

19 May 2010

UK MAIL GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2010

Highlights

- H2 revenues up 2.8%, resulting in Group revenues flat for the full year at £385.2m (2009: £385.7m)
- Mail revenues up 5.4% to £173.5m (2009: £164.5m)
- Group profit before tax up 11.3% to £17.8m (2009: £16.0m)*
- Group profit before tax (before exceptional items) up 4.0% to £17.8m (2009: £17.1m)*
- Final dividend increased by 9.3% to 11.8p per share (2009: 10.8p), giving a total dividend of 18.2p (2009: 17.2p), up 5.8%
- Strong balance sheet with net cash balances at year end of £15.7m (2009: £9.5m)
- iMail service continues to gain traction; Launch of new packets product opens up a new segment of the mail market
- New range of Retail Logistics services creates significant opportunities for parcels business

* *Prior year numbers restated - see note 4*

Guy Buswell, Chief Executive of UK Mail, said:

"We have made good progress in the year, underpinned by our low cost network and the leading market positions of each of our businesses.

Our Mail business has continued to grow revenues and profits, and is building a strong platform for future expansion through new product innovation, in particular in packets.

Revenues in our Parcels business saw an improving trend in recent months with growth achieved in the second half, and this business is in an excellent position to benefit from a consolidating market.

Our Courier business achieved excellent profit growth, and we see further opportunities from our ability to support national contracts with high service levels.

The Board is recommending the first dividend increase since 2006, reflecting the significant performance improvement of the Group in recent years, the balance sheet strength and cash generative nature of our business, and the positive outlook for the Group.

Our strategy remains to drive profitable revenue growth by investing in our highly efficient network and IT systems, and by developing new products and services that increase both the size of the market available to us and our share of that market.

Trading in the current year to date has been in line with management expectations and we remain confident in the Group's long term growth prospects."

For further information, please contact:

UK Mail Group plc

Guy Buswell (Group Chief Executive)	0121 335 1111
Steven Glew (Group Finance Director)	01753 706 070

Hogarth

John Olsen	020 7357 9477
Ian Payne	

INTRODUCTION

The Group has made good progress in the year, despite the challenging trading environment.

Our Mail business has continued to grow its revenues and profits, underpinned by our low cost network. At the same time, we are building a platform for future growth through new product innovation.

Parcels revenues for the full year are down on the previous year. However, we have seen an improving trend of performance, with overall revenue growth achieved in the second half of the year. Whilst Parcels profits decreased on last year, we have taken further steps to reduce our cost base and this has offset to a large extent the impact of the revenue reduction.

In our Courier business, new national contracts drove good growth in revenues which, together with a lower cost base, has delivered a significant margin and profit improvement.

Revenues in our Pallets business are down on the previous year, but here again we have seen an improving trend of performance in the second half. Significant improvements in efficiency meant Pallets achieved a good level of growth in profit.

Overall we have achieved a solid improvement in financial performance against the prior year. Group revenues at £385m were in line with last year and up 2.8% in the second half. Group profit before tax at £17.8m was up 4.0% on last year (2009: £17.1m – before exceptional charges of £1.1m and after restatement - see notes 2 and 4). At the year end, net cash balances had increased to £15.7m (2009: £9.5m).

Adjusted basic earnings per share, which exclude the impact of the exceptional items last year, increased 5.9% to 23.4p (2009: 22.1p). Basic earnings per share increased 41.8% to 23.4p (2009: 16.5p).

The Board has proposed an increase of 1.0p (9.3%) in the Final Dividend to 11.8p (2009: 10.8p), resulting in an increase of 1.0p (5.8%) in the total dividend for the year to 18.2p (2009: 17.2p), the first increase since 2006.

STRATEGY

Our aim is to continue to strengthen our position as the UK's leading independent integrated postal group. There are two central planks to this strategy:

First, we continue to enhance the market-leading, low-cost, integrated network that underpins the competitiveness of our businesses. We are doing this by continuing to drive down cost, and by investing in our IT infrastructure so as to increase efficiency and introduce new information and data services to the end customer.

Second, we are focused on continuing to expand the size of the markets available to us, and on increasing our share of those markets. To do so, we are introducing new and innovative products and services in both our Parcels and our Mail businesses, a number of which are already available to customers and gaining valuable traction.

Our success to date in executing this strategy is reflected in the results being announced today, and we have more initiatives in place that will drive further progress in the current year.

RESULTS

The results can be summarised as follows:

	Year to 31 March		
	2010	Restated *	
	£m	2009	Inc/ (Dec)
		£m	%
Group revenue	385.2	385.7	(0.1)%
Operating profit (before exceptional items)	17.9	17.3	3.6%
Exceptional items	-	(1.1)	
Operating profit	17.9	16.2	10.8%
Net finance costs	(0.1)	(0.2)	
Profit before tax	17.8	16.0	11.3%
Taxation	(5.1)	(7.1)	
Profit after tax	12.7	8.9	42.4%
Basic earnings per share	23.4p	16.5p	41.8%
Adjusted earnings per share (before exceptional items - note 2)	23.4p	22.1p	5.9%

Revenue and operating profit are analysed as follows:

	Revenue			Operating Profit		
	2010 £m	2009* £m	Inc/ (Dec) %	2010 £m	2009* £m	Inc/ (Dec) %
Mail	173.5	164.5	5.4%	12.2	11.6	4.5%
Parcels	164.7	173.4	(4.9)%	14.8	16.8	(10.8)%
Courier	17.9	17.0	5.1%	2.4	1.0	132.4%
Pallets	29.1	30.8	(5.7)%	1.7	1.5	15.5%
Total	<u>385.2</u>	<u>385.7</u>	<u>(0.1)%</u>	<u>31.1</u>	<u>30.9</u>	<u>1.0%</u>
Central costs				<u>(13.2)</u>	<u>(13.6)</u>	<u>(2.7)%</u>
Operating profit (before exceptional items)				<u>17.9</u>	<u>17.3</u>	<u>3.9%</u>

* See note 4

Mail

Mail showed further good growth in both revenues and profit. As expected and as previously signalled, the rate of growth has moderated from the very high levels previously achieved, but the business enjoyed continued success in attracting significant new business as well as retaining and generating further mail growth from existing customers. As a result, revenues rose 5.4% to £173.5m (2009: £164.5m).

Mail operating profits were up 4.5% to £12.2m (2009: £11.6m), reflecting the good revenue growth offset by a slight decrease in the operating margin to 7.0% (2009: 7.1%). Our unrivalled service levels and strong operating efficiency put us in a good position for competitive tenders, but we do not bid for contracts at unsustainable margin levels.

Within the overall UK mail market there is a decline in transactional volumes of some 5% per annum. An important factor in the continued progress of our Mail business is therefore product innovation, opening up new segments of the mail market and extending the reach of our Mail business. Increases in marketing mail and our new product development will more than offset this decline.

We have two major products that are now gaining traction.

'imail' was launched in late 2008. This is a web-to-print postal service that allows customers of any size to electronically transmit mail items to our national network of mail centres where it is printed, enveloped and sent for next day or two-day delivery. We see the key target market for this service to be businesses producing 'short-run' mailings and we already have a customer base of some 2,000. Our sales operation is focussed on key segments of the market where this type of mailing occurs and we have extended the service to help meet the needs of these segments. 'imail' now includes appointment cards, 'economy' black and white printing and mailing list production, and is continually being developed to support its market leadership. 'imail' is now achieving daily volumes of up to 25,000 items as the customer base builds. This is a new concept in the mail market which is progressing in line with our expectations.

The other key product innovation is our new packets product. In April 2010 we signed an important new contract with Royal Mail which allows us to operate a packet collection and delivery service, utilising Royal Mail for final delivery. This will enable us to offer customers a price competitive service in a sector that was previously difficult for us to access. The packets market is estimated to be worth some £1.5bn and is the fastest growing segment of

the postal market, mainly due to the growth in internet based shopping. We expect to start trading with our first customers imminently.

We expect the impact of our new product innovation to drive growth in our Mail business this year, with our new packets product expected to gain increasing traction as the year progresses. Given the decline in the mail market overall, this may result in mail revenue growth being suppressed in the first half with growth being weighted towards the second half.

Parcels

Revenues in Parcels, which comprises the Group's business-to-business, business-to-consumer and international parcel delivery service, were down 4.9% for the year to £164.7m (2009: £173.4m). Encouragingly, whilst revenues were down 10.7% in the first half, they increased in the second half by 1.3%. Operating profit decreased by 10.8% to £14.8m (2009: £16.8m) with the operating margin decreasing by 0.6 percentage points to 9.1%.

The parcels market was particularly competitive during the year. This has been reflected in parcels pricing levels which are down some 5% for the year, although we have seen an improving trend in recent months. The revenue impact of the decline in price has been partly offset by volume growth. In the second half the strong volume growth more than offset the price decline.

The decline in price has placed pressure on parcels operating margins. This has been partly offset by our continued efforts towards improving the efficiency and effectiveness of our parcels operation, and our success in increasing market share.

A key element of this has been the implementation of partial automation, initially into our Birmingham hub. This project has progressed well, with the sorting machine in Birmingham going live in October 2009, on schedule and to budget. We are confident that this £2m investment will bring significant benefits, including greatly improved vehicle utilisation. We plan to extend automation to further hubs in the future.

We have actions planned to reduce our cost base still further. A key element of these plans is further investment in our I.T. infrastructure to drive increased efficiencies, which will be implemented over the current year. This will involve a completely new internet platform to support business growth and to drive down costs, and the launch of new technologies to provide industry-leading customer service.

The parcels market is continuing to consolidate and we see this as creating opportunities for our business.

We have recently launched a new range of parcels services tailored to the specific needs of retailers, and targeted at the extensive list of retail customers we have access to through our parcels, mail and courier businesses. We believe this new Retail Logistics area creates a significant growth opportunity for our Parcels business.

Courier

Revenues in our Courier business, which provides same-day delivery services, increased 5.1% to £17.9m (2009: £17.0m). Operating profits in this business increased significantly by 132.4% to £2.4m (2009: £1.0m), through the development of our customer base focusing on new longer term contracts and more profitable niche areas of business. Towards the end of the last financial year we also re-structured the operations which allowed us to achieve a further significant reduction in the cost base.

We see further opportunities to build on the advantages that our nationwide, efficient network gives us, and on our proven ability to support national contracts with high service levels. We believe that the IT and telecoms sectors in particular offer considerable potential.

Pallets

Revenues in our Pallets business, which provides a nationwide palletised goods delivery service were down 5.7% for the year to £29.1m (2009: £30.8m). We have however seen an improving trend of performance with the revenue decline in the second half of 2.7%, compared to a decline of 8.4% in the first half. We have improved the efficiency of our operations and reduced costs leading to an improvement in the operating margin to 5.9% (2009: 4.8%). This improved margin has more than offset the revenue decline enabling us to increase profit for the year by 15.5% to £1.7m (2009: £1.5m).

We see good growth opportunities for this business as the economy recovers, driven by further focus on sectors of the distribution market which can benefit from this highly efficient method of palletised goods distribution.

Finance costs

Net interest payable decreased to £0.1m (2009: £0.2m) reflecting the decrease in average net debt, offset by a reduction in interest income on surplus cash balances due to the reduced interest rates.

Cash Flow and Balance Sheet

The Group has a very strong balance sheet with a net cash inflow of £6.2m for the year, leading to net cash at the end of the year of £15.7m (2009: £9.5m).

Cash inflow from operations totalled £28.7m, including £2.7m of cash generated from improved working capital.

Capital expenditure for the period was £7.0m (2009: £8.3m). The capital expenditure for the period includes £2.4m on IT, as we continue to develop our systems infrastructure, and £3.3m on plant and equipment including £2.0m on the partial automation of our Birmingham hub.

Dividend

The dividend for the Group has remained unchanged since 2006. In that time Group profit before tax (before exceptional items) has increased by £6.4m (56.1%) and the net cash balance has increased by £25.3m (2006: net debt of £9.6m). The Board now considers it to be an appropriate time to increase the dividend to shareholders.

The Board has therefore proposed an increase of 1.0p (9.3%) in the Final Dividend to 11.8p (2009: 10.8p), resulting in an increase of 1.0p (5.8%) in the total dividend for the year to 18.2p (2009: 17.2p). The Final Dividend is payable on 23 July 2010 to shareholders registered on 25 June 2010.

The total dividend for the year is covered 1.3 times by earnings (2009: 1.3 times – adjusted for exceptional items). Taking into account the cash generative nature of the business and its current investment needs, the Board considers this level of cover to be appropriate.

Earnings per share

Adjusted basic earnings per share, excluding the impact of the exceptional items, in 2009, increased 5.9% to 23.4p (2009: 22.1p). Basic earnings per share increased 41.8% to 23.4p (2009: 16.5p).

Board

Michael Kane will retire as a Non-Executive Director of the Group with effect from the end of June 2010. He has advised the Board that he remains a committed, long term shareholder of the Group.

Michael has been involved in the Group since its very early days. The Board would like to place on record its sincere thanks to him for all he has done to help create such a strong and successful business, and wishes him well in his retirement.

CURRENT TRADING & OUTLOOK

Trading in the early weeks of the new financial year has been in line with management expectations. Our plans and management actions are based on the assumption that economic conditions will remain tough throughout the current financial year.

We expect our Mail business to benefit from the growth opportunities presented by the new product development, in particular packets. These will more than offset the impact of the underlying decline in transaction mail volumes that is expected for the full year, although mail revenue growth will be weighted towards the second half of the year.

Our Parcels business is in a strong position in a market which is starting to consolidate. We believe our focus on key customer segments, such as Retail Logistics, combined with our low cost network, will allow us to make good progress in the year.

Our strategy remains to continue to build competitive advantage and so drive profitable revenue growth. We are achieving this by developing and investing in our low-cost integrated network and bringing to market new products and services. By capitalising on our leadership and differentiated positioning, we aim to increase both the size of the market available to us and our share of that market.

Given all of the above, we remain confident in the Group's robust business model and long term growth prospects.

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2010

	Note	2010 £m	Restated* 2009 £m
Revenue	1	385.2	385.7
Cost of sales		(333.5)	(332.4)
Gross profit		51.7	53.3
Administrative expenses		(33.8)	(37.1)
Operating profit before exceptional items		17.9	17.3
Exceptional administrative items	2	-	(1.1)
Operating profit	1	17.9	16.2
Finance costs		(0.2)	(0.5)
Finance income		0.1	0.3
Profit before taxation		17.8	16.0
Taxation before exceptional items		(5.1)	(5.2)
Exceptional taxation items	2	-	(1.9)
Total taxation		(5.1)	(7.1)
Profit for the year		12.7	8.9
Total comprehensive income for the year		12.7	8.9
Total comprehensive income attributable to:			
Equity holders of the company		12.7	8.9
Basic earnings per share	3	23.4p	16.5p
Diluted earnings per share	3	23.0p	16.2p

* See note 4

The profit for the financial year arises from the Group's continuing activities.

Consolidated Balance Sheet

as at 31 March 2010

	2010 £m	2009 £m
ASSETS		
Non-current assets		
Goodwill	9.5	9.5
Intangible assets	2.0	2.0
Investment properties	1.0	1.0
Property, plant and equipment	38.1	38.2
Deferred tax assets	0.6	0.7
	<u>51.2</u>	<u>51.4</u>
Current assets		
Inventories	0.2	0.2
Trade and other receivables	51.8	53.6
Cash and cash equivalents	22.5	18.0
	<u>74.5</u>	<u>71.8</u>
LIABILITIES		
Current liabilities		
Borrowings	(1.8)	(1.7)
Trade and other payables	(54.3)	(52.8)
Current tax liabilities	(1.9)	(2.5)
Provisions	(0.1)	(0.6)
	<u>(58.1)</u>	<u>(57.6)</u>
Net current assets	<u>16.4</u>	<u>14.2</u>
Non-current liabilities		
Borrowings	(5.0)	(6.8)
Deferred tax liabilities	(3.6)	(3.4)
Provisions	(0.5)	(0.5)
	<u>(9.1)</u>	<u>(10.7)</u>
Net assets	<u>58.5</u>	<u>54.9</u>
Shareholders' equity		
Ordinary shares	5.5	5.5
Share premium	16.6	16.6
Retained earnings	36.4	32.8
Total shareholders' equity	<u>58.5</u>	<u>54.9</u>

Consolidated Cash Flow Statement

for the year ended 31 March 2010

	2010 £m	2009 £m
Operating activities		
Cash generated from operations	28.7	25.6
Finance income received	0.1	0.3
Finance costs paid	(0.2)	(0.5)
Taxation paid	(5.3)	(4.6)
Net cash inflow from operating activities	23.3	20.8
Investing activities		
Proceeds from disposal of property, plant and equipment	-	0.1
Purchase of property, plant and equipment	(6.0)	(6.8)
Purchase of intangible assets	(1.0)	(1.5)
Net cash outflow from investing activities	(7.0)	(8.2)
Financing activities		
Dividends paid to shareholders	(9.3)	(9.3)
Repayment of finance lease liabilities	(0.8)	(0.7)
Purchase of UK Mail shares by the ESOT	(0.7)	-
Repayment of borrowings	(1.0)	(1.0)
Net cash outflow from financing activities	(11.8)	(11.0)
Net increase in cash and cash equivalents	4.5	1.6
Cash and cash equivalents at the beginning of the year	18.0	16.4
Cash and cash equivalents at the end of the year	22.5	18.0

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 March 2010

	2010	Restated *
	£m	2009 £m
Shareholders' equity as at the beginning of the year	54.9	54.0
Dividends paid to shareholders	(9.3)	(9.3)
Purchase of UK Mail shares by the ESOT	(0.7)	-
Employees' share option scheme:		
- value of employee services	0.9	1.3
Profit for the year	12.7	8.9
Shareholders' equity as at the end of the year	58.5	54.9

* See note 4

Notes to the Consolidated Financial Information

1 Segmental information

Year ended 31 March 2010

	Parcels £m	Mail £m	Pallets £m	Courier £m	Total £m
Revenue	164.7	173.5	29.1	17.9	385.2
Operating profit before exceptional items	14.8	12.2	1.7	2.4	31.1
Exceptional items - administrative expenses	-	-	-	-	-
Operating profit after exceptional items	14.8	12.2	1.7	2.4	31.1
Central costs					(13.2)
Operating profit					17.9

Year ended 31 March 2009 (restated)

	Parcels £m	Mail £m	Pallets £m	Courier £m	Total * £m
Revenue	173.4	164.5	30.8	17.0	385.7
Operating profit before exceptional items	16.8	11.6	1.5	1.0	30.9
Exceptional items - administrative expenses	(0.8)	-	-	(0.3)	(1.1)
Operating profit after exceptional items	16.0	11.6	1.5	0.7	29.8
Central costs					(13.6)
Operating profit					16.2

* See note 4

2 Exceptional items

	2010 £m	2009 £m
Operations restructure	-	1.1
Exceptional taxation charge	-	1.9
	<u>-</u>	<u>3.0</u>

Operations restructure

During the year ended 31 March 2008, the board approved a 3 year change programme, designed to both integrate the different parts of the Group more, and to improve the network infrastructure. This resulted in a number of structural changes in operational and sales management, and the regionalisation of customer care centres, the costs of which were £0.7m.

Further structural changes were made during the year ended 31 March 2009, including the closure of a number of owned and franchised operational sites (with relevant operations transferred to nearby locations), and the restructuring of some central functions. This resulted in one-off redundancy costs of £0.8m and property related costs of £0.3m.

Exceptional taxation charge

The exceptional taxation charge for 2009 comprised of a £2.2m write-off of a deferred taxation balance resulting from the phased abolition of UK Industrial Building Allowances ('IBAs') following enactment of the Finance Act 2008, offset by £0.3m taxation relief in respect of the exceptional operations restructuring costs included above.

3 Earnings per share

Basic earnings per share have been calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue for the year ended 31 March 2010 of 54,245,126 (2009: 54,049,420). Diluted earnings per share have been calculated by adjusting the weighted average number of ordinary shares for the effect of the exercise of share options, increasing the number of shares to 55,213,086 (2009: 55,107,864).

4 Accounting restatements

The results of previous years have been restated to reflect the requirements of the amendment to IFRS 2, effective for annual periods beginning on or after 1 January 2009.

This has resulted in an increase in administration costs in respect of the year ended 31 March 2009 of £0.4m, there being no amendment required to the tax charge. Whilst the adjustment affects the previously reported profit for the year and earnings per share figures, there have been no adjustments to the reported cash generated from operations or the Consolidated Balance Sheet.

Following the adoption of IFRS 8, 'Operating segments', the Group has reclassified £0.4m of customer consignor revenues from Central Costs to Parcel Services.

5 Analysis of net cash/(debt)

Group

	At 1 April 2008 £m	Cash Flow £m	Other £m	At 1 April 2009 £m	Cash Flow £m	Other £m	At 31 March 2010 £m
Cash at bank and in hand	16.4	1.6	-	18.0	4.5	-	22.5
	<u>16.4</u>	<u>1.6</u>	<u>-</u>	<u>18.0</u>	<u>4.5</u>	<u>-</u>	<u>22.5</u>
Debt due within one year	(1.0)	1.0	(1.0)	(1.0)	1.0	(1.0)	(1.0)
Debt due after one year	(5.0)	-	1.0	(4.0)	-	1.0	(3.0)
Finance leases	(4.2)	0.7	-	(3.5)	0.7	-	(2.8)
	<u>(10.2)</u>	<u>1.7</u>	<u>-</u>	<u>(8.5)</u>	<u>1.7</u>	<u>-</u>	<u>(6.8)</u>
Net cash/(debt)	6.2	3.3	-	9.5	6.2	-	15.7

6 General information

The above figures have been extracted from the Group's full financial statements for the year ended 31 March 2010, which will be delivered to the Registrar of Companies. Those financial statements carry an unqualified audit opinion. They have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union. The accounting policies, which have been applied consistently to all the years presented, are set out in those financial statements. These extracts do not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006.