

Royal Mail Group Results Presentation Year End 2006

18 May 2006



Introduction

Allan Leighton
Chairman



Royal Mail Group 2006 Achievements

- Sustained growth – across Group – in the first year after our turnaround
- Delivering record Quality of Service to our customers
- Secured a tough but fair price control from our Regulator
- Built a solid base within the company to launch future transformation
- Agreement in principle on our overall investment case, with the shareholder:
 - Details to be finalised in the near future
 - Employee incentive scheme is an integral part of the plan going forward
 - Our people want this!

Royal Mail Group 2006 Achievements continued

- **Improved performance in every unit**
 - **Marginal growth in letters in tough and intensely competitive market**
 - **Improved Post Office Ltd position**
 - **First full year operating profit for Parcelforce Worldwide**
 - **General Logistics Systems (GLS) profits reach £100m**
- **Our people again share in that success**
- **£418 Share in Success payout to all eligible colleagues**
- **64% of our people enjoy working here**

Royal Mail Group 2006 Summary Financials

	2006	2005		Variance	
£m	£m	£m		£m	%
External revenue	9,056	8,956	↑	100	1.1%
Group operating profit before exceptionals	355	302	↑	53	17.5%
Profit before tax	312	167	↑	145	86.8%
In year cash flow	307	218	↑	89	40.8%
Profit from operations (before IFRS)	609	537	↑	72	13.4%

Group performance summary

Adam Crozier
Chief Executive



Royal Mail Group 2006 Overview

- **Our people have been responsible for another terrific year**
- **Maintained and increased mails Quality of Service gains achieved during turnaround**
- **Launched and sold new services through the Post Office to begin to counteract reduced Government business**
- **Continued to improve efficiency and financial performance**
- **Increased impact of competition**
- **Now facing the challenge of further transformational change in all our businesses**

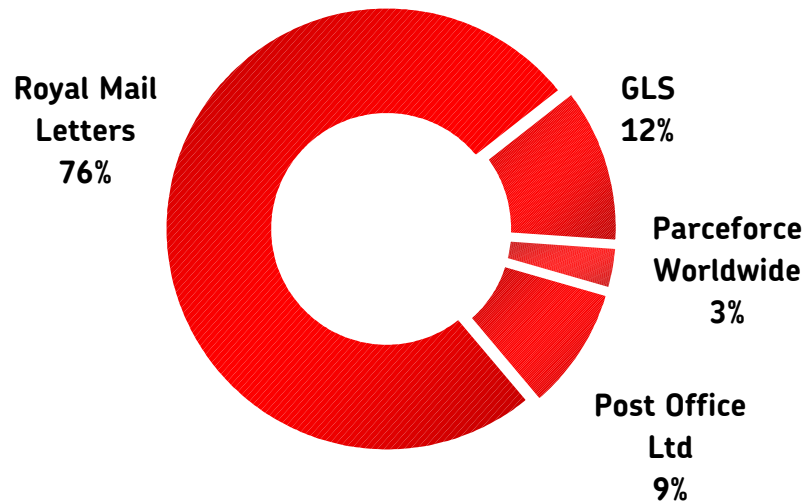
Royal Mail Group 2006

Operating profit before exceptional items by business unit

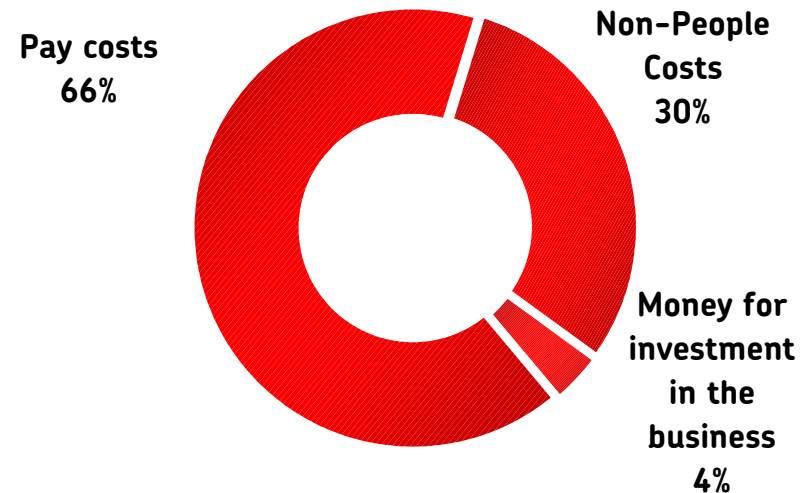
	2006	2005	Variance	
	£m	£m	£m	%
Royal Mail Letters	344	343	1	0.3
General Logistics Systems	100	73	27	37.0
Parcelforce Worldwide	5	(6)	11	>100
Post Office Ltd	(111)	(123)	12	9.8
Other businesses	17	15	2	13.3
Group	355	302	53	17.5

Royal Mail Group 2006

where our income came from
£9,056m



where our income went
£8,701m



- GLS now second largest unit in Group revenue
- Revenue growth of £100m (1.1%)
- Costs increasing by 0.5%, less than inflation of 2.4%

Royal Mail Letters 2006

Volumes

	Growth	Volume
	%	2006
		'000
First Class *	↓ (5.3%)	4,827
Second Class *	↓ (3.6%)	5,187
Mailsort	↓ (8.9%)	8,155
Access	↑ > 100%	1,157
Presstream	↑ 5.1%	731
Special Delivery, Std Parcels	↑ 4.9%	99
Addressed inland products	↓ (0.7%)	20,156
Door to Door	↑ 12.1%	3,354
International	↑ 5.0%	1,229
Total	↑ 1.1%	24,739

* First & Second Class includes Stamped, Metered, STL, Cleanmail, Packetpost and Response Services products

Royal Mail Letters 2006

Quality of Service Standards

✓ 92% of total volumes
 ✗ 2% of total volumes
 6% volumes not subject to targetry regime

	Full year target	Full year Result	Full Year Target Achieved	Best Ever Performance?
1 st Class Stamped and Meter	93.0%	94.1%	✓	✓
2 nd Class Stamped and Meter	98.5%	98.8%	✓	✓
Mailsort 1	91.5%	94.1%	✓	✓
Mailsort 2	97.5%	98.7%	✓	✓
Mailsort 3	97.5%	99.5%	✓	✓
Presstream 1	91.0%	94.3%	✓	✓
Presstream 2	97.5%	98.5%	✓	✓
1 st Class PPI	91.1%	92.2%	✓	✓
2 nd Class PPI	97.4%	97.4%	✓	✓
Standard Parcel	90.0%	92.0%	✓	✓
Special Delivery	99.0%	98.8%	✗	
1 st Class Response	90.8%	90.1%	✗	✓
2 nd Class Response	97.5%	95.3%	✗	✓
PCAs @ 91.5% 1 st Class Stamped and Meter	118	116	✗	✓
PCAs @ 92.5% 1 st Class Stamped and Meter Intra	121	119	✗	✓

Royal Mail Letters 2006

Outlook and future challenges

- Declining volumes in addressed mail
- Competition accelerating
- Critical to modernise our operations
- Drive improvements in efficiency (lowest cost through scale)
- Maintain/improve Quality of Service
- Become more customer focused:
 - New products and services
 - Easier to do business with
 - Pricing re-alignment
- Take our people with us and ensure they are fairly rewarded

General Logistics Systems 2006

Performance

- Operating profit increased by £27m to £100m - up 37.0% - driven by strong growth in parcel volumes and bolt on acquisitions
- Revenue increased by £124m to £1,037m - up 13.6%
- 293m parcels delivered over the last year - 14% ahead of last year
- 220,000 customers in 34 states across Europe and 11,000 employees
- Unregulated

Challenges

- Continue with current strategy
- Further investment in Network
- Continue to play part in market consolidation

Parcelforce Worldwide 2006

Performance

- First time achievement of full year profitability of £5m up £11m (>100%)
- Revenue up £16m (5.4%) 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
 - PF24 performance 96% (target 95%)

Challenges

- Continue to improve profits
- Continue to increase market share
- Improve margins from 1.6%

Post Office Limited 2006

Trading conditions

- **Radical transformation now imperative as Government business falls away – down £168m year on year**
- **Trend expected to accelerate – Post Office Card Account withdrawn from 2010, business falling away already**
- **Funding for loss making rural branches unclear when current arrangement ceases in April 2008**
- **Directly Managed branches continue to lose money – £50m**
- **Expansion of product range into telephony and financial services key to future income**

Post Office Limited 2006 Performance

- Revenues down by 14.1% (£138m), as a result of migration of Government revenue offset by new product growth
- Losses reduced by £12m (9.8%), as better cost control and profitable new services offset some loss of Government business
- New Instant Saver and Credit Card products further extend portfolio
 - Unique two-in-one borrowing facility on Credit Card
 - Market leading 4.75% rate on Instant Saver
- HomePhone, Bureau and Travel achievements
 - HomePhone growing customer base
 - Bureau grew 11%
 - Travel grew 35%
- Number of branches reduced by 67 to 14,542
- Customer satisfaction level at 94%

Post Office Limited 2006

Future challenges

- To be the very best shop window for Royal Mail Group and grow the mails business
- To identify the business model to return the Post Office to profitability
- Secure DWP agreement to develop a Post Office based successor to Card Account
- To move Directly Managed branches towards profitability
 - Improved sales performance and aggressive cost reduction
 - Through partnership with trusted retailers
- Investment in branches, direct channels and product portfolio
- To change our culture - from transactional to selling

Royal Mail Group 2006 Full Year Results

	2006	2005		Variance	
	£m	£m		£m	%
External revenue	9,056	8,956	↑	100	1.1%
Expenditure	(8,733)	(8,682)	↓	(51)	(0.6%)
Profit on JVs and Associates	32	28	↑	4	14.3%
Operating profit before exceptionals	355	302	↑	53	17.5%
Exceptional items (excluding SiS)	(52)	8	↓	(60)	(>100%)
Profit before interest, tax and SiS	303	310	↓	(7)	(2.3%)
Net interest (payable)/receivable	(1)	16	↓	(17)	(>100%)
Notional pensions interest	101	59	↑	42	71.2%
Profit before tax and SiS	403	385	↑	18	4.7%
Share in Success	(91)	(218)	↑	127	58.3%
Profit on ordinary activities before tax	312	167	↑	145	86.8%

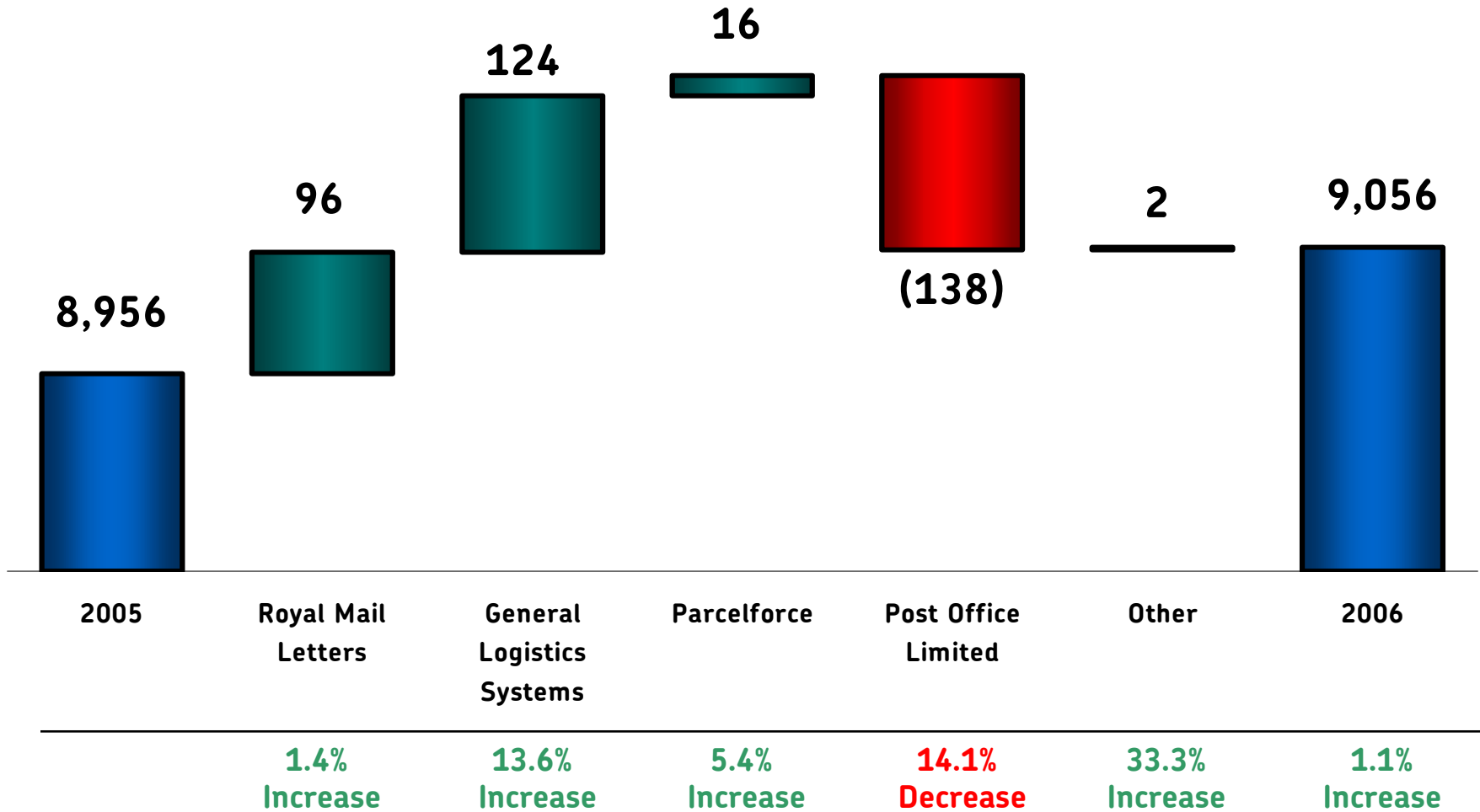
Royal Mail Group 2006

Reconciliation to profit from operations

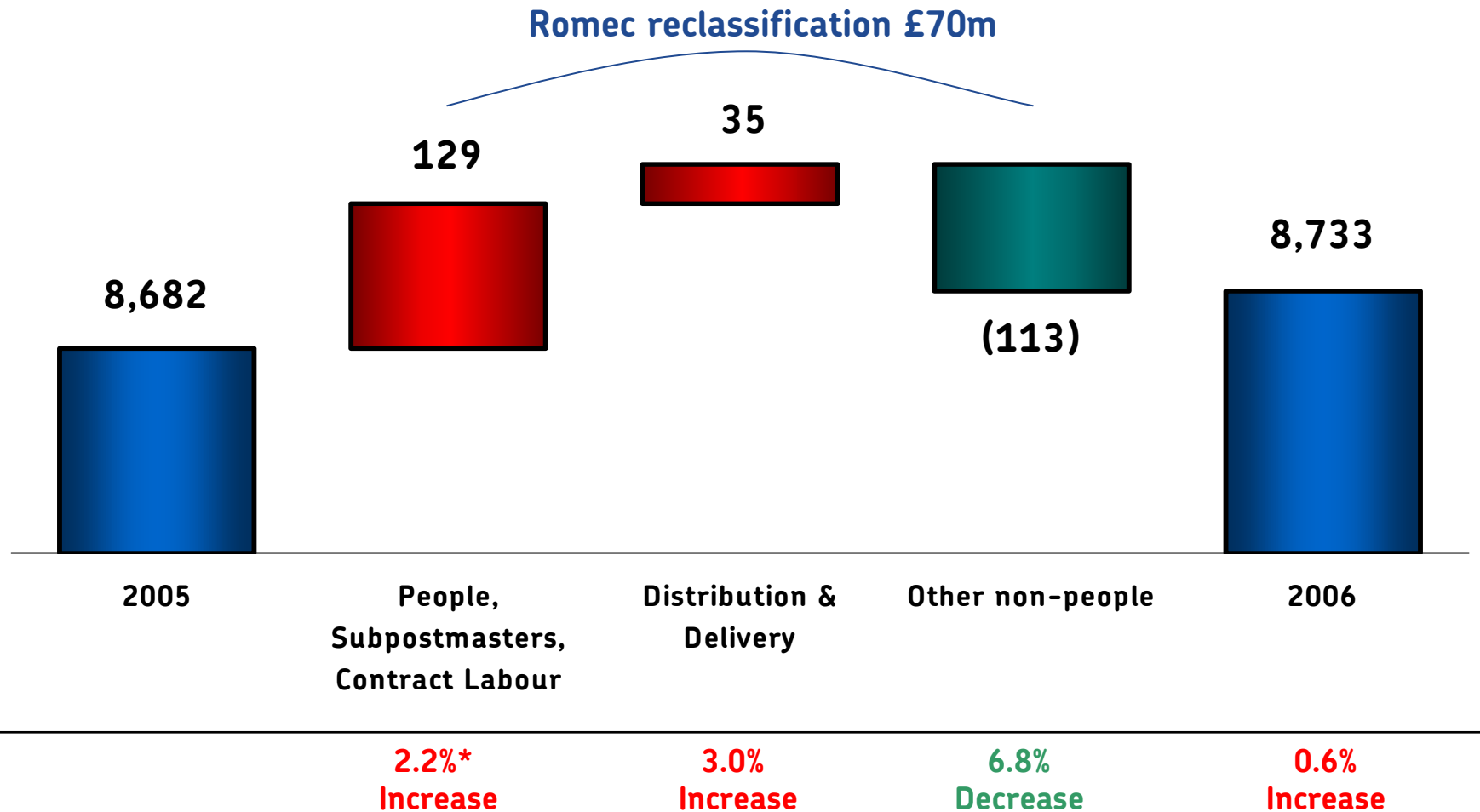
£m	2006	2005
Reported operating profit (IFRS)	355	302
IFRS changes		
- Pension accounting	255	236
- Other net changes	(1)	(1)
Profit from operations	609	537

Royal Mail Group 2006

Revenue Growth Analysis - £m



Royal Mail Group 2006 Cost Analysis - £m



* Excluding Romec = 1.0% increase

Royal Mail Group 2006

Pensions

We have the 6th largest pension scheme in the UK:

- The plan contains 170,000 active members and 279,000 retired and deferred members
- The scheme assets have grown by £4.5bn to £21.8bn
- Scheme liabilities have also grown to £27.4bn generating our deficit of £5.6bn
- Pension deficit up £1.6bn in 2006 to £5.6bn
 - £2.2bn due to mortality
- Cash payments
 - Regular employer contribution rate
 - In 2006 paid some £340m
 - In 2007 expect to increase to some £500m
 - Payments to clear pension deficit
 - Previously we've paid £140m, in 2007 expect to pay some £250m

Allan Leighton
Chairman



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