Royal Mail plc
News Release

21 January 2016

ROYAL MAIL plc

TRADING UPDATE FOR THE NINE MONTHS ENDED 27 DECEMBER 2015

Royal Mail plc (RMG.L) today issued a trading update covering the nine months ended 27 December 2015. Overall, trading in the period fully met our expectations.

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

“Once again, our postmen and women delivered a great Christmas – even better than last year’s strong performance. This is because of the commitment of our people and our investment in additional temporary staff and sorting capacity. Extensive planning, which began in the spring, ensured we had the capacity to accommodate additional volumes from our retail customers and other delivery operators.

“In the first nine months, UK parcel volumes were up 4%, with 130m parcels handled in December alone, 6% more than last year. The performance in letters improved slightly over the first half, with addressed letter volumes, excluding elections, down 3%. In Europe, GLS performed better than expected with volumes up 11%. Given the performance to date, we are not anticipating a decline in GLS margins for the full year. We remain on track to deliver at least a 1% reduction in underlying operating costs before transformation costs in UKPIL for the full year.”

Trading performance for the nine months ended 27 December 2015

<table>
<thead>
<tr>
<th>Group</th>
<th>Change¹</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1%</td>
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- Group revenue reflects a good performance over our peak period in UKPIL as well as a better than expected performance in GLS.

<table>
<thead>
<tr>
<th>UKPIL</th>
<th>Change¹</th>
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<tbody>
<tr>
<td>Revenue</td>
<td>(1%)</td>
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- UKPIL revenue was down 1%, with parcel revenue up 1% and letter revenue down 2%. 
Parcels

<table>
<thead>
<tr>
<th></th>
<th>Change</th>
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<tbody>
<tr>
<td>Volumes</td>
<td>4%</td>
</tr>
<tr>
<td>Revenue</td>
<td>1%</td>
</tr>
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- Trends in parcels in the first nine months were the same as those seen in the first half.
- Parcel volume growth continued to be driven by Royal Mail account parcels, which benefitted from recent new contract wins, import parcels, and Parcelforce Worldwide, which saw volumes increase by 16%. Growth in these channels has more than offset the tough trading environment in consumer/SME and export parcels.
- Parcel revenue was up 1% due to the impact of the competitive environment and the trends in mix. We continue to see the impact of higher volumes of lower AUR import parcels, largely from China, and lower volumes of higher AUR consumer/SME and export parcels, due to increased competition in these segments and a foreign exchange-driven impact on the export/import mix.

Letters

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<thead>
<tr>
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<th>Change</th>
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<tbody>
<tr>
<td>Addressed letter volumes</td>
<td>(3%)</td>
</tr>
<tr>
<td>Revenue</td>
<td>(2%)</td>
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- Addressed letter volumes decreased by 3% (excluding the impact of election mailings), reflecting the one-off benefit from the return of direct delivery volumes and a good performance over our peak period.
- Total letter revenue was down 2% as the continuing change in mix partially offset the impact of letter price increases.

GLS

<table>
<thead>
<tr>
<th></th>
<th>Change</th>
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<tbody>
<tr>
<td>Volumes</td>
<td>11%</td>
</tr>
<tr>
<td>Revenue</td>
<td>10%</td>
</tr>
</tbody>
</table>

- GLS performed better than expected, benefitting from a good performance over the peak period. GLS Italy and GLS Poland delivered particularly good performances in the first nine months.
- While profitability in GLS Germany continues to be impacted by the German minimum wage legislation, overall profitability is benefitting from good volume-related revenue growth in most of GLS’s markets.

Recent developments

We have made a number of investments to improve our technological capabilities and enhance our offering in the parcels space. In November, we agreed to acquire eCourier, a leading same day parcel delivery company. In December, we acquired NetDespatch, a leading software solution provider specialising in parcel data management and labelling for retailers and parcel carriers.

On 15 December, we announced that we had received notification of the fine from the French competition authority in relation to antitrust law breaches by GLS France. The fine of €55.1m (£40.2m) was fully provided for in our financial statements for the year ended 29 March 2015.

Current trading and outlook
Overall, trading in the nine months ended 27 December 2015 fully met our expectations, with a good performance over our peak period in UKPIL as well as a better than expected performance in GLS. We remain on track to deliver at least a 1% reduction in underlying operating costs before transformation costs in UKPIL for the full year. Given the performance to date, we are not anticipating a decline in GLS margins for the full year. Otherwise our outlook for letter and parcel trends and other guidance remain unchanged from that set out in our financial results for the half year ended 27 September 2015.

The results for the full year ending 27 March 2016 are expected to be announced on Thursday 19 May 2016.

Notes:

1. Movements in revenue, costs and volume are on an underlying basis, unless otherwise stated. Underlying change is calculated after adjusting for working days in UKPIL revenue, foreign exchange movements in GLS, and other one-off items that distort the Group’s underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and exclude elections in letter volumes. In 9M 2015-16 there were 227.5 working days in UKPIL (9M 2014-15 227.5). We estimate that the impact of working days in UKPIL will be around £25m for the full year (2015-16 303; 2014-15 304). For comparison purposes all underlying adjustments are made to the prior period.
2. For 2014-15 the reported margin for GLS (including discontinued operations) was 7.0%.

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Disclaimer

Figures presented in this trading update are not audited. This trading update contains certain statements that constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Persons receiving this release should not place undue reliance on any forward-looking statements.

The Group disclaims any obligation or undertaking to update or revise any forward-looking statements contained in this document to reflect any change in its expectations or any change in events, conditions or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules or the Disclosure and Transparency Rules of the Financial Conduct Authority.
About Royal Mail plc

Royal Mail plc is the parent company of Royal Mail Group Limited, the leading provider of postal and delivery services in the UK and the UK’s designated universal postal service provider. UK Parcels, International & Letters (UKPIL) comprises the company’s UK and international parcels and letters delivery businesses operating under the “Royal Mail” and “Parcelforce Worldwide” brands. Through the Royal Mail Core Network, the company delivers a one-price-goes-anywhere service on a range of parcels and letters products. Royal Mail has the capability to deliver to more than 29 million addresses in the UK, six days a week (excluding UK public holidays). Parcelforce Worldwide operates a separate UK network which collects and delivers express parcels. Royal Mail also owns General Logistics Systems (GLS) which operates one of the largest ground-based, deferred parcel delivery networks in Europe.