrastructure investments

- 1) Copenhagen hub extension (Denmark)
- 2) Sibiu hub extension (Romania)
- 3) Budapest hub extension (Hungary)
- 4) New Euro hub Essen (Germany)
- 5) New Gliwice depot (Poland)

#### Examples of IT investments

- 1) New hand scanners
- 2) Modernisation of depot IT infrastructure
- 3) Software development projects



**Capex as a percentage of revenue expected to remain at historic levels of 3-4%**

(2018-19 capex excluding land and buildings 2% of revenues)

# 5 Selective acquisitions to support future growth

## Acquisitions as a source of growth

### Europe



- Bolt-on acquisitions most likely
- Continue strategy of acquiring Italian franchisees

### North America



- Provides access to attractive growing market and geographic earnings diversification
- North America accounts for c.9% of GLS revenue
- Transfer of GLS Europe best practice and experience
- Bolt-on acquisitions in near future rather than transformative acquisitions

**Selective acquisitions subject to the right companies at the right prices**

# Summary

1

**International deferred parcel network built on local market presence**

- Portfolio of local businesses connected to an international network
- Strong record of growth and profitability

2

**Continue to focus on profitable revenue growth**

- Target 2023-24 revenues c.€4.5bn, excluding any future acquisitions
- Grow in B2B, selective B2C and cross-border

3

**Stabilising and improving operating profit margins**

- Targeted operating profit margin range 6-7%
- Initiatives to address general cost pressures and to improve under-performing companies

4

**Continue to invest with focus on network and technology**

- Capex as a percentage of revenue expected to remain at historic level
- Investments in physical network infrastructure and IT

5

**Selective acquisitions to support future growth**

- Bolt-on acquisitions in Europe and North America subject to right companies being available at the right prices



# Cross-border

**Saadi Al-Soudani**

Group International MD



# Summary

1

Growth mainly driven by global e-commerce

2

Our existing cross-border revenues are significant

3

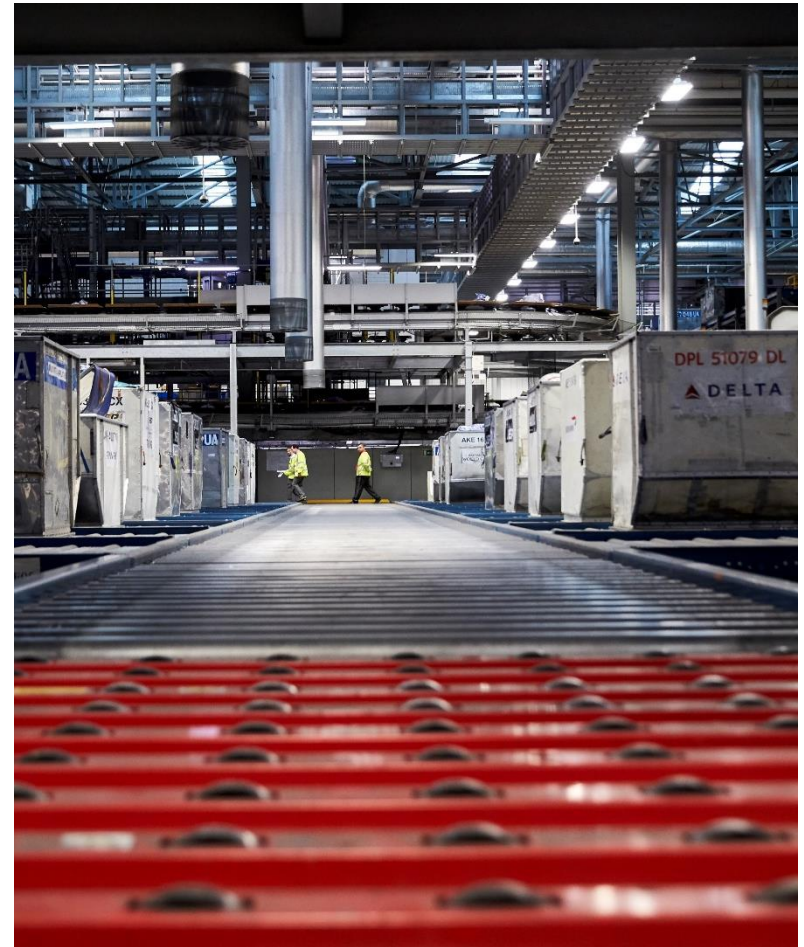
Leveraging the best of Royal Mail and GLS

4

Focus on small packets and deferred parcels

5

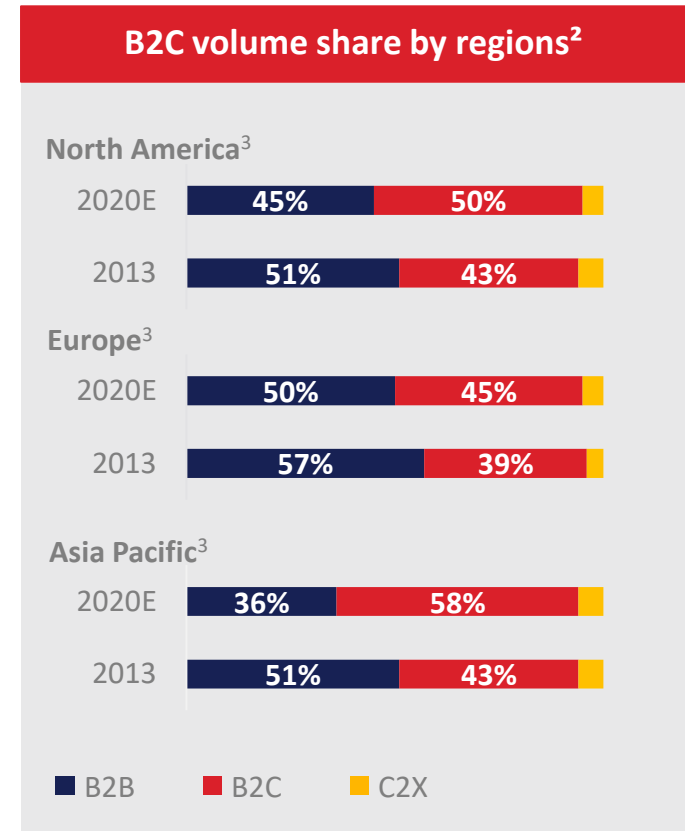
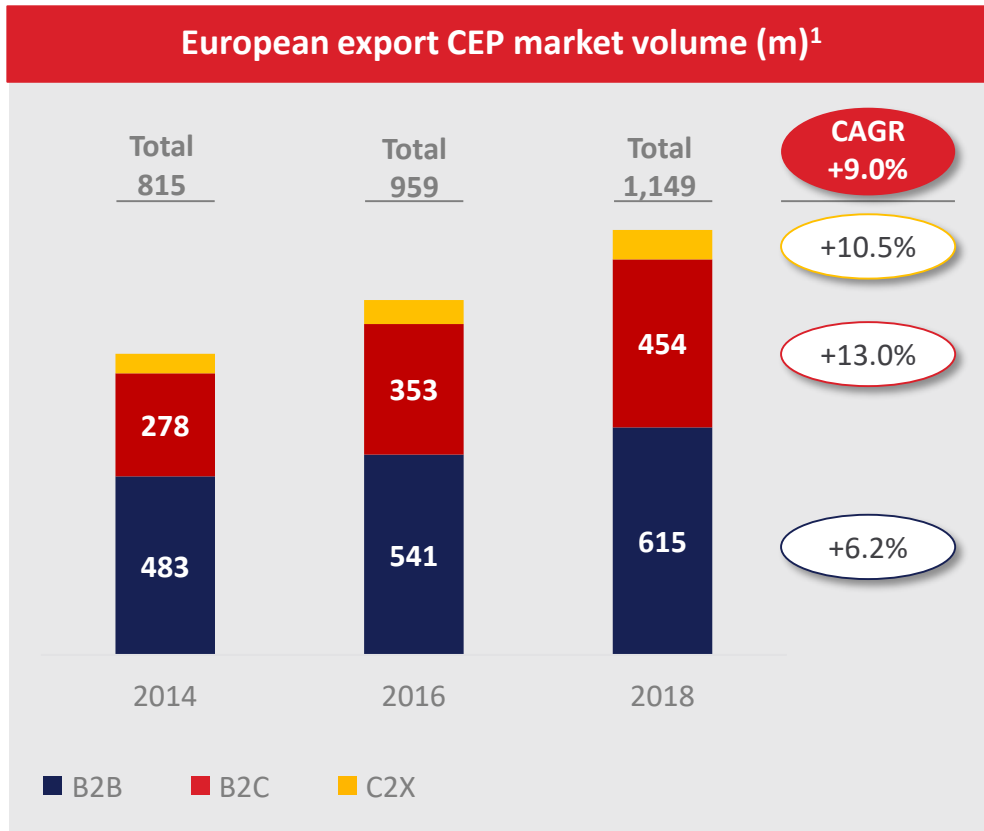
Initiatives in place to capture growth



# 1

## Growth mainly driven by global e-commerce

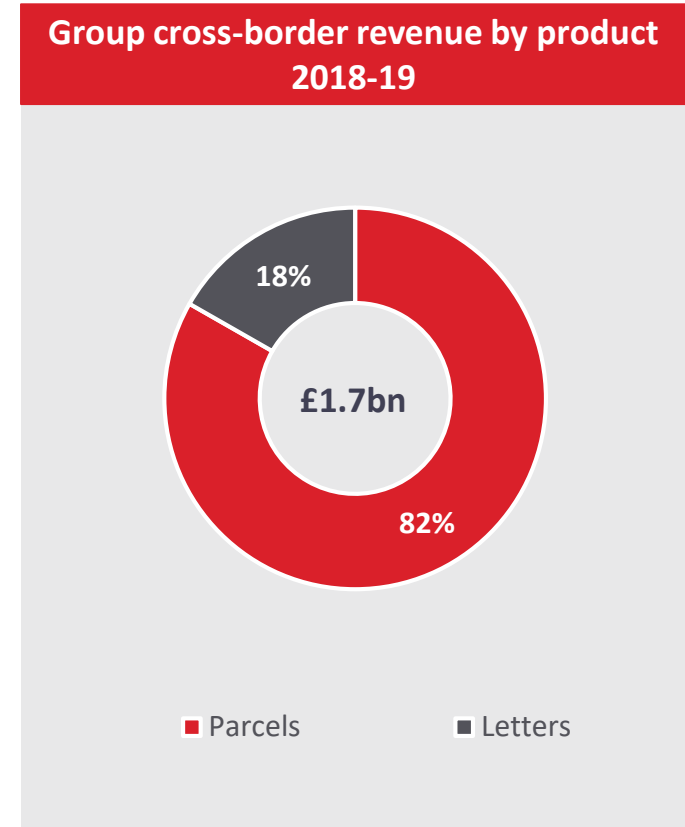
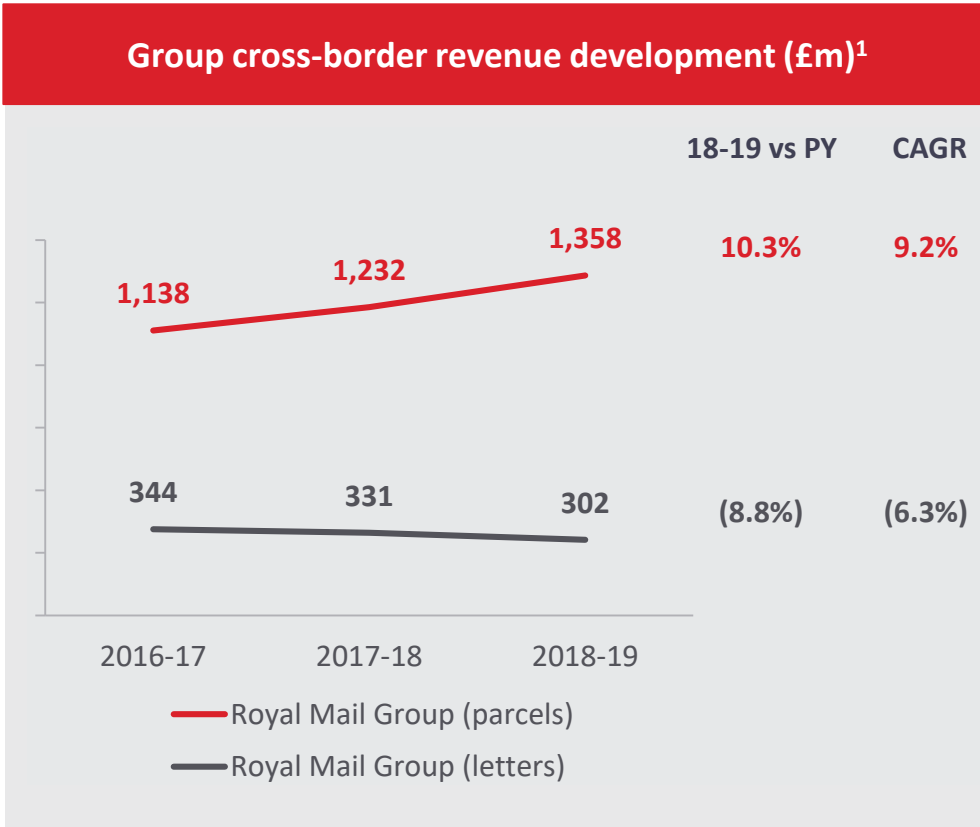
B2C expected to grow its share of the market in all major geographies



**Growing global e-commerce driving faster cross-border growth**

## 2 Our existing cross-border revenues are significant

Royal Mail Group parcel revenues have grown by 9% per year



**Cross-border parcel growth has more than offset letter decline**

### 3 Leveraging the best of Royal Mail and GLS

Royal Mail and GLS offer a broad range of cross-border services



£1,137m<sup>1</sup>

Revenue (2018-19)

£522m<sup>2</sup>



Letters



Parcels



Parcels



Strengths



Delivering

Approx. 380m letters and  
350m parcels...

...to 230 countries  
and territories...

...through own network,  
postal and other partners.

Cross-selling opportunities by combining Royal Mail and GLS networks

# 4

## Focus on small packets and deferred parcels

Royal Mail and GLS are targeting the larger and faster growing segments

	Small Packet	Deferred	Express
Main players			
Characteristics	<ul style="list-style-type: none"> <li>• Day uncertain</li> <li>• 3-5 days</li> <li>• Mainly untracked</li> <li>• Up to 2kg</li> <li>• Ground and air networks</li> <li>• Mainly 2C</li> </ul>	<ul style="list-style-type: none"> <li>• Day certain / not guaranteed</li> <li>• 1-5 days</li> <li>• Signed &amp; tracked</li> <li>• Up to 30kg</li> <li>• Primarily ground networks</li> <li>• Mixed: 2B and 2C</li> </ul>	<ul style="list-style-type: none"> <li>• Time sensitive</li> <li>• 1-3 days</li> <li>• Guaranteed</li> <li>• Up to 70kg</li> <li>• Air networks</li> <li>• Mainly 2B</li> </ul>
European export market size (volume) <sup>1</sup>	902m		247m
European export market growth <sup>1</sup>	CAGR 9.4% (2014-18)		CAGR 7.3% (2014-18)

**Royal Mail Group well positioned in the deferred and small packet market**

# 5 Initiatives in place to capture growth

Leveraging our existing networks means limited investments

IMPROVE UK PARCEL EXPORT SOLUTION	GENERATE GLOBAL VOLUME OUT OF EUROPE	INCREASE SHARE OF GROWING ASIAN IMPORTS	DEVELOP NORTH AMERICAN OFFERING
Provide Royal Mail access to GLS European network	Provide GLS access to global postal network	Consolidated import solution across Europe	Connect our European & North American networks
Royal Mail already routing <2kg traffic to 14 GLS countries	3 ETOEs <sup>1</sup> already established in Europe	Delivery <7 days vs 20-30 day service from postal	Mexican coverage through network partner Estafeta
>2kg service launch expected for H2 2019/20	Leveraging GLS' European infrastructure	Combined pan European product & service offering	Sales initiatives targeting existing customers

**Combining the best of Royal Mail and GLS**

# Summary

1

Growth mainly driven by global e-commerce

- B2C expected to grow its share of the market in all major geographies
- Cross-border growth expected to grow faster than domestic

2

Our existing cross-border revenues are significant

- Royal Mail Group cross-border revenues £1.7bn
- Cross-border parcel growth has more than offset letter decline

3

Leveraging the best of Royal Mail and GLS

- Royal Mail and GLS offer a broad range of cross-border services
- Cross-selling opportunities by combining Royal Mail and GLS networks

4

Focus on small packets and deferred parcels

- Well positioned in the deferred and small packet market
- Targeting larger and faster growing segments

5

Initiatives in place to capture growth

- Leveraging our existing networks
- Requires limited investments



# Q&A

## GLS and Cross-border

**James Rietkerk**



GLS CEO

**Saadi Al-Soudani**



Group International MD

# Agenda




## Strategy and Outlook, 2018-19 Results

09:30	Presentation Commences	
09:35	Video – Our History	
	Strategy Overview and 2018-19 Results Summary	 <b>Rico Back</b> Group CEO
10:00	2018-19 Results and Financial Outlook	 <b>Stuart Simpson</b> Group CFO and COO
10:30	Q&A	
11:05	Break	



## UK Commercial


	Video – Letters	
11:20	Letters	 <b>Stephen Agar</b> MD Letters
11:40	Parcels	 <b>Nick Landon</b> Chief Customer Officer
11:55	Q&A	
12:15	Lunch	

## UK Operations

12:55	Operations	 <b>Stuart Simpson</b> Group CFO and COO	 <b>Achim Dünnwald</b> Chief Strategy and Transformation Officer
13:15	People	 <b>Sally Ashford</b> Chief HR Officer	
13:30	Q&A		
13:50	Break		

## GLS and Cross-border

	Video – GLS		
14:05	GLS	 <b>James Rietkerk</b> GLS CEO	
14:45	Cross-border	 <b>Saadi Al-Soudani</b> Group International MD	
15:00	Q&A		

Summary			
	Video – Our Future		
15:20	Closing Remarks	 <b>Rico Back</b> Group CEO	
15:30	Close		

# Video

## Our Future

# Closing Remarks

**Rico Back**  
Group CEO



# Royal Mail will change

## Vision and strategic priorities

### 2023-24 vision

#### Growing.

c.£12bn revenue  
(2-3% CAGR over next 5 years)

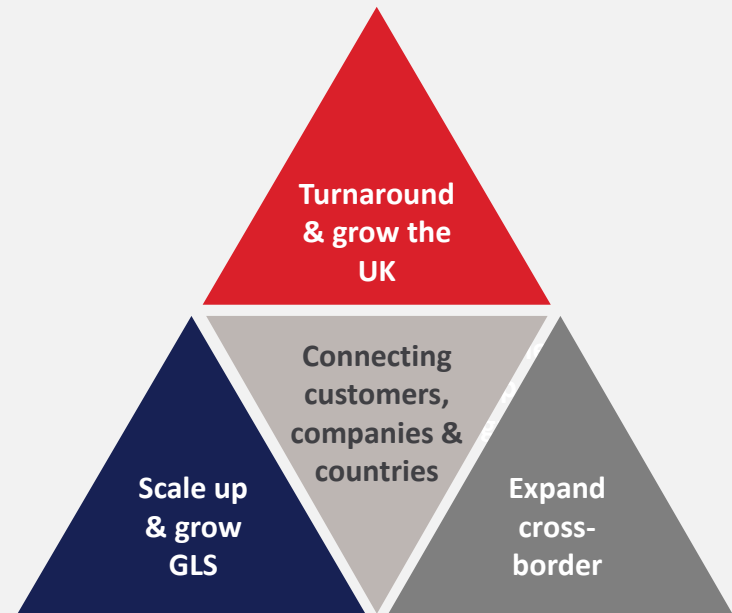
#### Efficient.

>5% operating profit margin

#### Diversified.

>70% revenue from Parcels  
>40% generated outside UK

### Strategic priorities



# Thank you



# Appendix

# IFRS 16

- IFRS 16 is the new accounting standard for leases coming into effect for our 2019-20 reporting year
- Principal impact is that majority of leases previously classified as operating leases will be capitalised on the balance sheet as assets. A liability representing the present value of contractual payments will also be recognised
- Illustrative impact on 2019-20 financial results:

## Income statement

	IFRS 16 Impact
Revenue	
Non-people costs	
Depreciation	↑ c.£120-130m
Operating lease costs	↓
<b>Operating profit after transformation costs</b>	<b>↑ c.£35-45m</b>
Net finance costs	↑
<b>Profit before tax</b>	<b>↑</b>

## Cash flow

	IFRS 16 Impact
Adjusted EBITDA	↑
Net finance costs paid	↑
<b>In-year trading cash flow</b>	<b>↑</b>
Capital payments on finance leases	↑
<b>Net movement in cash</b>	<b>↔</b>

## Balance sheet

	IFRS 16 Impact
Property, plant and equipment	↑ c.£0.8-1.0bn
<b>Total assets</b>	<b>↑</b>
Obligations under finance lease	↑ c.£1.0-1.2bn
<b>Total liabilities</b>	<b>↑</b>
Net assets / reserves	↓ c.£100-200m
<b>Net Debt</b>	<b>↑</b>



# Changes in disclosures and metrics used in external reporting

## Changes effective from 2019-20 financial year All outlook provided on new basis

### 1 UK letters and parcels revenue and volumes

- Historically, sampling surveys of stamped, metered and other prepaid revenue channels allocated revenue relating to letters and parcels
- New methodology reduces reliance on sampling by using data captured at point of sale in Post Offices
- Change impacts stamped letters and parcels and some export products. Advertising, business and metered letters and account parcels not impacted
- Split between letters and parcels revenue and volumes changes; total UKPIL revenue unchanged

### 2 Definition of marketing mail revenue

- Current definition includes specific advertising mail products, allocation of revenue from other channels by sampling surveys and non-volume related revenue from data, redirections and Address Management Unit
- New definition includes specific advertising mail products only
- Marketing mail revenue lower than previously reported

### 3 Underlying change

- No prior period underlying adjustments will be made; any factors with material impact on period on period comparisons will be highlighted in narrative

### 4 Treatment and presentation of transformation costs

- Transformation costs will be included within relevant operating cost categories
- Project costs allocated across people costs and non-people costs; voluntary redundancy separately disclosed within people costs
- 'Profit after transformation costs' replaced with 'Operating profit'

# UKPIL data

	As reported		Movement	New methodology
	2017-18 52 weeks	2018-19 52 weeks		2018-19 52 weeks
<b>UKPIL volumes (m)</b>				
<b>Parcels</b>				
Royal Mail	1,132	1,224	(36)	1,188
<i>Underlying change</i>	6%	8%		
Parcelforce	98	99	-	99
<i>Underlying change</i>	2%	1%		
<b>Total parcel volume</b>	<b>1,230</b>	<b>1,323</b>	<b>(36)</b>	<b>1,287</b>
<i>Underlying change</i>	5%	8%		
<b>Letters</b>				
Addressed	11,269	10,266	230	10,496
<i>Underlying change</i>	(5%)	(8%)		
Unaddressed volume	3,109	2,880	-	2,880
<i>Underlying change</i>	6%	(7%)		
<b>Total letter volume</b>	<b>14,378</b>	<b>13,146</b>	<b>230</b>	<b>13,376</b>
<b>UKPIL revenues (£m)</b>				
Total parcel revenue	3,463	3,692	(154)	3,538
<i>Underlying change</i>	4%	7%		
Total letter revenue	4,152	3,903	154	4,057
<i>Underlying change</i>	(4%)	(6%)		

# Property

Site	Acres	Key features	Status
Nine Elms	13.9	<p>Planning consent for 1,950 residential units</p> <p>Core infrastructure works on two-thirds of the site nearly complete</p>	<ul style="list-style-type: none"> <li>Plots B and D: Mayor of London and local council granted planning consent to Greystar                             <ul style="list-style-type: none"> <li>expect to receive £101m consideration in H1 2019-20</li> <li>£30m being re-invested in infrastructure associated with plots</li> </ul> </li> <li>Plot C: Exchanged with Galliard Homes                             <ul style="list-style-type: none"> <li>expect to receive £22m consideration in H1 2019-20</li> </ul> </li> <li>Remaining four plots remain available for sale</li> <li>Further investment required (infrastructure, park) for remaining plots when sold</li> </ul>
Mount Pleasant	8.6 acres covered by planning consent (of which 6.25 acres sold)	<p>Full planning permission in place for up to c.680 residential units</p> <p>Separation works required</p>	<ul style="list-style-type: none"> <li>6.25 acres sold for £193.5m in August 2017</li> <li>c.£64m in staged payments received to date</li> <li>Remaining to be paid in staged payments over 2019-20 to 2020-21 and final lump sum payments in 2024</li> <li>Separation and enabling works well underway and expected to cost c.£100m</li> </ul>
Paddington	1.0	<p>Sold in 2014 for £111m with overage agreement for £20m upon purchaser obtaining planning permission</p>	<ul style="list-style-type: none"> <li>Overage payment of £20m received in April 2018</li> <li>Recorded as profit on disposal of property in 2017-18</li> </ul>

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20 onwards
Total proceeds	111	-	-	43	41	Nine Elms expected proceeds (2019-20) from plots C, B and D; further potential sales proceeds
Total investment	(11)	(23)	(34)	(33)	(34)	Staged payments and lump sum for Mount Pleasant
Net cash position	100	(23)	(34)	10	7	Nine Elms additional investment only if further sales
Cumulative	100	77	43	53	60	

# Pensions

## Income statement

£m		2018-19	2017-18
RMPP <sup>1</sup>		(12)	(791)
DBCBS		(362)	-
RMDCP <sup>3</sup>		(82)	(57)
GLS		(7)	(7)
PSE <sup>4</sup>		(172)	(151)
<b>People costs</b>		<b>(635)</b>	<b>(1,006)</b>
Pension costs relating to VR		-	(3)
RMSEPP buy-in <sup>5</sup>		(64)	-
<b>Total EBIT pension costs</b>		<b>(699)</b>	<b>(1,009)</b>
Pension interest credit <sup>6</sup>		79	91
<b>Total net PBT pension costs</b>		<b>(620)</b>	<b>(918)</b>
Pensionable payroll (£bn)	DBCBS <sup>7</sup>	1.9	1.9
Income statement rate	RMPP <sup>8</sup>	41.0%	41.1%
	DBCBS <sup>8</sup>	18.9%	-
	RMDCP <sup>9</sup>	8.0%	6.3%
Number of active members	DBCBS <sup>7</sup>	c.82,700	c.83,200
	RMDCP	c.50,600	c.47,200

## Cash flow

£m		2018-19	2017-18
RMPP <sup>1,2</sup>		(5)	(323)
DBCBS		(297)	-
RMDCP <sup>3</sup>		(82)	(57)
GLS		(7)	(7)
PSE <sup>4</sup>		(172)	(151)
RMSEPP deficit		(2)	(10)
<b>Cash contributions</b>		<b>(565)</b>	<b>(548)</b>
Pension payments relating to VR		-	(4)
<b>Total cash payments</b>		<b>(565)</b>	<b>(552)</b>
Pensionable payroll (£bn)	DBCBS <sup>7</sup>	1.9	1.9
Cash rate	RMPP	17.1%	17.1%
	DBCBS	15.6%	-
	RMDCP <sup>9</sup>	8.0%	6.3%

<sup>1</sup> 1 week to 31 March 2018 <sup>2</sup> Includes -£2m pension related accruals timing difference (2017-18: £2m) <sup>3</sup> Excludes £10m insurance premium costs which are included in people costs (2017-18: £8m) <sup>4</sup> Under Pension Salary Exchange (PSE) the Group makes additional employee pension contributions in return for a reduction in basic pay <sup>5</sup> Operating specific item <sup>6</sup> Non-operating specific item <sup>7</sup> Prior period relates to RMPP <sup>8</sup> Rate determined by real discount rate at end of March based on longer term RPI and appropriate AA corporate bond rates at the time <sup>9</sup> Average employer contribution rate for the period, excluding benefits

# Liquidity

## Borrowings

Facility	Rate	Facility £m	Drawn £m	Facility end date
Euro bond <sup>1</sup>	2.5%	430	430	2024
Loans in GLS	0.9%	1	1	2022
Revolving credit facility	LIBOR +0.55 %	1,050	-	2020-22 <sup>2</sup>
<b>Total</b>		<b>1,481</b>	<b>431</b>	

- S&P investment grade rating of BBB stable outlook
- Net debt increased by £314m largely driven by lower free cash flow and dividends
- Net debt excludes £187m related to RMPP pension escrow investments which are not considered to fall within definition of net debt

## Net (debt)/cash

£m	31 March 2019	25 March 2018
Loans/bonds	(431)	(437)
Finance leases	(125)	(169)
Cash and cash equivalents <sup>3</sup>	236	600
Pension escrow (RMSEPP)	20	20
<b>Net (debt)/cash</b>	<b>(300)</b>	<b>14</b>

## Other working capital movements

£m	2018-19	2017-18
Stamps used but purchased in prior periods/deferred revenue	10	(5)
Client cash in GLS <sup>4</sup>	(4)	2
<b>Other working capital</b>	<b>6</b>	<b>(3)</b>

# Group tax

£m	Reported 2018-19					Adjusted 2018-19		
	UK	Pension impact	GLS	Group	Group ex. pension	UK	GLS	Group
Profit/(loss) before tax	160	-	81	241	241	229	169	398
Income statement tax charge	(23)	-	(43)	(66)	(66)	(40)	(53)	(93)
<b>Effective tax rate</b>	<b>14%</b>		<b>53%</b>	<b>27%</b>		<b>17%</b>	<b>31%</b>	<b>23%</b>
Cash tax payments	(23)	(17)	(51)	(91)	(74)	n/a	n/a	n/a

## Income statement tax

### UK

- Adjusted: higher rate than prior year (2017-18: 16%) as the prior year included a catch up on patent box claims
- Reported: rate significantly impacted by certain specific items for which there is no tax charge or credit in the income statement

### GLS

- Adjusted: higher rate than prior year (2017-18: 28%) due mainly to deferred tax assets in GLS US and GLS France not being recognised
- Reported: rate significantly impacted by the impairment of goodwill for GLS US for which there is no tax credit

## Cash tax

### UK

- Additional tax payment of £17m in respect of 2017-18 one off pension escrow payment which does not attract tax relief
- Higher cash tax than prior year (2017-18: £16m) due to impact of new tax loss restriction rules

### GLS

- Cash tax lower than prior year (2017-18: £59m) mainly due to prior year settlement of provision in relation to tax in Italy
- Cash tax in line with adjusted income statement tax charge

# Deferred tax - balance sheet

At 31 March 2019  
£m

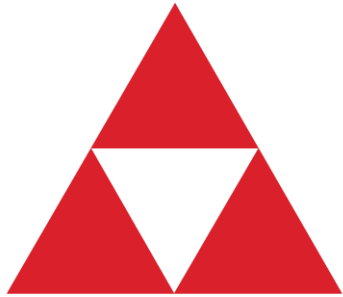


## UK

- Deferred tax asset of £44m in relation to tax losses, short term timing differences and capital allowances expected to be utilised in the short to medium term
- Deferred tax asset of £13m in respect of the DBCBS pension deficit expected to move in line with the deficit

## GLS

- The increase in GLS deferred tax liabilities (2017-18: £45m) relates to deferred tax on acquisition intangibles. This has increased due to acquisition of Dicom, offset by the impairment of GLS US businesses



# Journey 2024

Growing. Efficient. Diversified.

Royal Mail plc