

Who we are

2016 marks 500 years of postal services in the UK. From a few royal messengers in Tudor times to more than 120,000 postmen and women today, connecting people, communities and businesses is part of who we are. Royal Mail is the UK's pre-eminent letters and parcels carrier. As the UK's sole designated Universal Service Provider¹, we are proud to deliver a 'one-price-goes-anywhere' service on a range of letters and parcels to more than 29 million addresses, across the UK, six-days-a-week.

Through UK Parcels, International & Letters (UKPIL), we make a very significant contribution to the wider UK economy. In 2015-16, our impact, including key activities like employment and procurement, totalled £10.8 billion in terms of value added. We made the fifth largest contribution to the UK economy of all UK corporations². Through our pan-European parcels delivery business, General Logistics Systems (GLS), we are one of the largest, ground-based deferred parcel delivery service providers in Europe.

Our people

We employ around 156,000 people across our Group. UKPIL employs around 139,000 people and approximately 3,000 people work in our UK partially-owned subsidiaries. On average, one in 175 employed people in the UK works for Royal Mail³. GLS employs around 14,000 people.

Our shareholders

In 2015-16, HM Government sold its remaining shareholding in Royal Mail. To date, 11 per cent of Royal Mail shares have been given to eligible employees, for free. A further one per cent will be allocated in due course. This is one of the largest free employee stakes of any major UK privatisation. We are proud to continue to have a large and diverse shareholder base, including a significant proportion of retail shareholders.

Our position

Letters continue to be a very important part of our business. They account for almost 60 per cent of our UK revenue. We expect continued declines in addressed letter volumes (excluding elections) of around 4-6 per cent per annum in the medium-term. This means that delivering letters and parcels together is a key driver of efficiency and productivity in our Universal Service network.

Royal Mail is the largest parcel delivery operator in the UK. Home delivery is expected to remain customers' preferred delivery option⁴. This is a significant opportunity for Royal Mail, as we are well positioned to deliver to every doorstep in the UK.

Changing relationships between retailers and delivery operators, growing segments – such as 'same-day' delivery – and disruptive technologies reflect an industry which is undergoing profound change. Volume growth in our UK addressable parcel market^{5,6} is dependent on the expansion of Amazon Logistics. In addition, there is continued capacity growth. These factors are putting pressure on prices across the industry.

Our transformation

We are changing from a letters company that delivers parcels, to a parcels company that delivers letters. In an environment of rapid change, we need to become more agile and respond quickly to changing customer needs.

We have made significant investments in our core business and to develop our IT capability.

In the medium-term, the faster areas of growth in the parcels market are expected to be: clothing and footwear⁷; returns⁷ and 'same-day'⁸. We are changing our UK operations so we can handle, where appropriate, larger parcels. We are becoming more flexible to accommodate the developing needs of e-retailers and online shoppers. This includes later acceptance times and adding more products to our weekend collections at Mail Centres and Regional Distribution Centres (RDCs), and making customer pick-up and returns easier with our Local Collect network.

We are demonstrating the value of letters to our customers through product and service innovations, such as Mailmark[®]. This investment has helped us to achieve more accurate billing. Campaigns like MAILMEN, which features 22 leading executives in the advertising industry, help demonstrate the effectiveness of mail as part of a targeted and integrated advertising campaign.

Against a backdrop of innovation and investment, we currently have around 70 projects that focus on cost avoidance and efficiency. Becoming more efficient and productive allows us to be more competitive. This, in turn, helps us to grow our existing customer relationships and win new business. It helps to fund further investment in our growth and to maintain our fair terms and conditions for our people.

¹ Under the Postal Services Act 2011 ('the Act'), Ofcom is the regulator for postal services in the UK. Ofcom's primary regulatory duty for postal services is to secure the provision of the Universal Postal Service. Ofcom has designated Royal Mail as the Universal Service Provider. Subject to the special administration regime, and as set out in the Act, this designation is not time-limited

² Comprising direct and indirect contributions

³ Cebr research, conducted for Royal Mail in May 2016

⁴ IMRG Consumer Delivery Report, 2015

⁵ Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2014); defined as individually addressed parcels and packets, generated and delivered in the UK, weighing up to 30kg, that do not require special handling. Includes access fulfilment large letters & parcels and excludes click and collect, same-day, small local operators and all international traffic

⁶ Excludes Amazon Logistics and other retailers own-delivery networks

⁷ Verdict research. UK e-retail parcel market growth 2015-2020

⁸ Triangle Management Services and RMG estimate 2014

Our operations and networks

The Group operates through UKPIL and GLS.

UKPIL

UKPIL comprises Royal Mail's core UK and international parcels and letters delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands. Royal Mail's network is unparalleled in the UK in its scale and scope. It supports the provision of services for the collection, sorting and delivery of parcels and letters by Royal Mail. This includes those services Royal Mail provides as the UK's designated Universal Service Provider. Parcelforce Worldwide is a leading provider of express parcel services.

➔ See page 22 for details of UKPIL's performance.

GLS

GLS is the Group's European parcels business. It operates one of the largest ground-based, parcel delivery networks in Europe. The GLS network covers 41 European countries and nation states through a combination of wholly-owned and partner companies. As our gateway to Europe, GLS is a strategically important part of the Royal Mail Group.

➔ See page 24 for details of GLS' performance.

UKPIL

c.139,000

Employees

6

Regional Distribution Centres

39⁹

Mail Centres

c.1,400

Delivery Offices

c.11,700

Local Collect locations

54

Parcelforce Worldwide depots

c.47,000¹⁰

Vehicles

GLS

c.14,000

Employees

41

European hubs

c.700

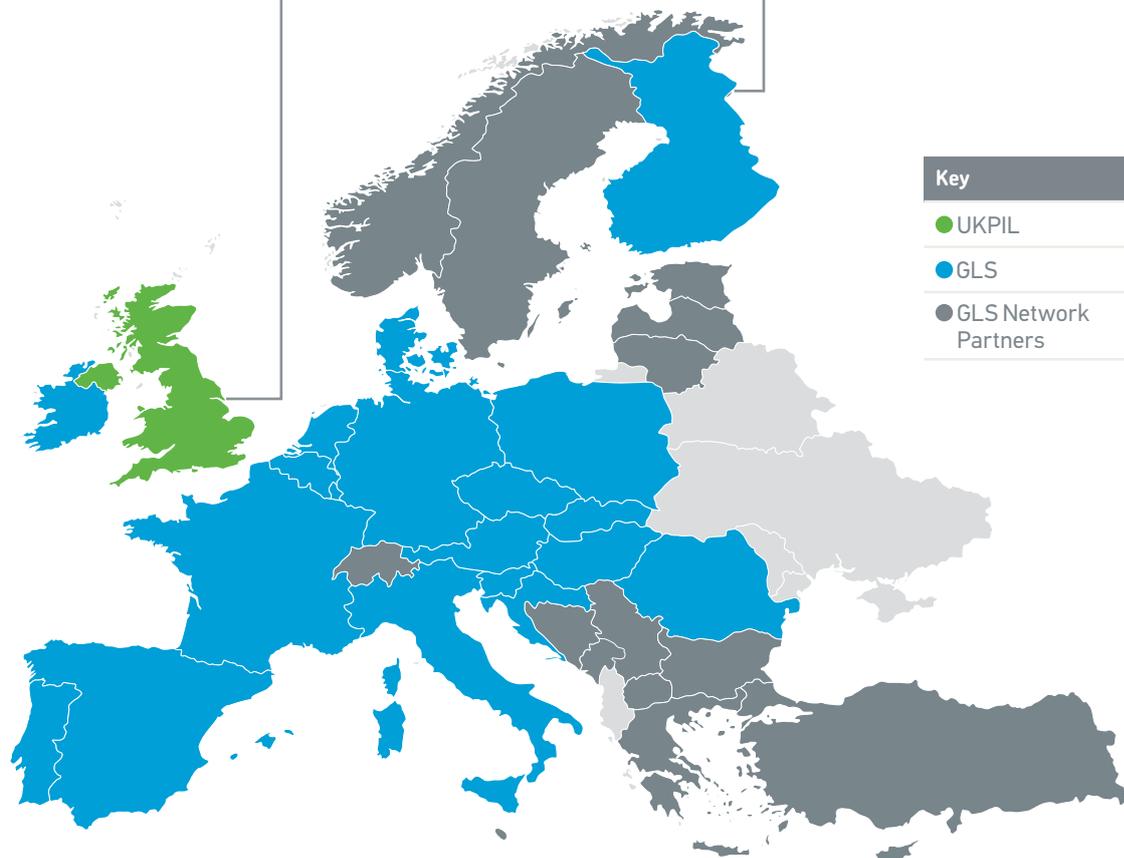
Depots

c.14,000

Parcel shops

c.20,000

Sub-contractor vehicles



⁹ Portsmouth Mail Centre closed April 2016

¹⁰ Includes around 2,500 trailers