Royal Mail PLC Results for the Half Year ended 24 September 2017

16-11-2017

Royal Mail plc (RMG.L) today announced its results for the half year ended 24 September 2017.

Group performance[1,2]

- Revenue was up two per cent on an underlying basis. Strong growth in GLS more than offset broadly unchanged revenue at UKPIL.
- Adjusted operating profit before transformation costs was £323 million, up seven per cent.
- Adjusted operating profit margin after transformation costs increased by 30 basis points on an underlying basis.
- Reported operating profit before transformation costs was £89 million.
- We are targeting net cash investment of around £450 million in 2017-18 compared to £492 million in 2016-17 and £656 million in 2015-16.
- In-year trading cash flow increased to £125 million.
- In line with our stated interim dividend policy[3], the Board has declared a dividend of 7.7 pence per ordinary share for the half year ended 24 September 2017 which will be paid on 10 January 2018 to shareholders on the register on 8 December 2017.

UKPIL

- UKPIL revenue was flat on an underlying basis, having declined by two per cent in 2016-17.
- Good growth in account parcels, including Amazon, and import parcels contributed to a six per cent increase in overall UKPIL parcel volumes. Parcel revenue was up by five per cent.
- Addressed letter volumes declined by five per cent (excluding political parties' election mailings). A better than expected revenue performance, principally due to election mailings, meant that total letter revenue declined by three per cent.
- Our strategic focus on costs drove a one per cent underlying reduction in adjusted UKPIL operating costs (before transformation costs).

GLS

- GLS performed strongly. Revenue was up nine per cent due to its strategic focus on growth in existing markets, including another strong performance in Italy.
- GLS' three major markets, Germany, Italy and France, accounted for 60 per cent of total GLS revenue, down from 66 per cent in the prior period, reflecting the impact of recent acquisitions.
- Volumes grew by nine per cent, excluding the impact of recent acquisitions. Volume growth is being driven by GLS' comprehensive

geographical footprint and a continued focus primarily on B2B and selective B2C growth.

Outlook summary

- We maintain our outlook for addressed letter volume declines of between four to six per cent per annum (excluding political parties' election mailings) over the medium term; we expect to be at the higher end of the range of decline for the full year if the current climate of business uncertainty persists.
- The UK parcels market remains highly competitive and we are performing well.
- Our UKPIL cost avoidance programme is on track to deliver around £190 million costs avoided this year. We face increased cost pressures in the second half, including the potential impact of the industrial relations environment on the pace of change.
- In GLS, we expect to continue to perform strongly, with underlying revenue growth for the full year anticipated to be broadly in line with the first half.
- As in previous years, the outcome for the full year will be dependent on our performance over the important Christmas period.
- In addition, the industrial relations environment could impact our performance in the second half.
- Given our strong cash generation and robust balance sheet, we are committed to our progressive dividend policy.

[1] Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment and specific items, consistent with the way financial performance is measured by Management and reported to the Board.

[2] Movements are presented on an underlying basis.

For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the half year ended 24 September 2017, including reconciliations to the closest IFRS measures where appropriate, see section entitled 'Presentation of results and Alternative Performance Measures'.

[3] Our interim dividend is equal to approximately one-third of the prior year's total dividend.

Source: Royal Mail Group