International Post Corporation

Royal Mail Trading update for the three months ended 25 June 2017

18-07-2017

Royal Mail plc (RMG.L) issued a trading update covering the three months ended 25 June 2017.

Royal Mail plc (RMG.L) issued a trading update covering the three months ended 25 June 2017.

Moya Greene, Chief Executive Officer, Royal Mail plc, said:

“Overall, we have had a good start to our financial year. Group revenue was up 1%, driven by another strong performance in GLS. This more than offset a 1% decline in UKPIL revenue.

“GLS continues to be a driving force for the Group. Its ongoing, focussed international expansion is increasing our geographic diversification, scale and reach. In UK parcels, our quality of service and improved product offerings are driving high levels of customer satisfaction and attracting new customers and higher volumes. Our performance in letters was better than we expected, despite continued business uncertainty in the UK.

“We remain on track to deliver our cost avoidance and net cash investment targets for the full year.”

Trading performance for the three months ended 25 June 2017

Group	Underlying change[1]
Revenue	1%

UKPIL	Underlying change[1]
Revenue	(1%)

- UKPIL revenue was down 1%, with parcel revenue up 3% and total letter revenue down 4%.

Parcels	Underlying change[1]
Volumes	5%
Revenue	3%

- Parcel volumes were up 5%, with growth driven by a good performance in Royal Mail account parcels where we have won new contracts and gained more traffic from existing customers. In particular, Royal Mail Tracked services saw strong volume growth of 39%.
- Our international parcels business benefitted from a new initiative to attract cross-border traffic3 from Asia into Europe. This accounted for nearly 2 percentage points of the volume growth and 1 percentage point of the revenue growth in the period. International volume trends continued to reflect the relative weakness in Sterling, with slowing imports (outside of our cross-border initiative) and improving contract export volumes, compared with the prior period.
- Parcelforce Worldwide also saw an improvement in recent trends with volumes up nearly 1% in the period.
- Total parcel revenue was up 3%, reflecting the mix within the domestic and international traffic channels.

Letters	Underlying change
Addressed letter volumes	(6%)
Revenue	(4%)

- Addressed letter volumes decreased by 6% (excluding the impact of political parties’ election mailings). Volumes benefitted from certain mailings associated with the 2017 General Election, which had around a 1 percentage point positive impact on the movement.
- Total letter revenue was down 4%, benefitting from higher than expected revenue associated with the UK political parties’ 2017 General Election mailings.
- We do not report marketing mail revenue on a quarterly basis due to the timing of the required survey data. However, at this early stage in the year, the revenue trend in our main advertising products (retail addressed,

unaddressed and access advertising letters) remains the same as last year.

GLS	Underlying change[1]
Volumes	5%
Revenue	6%

- GLS continued to perform strongly. Revenue growth was achieved in all its main markets, with strong growth in many markets, including Italy.
- Including the impact of the recent acquisitions, GLS revenue was up around 18% on a constant currency basis in the period.
- Performance in the period reflects the timing of Easter and other public holidays across Europe. Excluding this impact, underlying volume and revenue movements would have been around 4 percentage points higher. This impact is expected to be around 2 percentage points for the full year.
- ASM, acquired in June 2016, is performing well ahead of expectations and is being integrated into GLS Spain.
- In the United States, GSO, which we acquired 9 months ago, is performing in line with expectations. On 6 April 2017, we announced the acquisition of Postal Express, an overnight parcel delivery company operating throughout the Pacific Northwest of the United States, for $13.3m. Postal Express will be integrated into GSO.

Recent developments

On 8 May 2017, following Trustee approval, the Company confirmed that the Royal Mail Pension Plan (the Plan), in its current form, will close to future accrual on 31 March 2018.

We have had extensive talks with our unions, Unite/CMA and the CWU, on proposals for future retirement benefits for Plan members. We were pleased to announce on 14 July that we have improved our proposal and are now offering Plan members a choice between a Defined Benefit scheme and a Defined Contribution scheme. Both schemes will be established as new sections of the Plan. We are also proposing improvements to the Royal Mail Defined Contribution Plan for current and future members. We expect that the overall cost of the new proposal will be no more than the current cash cost of annual pension contributions of around £400m. We believe that the risk to the Company of the proposed Defined Benefit scheme would be materially lower than under the current Plan. Our managerial union Unite/CMA believes that this is the best position achievable and is positive in keeping the Defined Benefit scheme open, and is planning to hold a consultative ballot of its members on the proposal. We continue to discuss future pension arrangements with the CWU.

On 15 May 2017, it was announced that Stuart Simpson, Director of Group Finance, will be appointed Chief Finance Officer from the conclusion of the Company's Annual General Meeting on 20 July 2017.

On 2 June 2017, it was announced that conditional contracts had been exchanged for the sale of two of the seven plots at Royal Mail's Nine Elms site for a total consideration of £101m, £3m of which was received on exchange of contracts by way of deposit. The proceeds of the sale will be used for general corporate purposes, with around £30m committed to be re-invested into the Nine Elms site for infrastructure works.

Current trading and outlook

Overall, our trading performance in the first three months of the financial year was good. GLS continues to perform strongly and is driving forward its international expansion. UK parcels performed well underlining our position as the UK's leading delivery company. We continue to monitor the impact of overall business uncertainty in the UK on letter volumes.

Our cost avoidance programme is on track to deliver around £190m of UKPIL operating costs avoided in 2017-18. We expect that our total net cash investment will be around £450m this year.

Our outlook for UK letters and parcels trends and other guidance is unchanged from that set out in our financial results for the full year ended 26 March 2017.

The results for the half year ending 24 September 2017 are expected to be announced on Thursday 16 November 2017.

Notes:

1. All movements are on an underlying basis unless otherwise stated. Underlying revenue change is calculated after adjusting for working days in UKPIL, movements in foreign exchange, acquisitions, and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days and exclude the impact of political parties' election mailings in UKPIL, and exclude ASM, GSO and Postal Express in GLS. In the first three months of 2017-18 there were 74.8 working days in UKPIL (3M 2016-17 75.6). We estimate that the impact of working days in UKPIL will be around negative £15m for the full year (2017-18 305; 2016-17 305.6). For comparison purposes all underlying adjustments are made to the prior period.
2. Movements in Sterling exchange rates impact UKPIL import revenue and terminal dues (in distribution and conveyance costs) associated with exports. In the three months, weaker Sterling resulted in a positive impact of £4m on UKPIL revenue and a £5m increase in terminal dues. Underlying change is adjusted for this impact in the period.
3. Cross-border traffic arrives into our Heathrow processing plant from Asia for customs clearance and onward transit into mainland Europe. We are responsible for paying the associated terminal dues to the local postal operator.

Source: [Royal Mail Group]