

Royal Mail Group Results Presentation April 2005 – September 2005 Performance

17 November 2005



Introduction

Allan Leighton
Chairman



Building on our achievements

- **When we finished our Renewal Plan we had**
 - **Delivered the best Royal Mail quality of service in a decade**
 - **Reduced the amount of mail lost by almost half - 99.92% arrived safely**
 - **Returned £218m to our people - £1,074 each**
 - **Increased pay for Postmen and women by almost 25% since March 2002**
 - **Introduced a five day week for everyone**
 - **Started to make Royal Mail a better place to work**
 - **Re-engineered our delivery structure, transport network and processing operation**
 - **Restructured the urban Post Office network**
 - **Launched new financial services**
 - **Moved Parcelforce Worldwide to near breakeven position**
 - **Created in GLS, Royal Mail Group's star performer with an impressive record of revenue and profit growth**
 - **Transformed a loss of more than £1 million a day to an annual profit of £537m from operations**

Strong performance – now at risk

- Revenues up by 1.2%, but Letters volumes declining
- Group operating profit pre exceptionals up £27m or 20.5% to £159m
 - Improvements in unregulated Parcels businesses, particularly in Europe
 - Post Office Limited losses marginally lower
 - Royal Mail down £5m or 2.9%
- Operating margin improvement of 0.5% from 3.1% to 3.6%, but still not enough
- Quality of Service – best ever – 1st Class nearly 94%

- But – 1 January 2006 everything changes
- But – £4bn pension accounting deficit
- But – Price Control
- But – £2bn funding needed for investment

Royal Mail Group – Interim 2005 Summary Financials

	2005	2004		Variance	
£m	£m	£m		£m	%
External revenue	4,378	4,327	↑	51	1.2%
Group operating profit before exceptionals	159	132	↑	27	20.5%
Profit before tax and SiS	174	148	↑	26	17.6%
In year cash flow	227	(71)	↑	298	>100%
Under old UK GAAP					
Profit from operations	261	217	↑	44	20.3%

General Logistics Systems – key performer in Group

- **Operating profit increased by £20m to £43m – up 87%
– driven by strong growth in parcel volumes**
- **Revenue increased by £72 million to £490m – up 17.2%**
- **138 million parcels delivered over past six months**
- **Has 220,000 customers in 34 states across Europe and
14,500 employees**
- **Unregulated**

Trading conditions and performance

Adam Crozier
Chief Executive
Royal Mail Group



Royal Mail Group – Interim 2005

Operating profit before exceptional items by business unit

	2005	2004	Variance	
	£m	£m	£m	%
Royal Mail Letters	168	173	(5)	(2.9)
General Logistics Systems	43	23	20	87.0
Parcelforce Worldwide	(1)	(13)	12	92.3
Post Office Ltd	(57)	(58)	1	1.7
Other businesses	6	7	(1)	(14.3)
Group	159	132	27	20.5

Royal Mail Letters – Interim 2005

Trading conditions – regulated mails business

- Revenue growth of £38m (1.2%) driven by below inflation price increase of £59m
- Overall inland, addressed mail volumes down 1.2% to 10,326 million
 - 1st Class mail (social and business) down 4.2%
 - 2nd Class mail (social and business) down 3.8%
 - Mailsort down 7.1%
- Huge growth in Access volumes to 382 million items; 1 billion by year end, ahead of Regulator's forecast
- Other growth only seen in low value, highly competitive unaddressed mail services
- Addressed Letters market is shrinking as key sectors reduce their overall posting volumes
- Royal Mail faces increased pressure on margins as customers trade down. Downward trends have accelerated during period

Royal Mail Letters – Interim 2005

Performance – regulated mails business

- Operating profit pre exceptionals down 3% to £168m
- Quality of Service at record levels
- Well ahead of majority of new, higher, targets set by Postcomm
 - 94.2% of 1st Class letters delivered the working day after posting between July and September
 - 98.8% of 2nd Class letters delivered within three days between July and September
 - 1st and 2nd Class mail has now been ahead of target for more than a year
- Business services – Mailsort (bulk mail), Presstream (magazines and catalogues) and PPI (pre paid) all above target
- Special Delivery hits 99% target

Royal Mail Letters – Interim 2005

Quality of Service Standards

✓ 93% of total volumes
 ✗ 2% of total volumes
 5% volumes not subject to targetry regime

	Full year target	Interim Result	Full Year Target Achievable?
1 st Class Stamped and Meter	93.0%	93.9%	✓
2 nd Class Stamped and Meter	98.5%	98.7%	✓
Mailsort 1	91.5%	94.1%	✓
Mailsort 2	97.5%	98.6%	✓
Mailsort 3	97.5%	99.5%	✓
Presstream 1	91.0%	94.0%	✓
Presstream 2	97.5%	98.2%	✓
1 st Class PPI	91.1%	92.1%	✓
2 nd Class PPI	97.4%	97.3%	✓
Special Delivery	99.0%	98.9%	✓
Standard Parcel	90.0%	92.0%	✓
1 st Class Response	90.8%	89.3%	✗
2 nd Class Response	97.5%	94.6%	✗
PCAs @ 91% 1 st Class Stamped and Meter	118	115	✗
PCAs @ 92.5% 1 st Class Stamped and Meter Intra	121	120	✗

Parcels trading conditions & performance

General Logistics Systems (GLS)

- Exceptionally strong growth in profitability – up 87% to £43m
- Strong growth in core parcel volumes – 15% ahead of last year
- Quality of Service ahead of target

Parcelforce Worldwide

- Year on year reduction in losses of £12m or 92.3%
- Now near break even operating profit
- Income up 7.2% or £10m and margins improved through further cost control
- Growing market share in a difficult market
- Continuing to improve the quality of service provided to customers, particularly for time-critical products
 - Current PFW24 performance 96% (target 95%)

Benefits to stakeholders

Customers

- Record quality of service levels
- Increased choice for business customers
- Stable Universal Service provision for consumers
- Reduction in complaints
- One of the best value for money services in Europe
- Strikes at all time low

People

- Now fewer than 1,000 casual people
- Pay increase of nearly 25% since 2002
- Bullying/Harassment down
- Accidents down
- Sick absence down

Shareholder

- Increased value from unregulated parcels businesses
- Continuing efficiency gains combined with industrial relations stability
- Improving profitability
- Changed focus for Post Office Limited

But we need the support of all our stakeholders to help us become
“the best and most trusted mail company in the world”

Royal Mail Letters – Interim 2005

Outlook and challenges

- Market opening creates unprecedented risk
 - Risks exacerbated by market shrinkage
 - Pension accounting deficit under new accounting standards mean Royal Mail's liabilities exceed assets
 - Price control outcome puts our achievements at risk
 - Undervalues the need for £2bn of real investments in our services
 - Does not deal with pension accounting deficit on terms acceptable to the Pensions Regulator
 - Contradicts principles of cost reflective pricing, effectively licensing “cherry picking”
 - Sets unrealistic efficiency target of 3%
 - Excessive compensation regime – more than 100% of Postcomm allowed profits
 - If unchanged, financial and Quality of Service performance will face spiral of decline
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Post Office Ltd

David Mills
Chief Executive

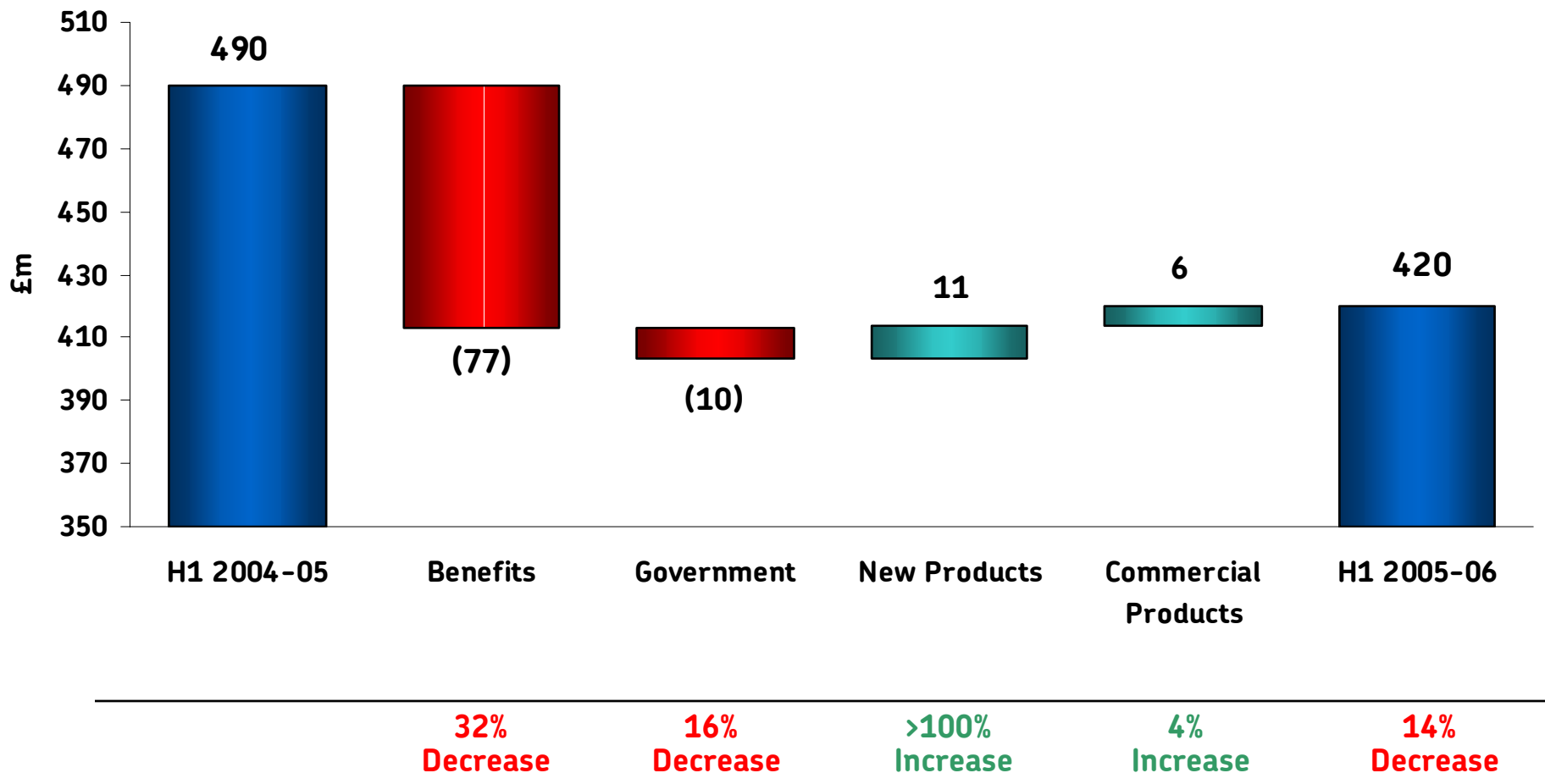


Post Office Limited - Interim 2005

Trading conditions & performance

- Now operating without traditional revenues from Government benefits business - Government income down £87m year on year
 - Flat profit performance driven by combination of traditional strengths in mails and parcels sales, new products and cost efficiency programmes
 - Post Office credit card launched September
 - **Unique two-in-one borrowing facility**
 - Network transformation remains management priority
 - **Sales training**
 - **Partnership with ISA bringing retail goods into high street Branches**
 - Number of branches reduced by 67 to 14,542 between April and September
 - Rural and Directly Managed branches continue to lose money
 - Customer satisfaction level - 94%
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Post Office Limited – Interim 2005 Revenue Analysis



Post Office Limited – Interim 2005

Benefits to stakeholders

Customers

- Moving towards a Sales and Service culture
- Increasing product range
- Direct Channels development
- DDA driven access and services improvements

People

- Accidents down by 17% year-on-year to 44
- Sick absence 3.8%
- Investment in Sales training and leadership

Shareholder

- Cashflow ahead of target
- Headcount down year-on-year by 690 to 11,850
- Working with Shareholder to ensure the future of the Rural Network

Post Office Limited – Interim 2005

What do we need?

- Long term funding resolution
- Appropriate capital structure
- Funding for social network post 2008
- To move Directly Managed offices towards profitability
- Branch, Direct Channels and Product investment

Financial Performance

Marisa Cassoni
Chief Financial Officer



Royal Mail Group – Interim 2005

Unaudited Interim Results

	2005	2004		Variance	
	£m	£m		£m	%
External revenue	4,378	4,327	↑	51	1.2%
Expenditure	(4,238)	(4,208)	↓	(30)	(0.7%)
Profit on JVs and Associates	19	13	↑	6	46.2%
Group operating profit before exceptionals	159	132	↑	27	20.5%
Exceptional items	(34)	(19)	↓	(15)	(78.9%)
Profit before interest, tax and SiS	125	113	↑	12	10.6%
Net interest receivable	-	6	↓	(6)	(>100%)
Notional pensions interest	49	29	↑	20	69.0%
Profit before tax and SiS	174	148	↑	26	17.6%
Share in Success	(38)	(80)	↑	42	52.5%
Profit on ordinary activities before tax	136	68	↑	68	100%

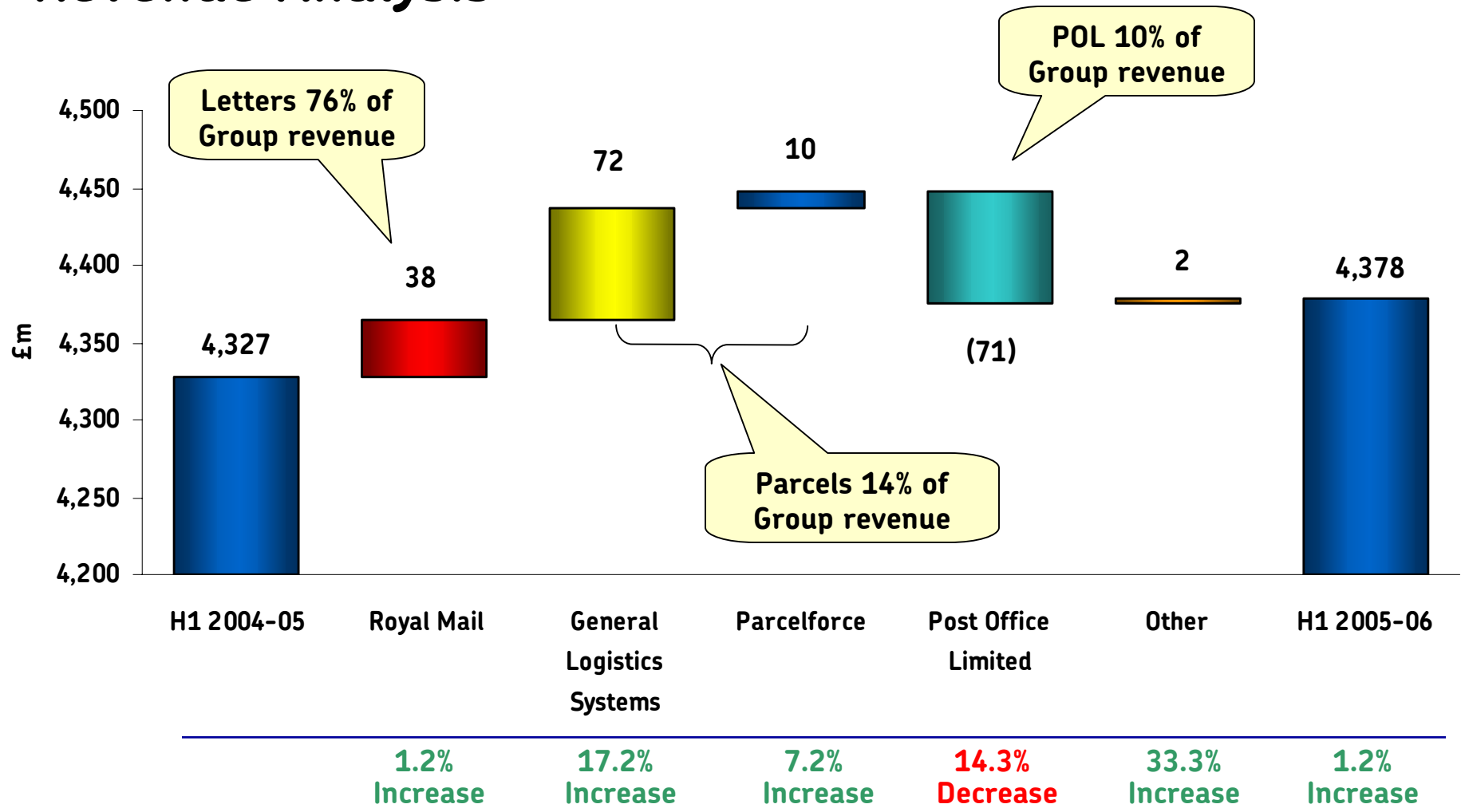
Royal Mail Group - Interim 2005

Restatement of 27 March 2005 Results

Almost entirely
pensions

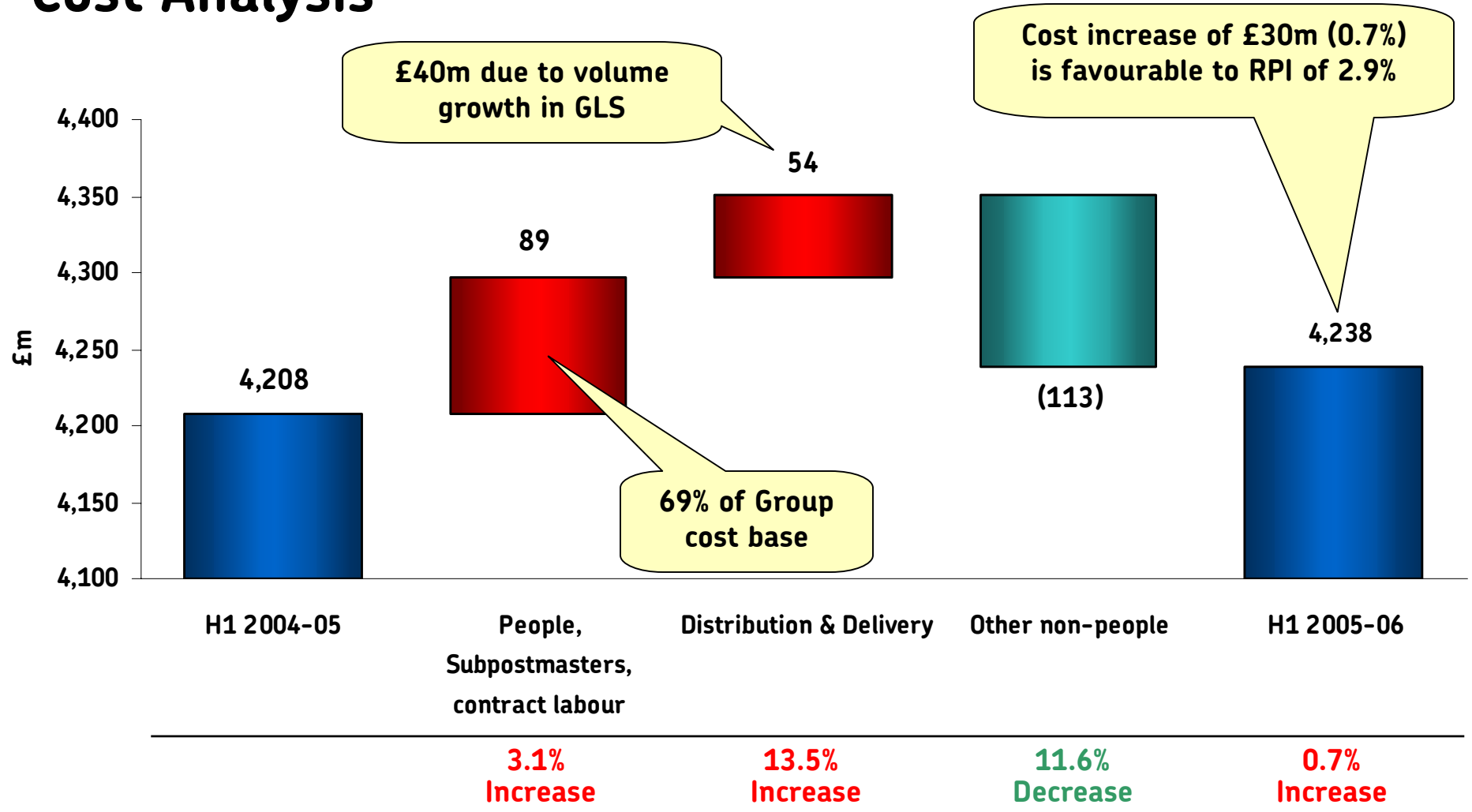
£m	Reported	IFRS Change	Restated
Revenue	8,956	nil	8,956
Operating profit before exceptionals	399	(97)	302
Profit before tax	207	(40)	167
Group net assets/(liabilities)	2,385	(4,423)	(2,038)
Profit from operations under old UK GAAP	537	(235)	302

Royal Mail Group - Interim 2005 Revenue Analysis

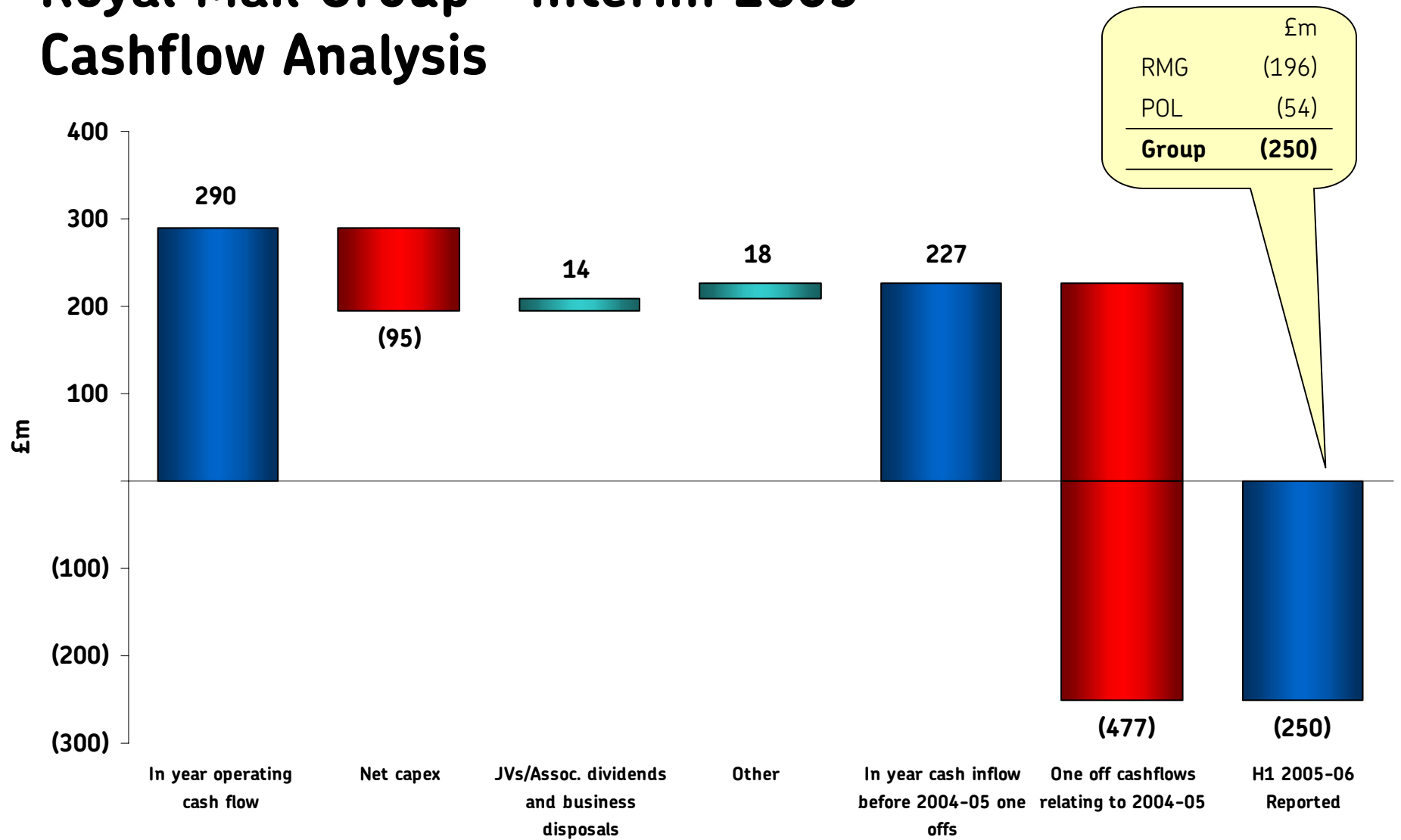


Royal Mail Group - Interim 2005

Cost Analysis



Royal Mail Group - Interim 2005 Cashflow Analysis



Royal Mail Group - Interim 2005

Balance Sheet Summary

£m	September 2005	Restated March 2005
Non current assets	2,248	2,229
Current assets	2,727	3,149
Current liabilities	(1,892)	(2,491)
Non current liabilities	(5,249)	(4,925)
- Loans	(889)	(866)
- Pension accounting deficit	(4,250)	(3,958)
- Other	(110)	(101)
Net liabilities	(2,166)	(2,038)

Royal Mail Group - Interim 2005

Risks to Group

Pension Risk

- Accounting deficit £4.25bn
- Cash deficit of £2.5bn
- New mortality assumptions could increase risk by up to £2bn
- Volatility on pension accounting deficit

Volume Risk

- 1st Class, 2nd Class and Mailsort volumes declining
- Addressed volumes declining for the first time in 25 years and trend accelerating
- Forecast to lose 1bn to Access by the year end and pressure on profit margins through customer downtrading
- Difficult to reduce costs given fixed USO obligations

Pricing Risk

- Still losing 5p on 1st Class and 8p on 2nd Class stamp products
- Other prices out of line with costs
- No flexibility to deal with changes in pensions and volumes

Financial Viability

- Liabilities of £7,141m exceed our assets of £4,975m
- Ability to borrow on commercial terms
- Post Office Limited long term funding
- Royal Mail pension fund long term funding

Allan Leighton Chairman



Royal Mail Group - Interim 2005

What next?

We will....

- Keep improving quality of service
- Continue to improve efficiency
- Become easier to do business with
- Introduce new products based on what customers want

We still need....

- £2bn to invest in our letters business
- Appropriate funding of our pension accounting deficit
- Long term funding resolution for Post Office Ltd
- A fair return on our assets and capital
- A real stake in our business for our people

Postcomm must....

- Deliver a fair Price Control which addresses key risks
- Allow prices above costs for all products - 39p for a 1st Class stamp by 2009-10
- Redefine USO which includes only those services available to everyone - not business mail
- Introduce competition only if it's efficient
- Remove regulatory shackles