17 May 2018

Royal Mail Full Year Results 2017/18

Royal Mail released its full year financial results on 17 May 2018. Chief Executive Officer, Moya Greene said that “it has been another successful year, despite the challenging environment.” Group revenue was up 2% on an underlying basis while operating profit after transformation costs rose by £6million (6%) on an underlying basis to reach £581m. the adjusted operating profit margin after transformation costs was 5.7%, a 20 basis points increase on an underlying basis.

Following the closure to future accrual of the Royal Mail Pension Plan’s Defined Benefit scheme on 31 March 2018, the overall ongoing annual cash costs of pensions is forecast to be around £400 million.

UKPIL revenue was unchanged overall with parcel revenue growing by 4%. Concurrently, total letter revenue fell by 4%. Parcel volumes were up by 5%, however letter volumes fell by 5% - in line with Royal Mail’s expectations. Underlying UKPIL operating costs before transformation costs were unchanged at £113m, exceeding cost avoidance targets.

In regard to productivity, collections, processing and delivery improved by 1%, outside Royal Mail’s 2-3% target range. Royal Mail’s regulatory First Class Quality of Service performance was 91.6% (target: 93%), but Second Class performance remained within the target range when allowing for sampling margin of error. Lower than anticipated First Class Quality of Service performance has been put down to “exceptional events” throughout the year including adverse weather conditions and “a very challenging industrial relations environment.”

In 2018/19, UKPIL parcel volume and revenue growth rates are anticipated to be at least the same as 2017/18. The outlook for addressed letter volumes remains a decline of 4-6% per annum, however there is an expectation that decline will be at the higher end of this range due to GDPR changes and business uncertainty.

Royal Mail Group

The adjusted results¹ for Royal Mail Group for 2017/18 compared to the previous year are:

- Revenue up 2% to £10,172m;
- Operating profit before transformation costs up 1% to £694m on an underlying basis;
- Operating profit after transformation costs up 6% to £581m on an underlying basis;
- Operating profit margin after transformation costs was 5.7%, up 20 basis points on an underlying basis;
- Profit before taxation was up £6m to £565m;
- Net cash was £14m, up from a debt of £338m the previous year.

UK Parcels, International and Letters (UKPIL)

The adjusted financial results for UKPIL for 2017/18 compared to the previous year are:

- UKPIL revenue was unchanged at £7,615m with a 4% increase in parcel revenue offset by a 4% decline in total letter revenue;
- UKPIL operating profit before transformation costs was up 2% to £503m;
- Total parcel volumes were up 5%; with 6% growth in the core network and a 2% rise in Parcelforce volumes;

¹ Adjusted results exclude the pension charge to cash difference and specific items, consistent with the way that financial performance is measured by Management and reported to the Board.
• Addressed letter volumes fell by 5% - at the higher end of the forecast range of 4-6% decline per annum;
• Marketing mail revenues rose by 6%, reflecting higher usage during the 2017 General Election.

Total adjusted operating costs before transformation costs were down one per cent on an underlying basis, reflecting improved performance in the second and third quarters. UKPIL’s cost avoidance programme delivered £225 million cost savings in the year, comprising people costs worth £132 million and non-people costs of £93 million.

People costs fell by 1%, driven mainly by a 2.7% improvement in collections, processing and delivery productivity in the core network. This offset pay increases, notably a 1.6% frontline pay award. The improvement in productivity was achieved through a 1.9% reduction in core network hours, coupled with the absorption of a higher workload. The higher workload was driven by an increase in tracked products which offset the impact of declining letter volumes.

Non-people costs were flat with infrastructure costs down 1% thanks to previous and ongoing cost avoidance programmes. Other operating costs were flat.

**General Logistics Systems (GLS)**

GLS continued to perform strongly. Volumes were up nine per cent on an underlying basis, with growth in both domestic and international volumes in most markets. Revenue increased by 10 per cent, slightly better than volume growth due to price and product mix improvements in several markets. Revenue in Sterling terms benefited from a £106 million impact from exchange rate movements and a £105 million impact from acquisitions.

**Dividend**

The Board is recommending a final dividend of 16.3p per ordinary share, payable on 31 August 2018. This gives a total dividend for the year of 24.0 pence, up 4% on the previous year, following the award of a 7.7% per share interim dividend in January 2018.

This means eligible full-time employees with a maximum allocation of 832 Free Shares will receive a dividend payment of £135.62 subject to shareholder approval.