

Royal Mail Group Results Presentation, Renewal Plan Review and April 2004 - March 2005 Performance

17 May 2005



Introduction

Allan Leighton
Chairman



Why we needed renewal

- In 2001-02, Consignia...
 - Had missed First Class service targets every year for ten years
 - Lost nearly 30 million letters a year
 - Paid low wages for a six day week with poor morale
 - Had the worst strike record in the UK
 - Faced investigation by the Equal Opportunities Commission because of unacceptable levels of bullying and harassment
 - Lost more than £1m from operations every working day - £318m in total
 - Post Office Ltd losing over £200m p.a.
 - Showed increasing losses in Parcelforce Worldwide
 - Ability to trade as a going concern in doubt

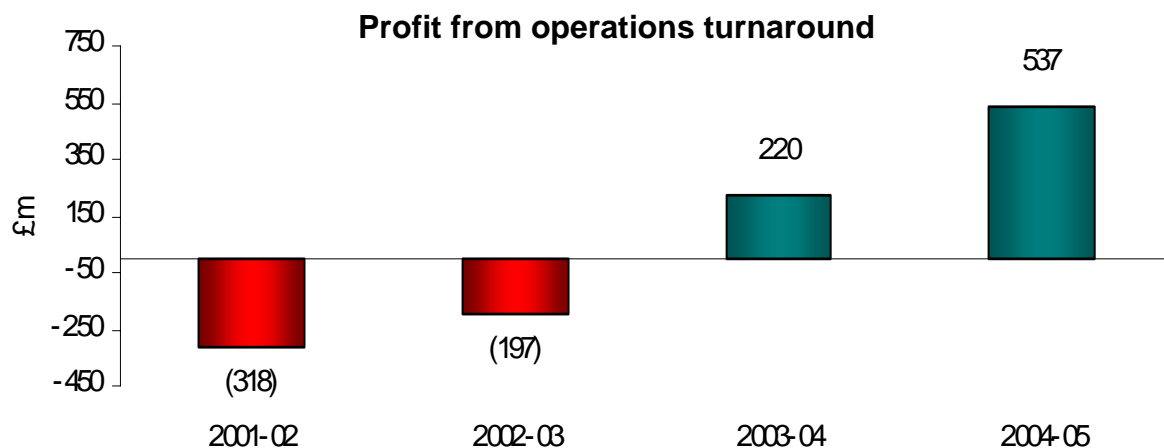
Three year Renewal Plan to restore quality of services and finances

What we've achieved

- Royal Mail currently delivering the best quality of service in a decade
- Lost mail almost halved.....99.92% arrives safely
- £218m given back to our people - £1,074 each
- Pay for Postmen and women up almost 25% since March 2002
- Five day week introduced for everyone
- More of our people enjoy working here and bullying and harassment issues being tackled robustly
- Delivery structure, transport network and processing all re-engineered
- Urban Post Office network restructured
- Rural network supported through our reserves until March 2008
- New financial services launched
- Parcelforce Worldwide trading profitably from operations since October 2004
- Profit of £537m from operations over £2m a day - margins up but lower than competition

Royal Mail Group – the Renewal Plan results

Year ended March	Renewal Plan			Pre- Renewal Plan	Improvement 2002 - 2005
	2005	2004	2003	2002	
External income (£m)	8,956	8,633	8,299	8,408	↑ 548
Profit/(loss) from operations (£m)	537	220	(197)	(318)	↑ 855
Profit/(loss) before tax (£m)	207	105	(611)	(1,124)	↑ 1,331
Underlying cash flow (£m)	140	65	(553)	(96)	↑ 236
People (UK wholly owned subsidiaries) (000's)	196	202	213	229	↓ 33



Renewal Plan Achievements And Beyond

Adam Crozier
Chief Executive
Royal Mail Group



Royal Mail Group

Profit from operations by business unit

	2004-05	2003-04	Improvement
	£m	£m	%
Royal Mail	591	346	70.8%
Post Office Ltd	(110)	(103)	(6.8%)
General Logistics Systems	61	25	144.0%
Parcelforce Worldwide	(13)	(54)	75.9%
Other businesses	8	6	33.3%
Group	537	220	144.1%

Improving our financial performance

- Letters
 - Strong growth in profit from operations – up 70.8% to £591m
 - External income growth of 3.2%, up £211m to £6,763m
 - Mainly driven by growth in volumes, price increases and favourable mix impacts
 - Improved quality of service
- General Logistics Systems
 - Strong growth in profitability – up 144.0% to £61m
 - Driven by growth in Germany, France and Italy, modest further acquisitions/consolidation in Italy and Poland
 - Collecting and delivering 1 million parcels every day across 34 countries
 - Income up 11.6% or £95m
- Parcelforce Worldwide now making a profit from operations
 - Around £170m loss from operations before Renewal Plan reduced to £13m
 - Year on year reduction in losses of £41m or 75.9%
 - Generating profit from operations in second half of 2004-05
 - Income up 5.7% and margins improved through further cost control
 - Continuing to improve the quality of service provided to customers, particularly in terms of its time-critical products

Renewal – Our Customers - Quality of Service

Mail

- Current performance is best on record
 - Q4 First Class performance 92.8% - beating target level and 1% better than best previous performance on record
 - Q4 Second Class performance 98.7% - beating target level
- Seven key services account for 80% of UK's mailbag and are now above target
 - All cumulatively at or ahead of target level since major changes completed in July
- Full year cumulative performance, taking account of disruption during March to July
 - Four targets achieved (Second Class Stamped and Meter, Mailsort 1 & 3, Presstream 2)
- Cumulative performance is better than before Renewal Plan for every service

Parcelforce

- Continuing to improve the quality of service provided to customers, particularly in terms of its time-critical products
- Parcelforce 24 quality of service 95.6%

GLS

- Cross border quality of service 92.0%

Post Office Ltd

- Customer satisfaction at 94.0%

Quality of Service – Quarter 4 results

	Full year target	Quarter 4 2004-05
1 st Class Stamped and Meter	92.5%	92.8%
2 nd Class Stamped and Meter	98.5%	98.7%
Mailsort 1	91.0%	91.8%
Mailsort 2	97.5%	98.5%
Mailsort 3	97.5%	99.6%
Presstream 1	90.5%	92.3%
Presstream 2	97.5%	98.3%
1 st Class PPI	90.6%	90.0%
2 nd Class PPI	97.4%	96.6%
1 st Class Response	90.3%	83.7%
2 nd Class Response	97.5%	94.5%
Standard Parcel	90.0%	92.3%
Special Delivery	99.0%	98.1%
PCAs @ 91% 1 st Class Stamped and Meter	118	80
PCAs @ 92.5% 1 st Class Stamped and Meter Intra	121	107

Quality of Service improvement

	Full year target	Full year cumulative 2004-05	Period 1-4 2004-05	Period 5-12 2004-05
1 st Class Stamped and Meter	92.5%	91.4%	89.2%	92.5%
2 nd Class Stamped and Meter	98.5%	98.5%	98.1%	98.7%
Mailsort 1	91.0%	91.1%	87.7%	93.0%
Mailsort 2	97.5%	97.3%	96.2%	98.0%
Mailsort 3	97.5%	98.5%	97.1%	99.2%
Presstream 1	90.5%	90.4%	87.4%	92.0%
Presstream 2	97.5%	97.5%	96.9%	97.8%
1 st Class PPI	90.6%	87.5%	83.7%	89.3%
2 nd Class PPI	97.4%	96.0%	94.9%	96.6%
1 st Class Response	90.3%	80.5%	76.9%	82.2%
2 nd Class Response	97.5%	93.4%	94.0%	93.2%
Standard Parcel	90.0%	89.7%	88.4%	90.2%
Special Delivery	99.0%	98.0%	97.9%	98.0%
PCAs @ 91% 1 st Class Stamped and Meter	118	80		
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Renewal – Our People - A Great Place to Work

- Everyone Sharing in Success - £1,074 payment to all eligible people with a year's service
- ...that's a £218 million investment in Royal Mail people
- A real change in basic pay – almost 25% including latest deal
- Five day week introduced across Royal Mail, but still delivering six days a week
- Final salary pension protected for everyone, £1.6bn into the pension fund over the Renewal Plan
- More of our people enjoy working here
 - 62% compared to 57% when we started asking the question
 - Still not good enough
- Absence rate down from 7.0% in March 2004 to 5.5% now
- Casual and temporary people down from 22,000 at peak to less than 1,000
- Fewer days lost to strike action
 - 2003 - 84,677, 2004 - 6,762, Jan-Mar 2005 - 866

Delivery of Renewal Plan

Our Customers and Service

	2001-02	2004-05		
1 st Class quality of Service	89.0%	91.4%	↑	Hit target from period 5 onwards
Vehicles	28,400	31,927	↑	Up 3,527 (12.4%) for improved Service
Property Space ('000 sqm)	4,373sqm	4,021sqm	↓	Down approx 0.3 million sqm
Post Office Branches	17,500	14,609	↓	Down 2,891 (16.5%)
Mail Centres	82	71	↓	Down 11 (13.4%)
Delivery Offices	1,400	1,400	→	
Regional Distribution Centres	29	8	↓	Down 21 (72.4%)
Parcels Depots	132	53	↓	Down 79 (59.8%)
National Distribution Centres	0	1	↑	One opened
Air Services (daily average)	38	29	↓	Down 9 (23.7%)
Rail Services (daily average)	55	2	↓	Down 53 (96.4%)

Our People

Accidents (average)	781	616	↓	Down 166 (21.1%)
People (headcount)	229,400	196,444	↓	Down 32,956 (14.4%)
Bullying and harassment	n/a	12%	↓	Down
Minimum frontline pay per week (£)	250.53	<i>from Apr 05</i> 311.25	↑	Up £60.72 (24.2%)
Pension fund	Surplus £760m	Deficit £2.5bn	↓	Cash deficit of £2.5bn

Our Shareholder

External turnover (£m)	8,408	8,956	↑	Up 6.5%
Net costs from operations (£m)	(8,640)	(8,387)	↓	Down 3.2%
Profit from operations (£m)	(318)	537	↑	Up £855m
Gross cost savings (£m)			↑	£1.5bn (15%) some £1.2bn reinvested
Out performance of target vs. Renewal Plan			↑	£504m
Outsourced *			↑	£195m saving

* Business systems (IT), Facilities management, Construction & Engineering in addition to catering & occupational health services

In Summary

Customers

Currently delivering best quality of service in a decade

People

Almost 25% increase in pay for five day week

Share in Success £1,074 per eligible employee (£218m)

Becoming a Great Place to Work

Shareholder

From losing £1m per day to £2m profit per day

Positive underlying cashflow

Royal Mail Group - the future

- Our vision: to be demonstrably the best and most trusted mail company in the world
- Our mission: to consistently provide highest quality dependable mail services including the universal service
- We'll compete by:
 - Transforming the customer offer
 - Transforming our operations
 - Engaging our people and transforming working practices

Key Challenges / Hurdles

- 228 days to go before the introduction of full competition on 1 January 2006 - still no framework – even in draft
- Innovation and new product development
- Customer service culture – easy to do business with
- Re-structuring of prices
- New price control
- Pensions funding
- Funding of large scale investment – modernisation programme
- Cultural change
- Government review?
- Funding of Post Office Ltd and generation of new income

Post Office Ltd

David Mills
Chief Executive



The continuing challenge

- Losses reduced from over £200m year one to £110m year three
- Benefits revenue (historically 40% of revenue) and pre-funding now gone
- Directly managed branches losing £71m p.a.
- Rural branches losing £3m every week
- Cash outflow £463m
- Strategy has been to cut cost, streamline the network and radically change the product mix
- Revenue gap still to be closed – a major challenge
- Interest bearing loans replacing interest free pre-funding
- Medium term financial stability dependent on sales growth, cost reduction and funding resolution

Business imperative - a realistic and sustainable network

- Urban re-invention – 3,000+ local consultations led to 2,500 branch closures
 - But maintained Post Office Ltd's commitment that 95% of people in urban areas are less than one mile from nearest branch
 - 80% of business in closing branches retained through customer migration
- Directly managed branches lose c£71m each year
 - New ways of running branches, not closure programme
 - Continuing high street presence
- Uneconomic rural branches losing £3m every week
 - Supported through rural funding of £150m a year until 2008
 - Government decision on long term future needed

Business imperative - a changed culture

- Transformation
 - From transaction mentality to Service and Sales culture
 - From dependency on benefit business to dynamic player in new markets
 - From inward looking organisation to front line and customer focus
- Headcount reduction - 829 have left this year
 - Over 3,000 people in total since 2001-02
- Central cost containment

Business imperative - new product development

- Continuing growth
 - Travel insurance and currency
 - Currency and travellers cheques
 - Insurance
 - Phonecards and e-top ups
 - Special delivery and packets
 - Passports and car tax
 - Postal orders and money transfer

Business imperatives – new products

- New products
 - HomePhone
 - Banking and financial services
 - Car and home insurance
 - Personal loans
 - Growth and guaranteed equity savings bonds
 - Savings stamps
 - Child trust funds

Financial Performance

Marisa Cassoni
Chief Financial Officer



Royal Mail Group - financial highlights

- Profit from operations £537m – up £317m (144.1%) (loss of £318m pre-Renewal)
- Income up £323m (3.7%) to £8,956m (£8,408m pre-Renewal - up 6.5%)
- Costs £8,453m flat year on year (£8,726m pre-Renewal - down 3.1%)
- Renewal Plan saved £1.5bn gross costs (17.2%) – over £1bn reinvested in our customers, quality of service and people
- Profit before tax and Share in Success £425m - up £320m (305%)
- Share in Success £218m = £1,074 each
- Underlying cash inflow £140m – £395m inflow excluding rationalisation (£255m)

But

- Losing c£200m on 90% of price controlled volumes
- Return on sales only 4.1%
- Post Office Ltd losing over £100m
- Pension deficit of £2.5bn (pre-Renewal £760m surplus)

Royal Mail Group – profit and loss results

	2004-05	2003-04	Prior Year variance	Pre- Renewal Plan	Renewal Plan Variance	
	£m	£m	%	£m	£m	
Income	8,956	8,633	3.7%	8,408	548	↑
Costs (net of JV/Associates profit)	(8,419)	(8,413)	0.1%	(8,726)	307	↓
Profit/(loss) from operations	537	220	144.1%	(318)	855	↑
Less pension funding (deficit)/surplus costs	(138)	(132)	4.5%	250	(388)	↓
Less share of operating (profit)/loss in joint ventures/associates	(34)	(37)	(8.1%)	1	(35)	↑
Group Operating Profit/(loss) before exceptionals	365	51	615.7%	(67)	432	↑
Profit/(loss) from JVs and associates	34	37	(8.1%)	(1)	35	↑
Total operating profit/(loss) before exceptional items	399	88	353.4%	(68)	467	↑
Net exceptionals – excluding Share in Success	8	-	100.0%	(1,112)	1,120	↓
Profit/(loss) before interest, taxation and Share in Success	407	88	362.5%	(1,180)	1,587	↑
Net interest receivable	18	17	5.9%	56	(38)	↓
Profit/(loss) before taxation and Share in Success	425	105	304.8%	(1,124)	1,549	↑
Share in Success	(218)	-	100.0%	-	(218)	↑
Profit/(loss) before taxation	207	105	97.1%	(1,124)	1,331	↑

Royal Mail Group

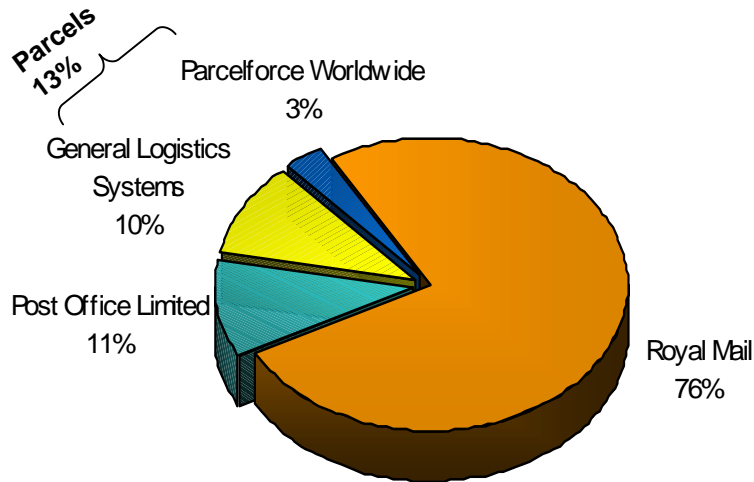
Impact of International Financial Reporting Standards

	£m
Total operating profit before exceptional items	399
Impact of new pension standard	(98)
Proforma after impact of pension standard	301
Net Assets	2,385
Impact of new pension standard	(4,406)
Proforma after impact of pension standard	(2,021)

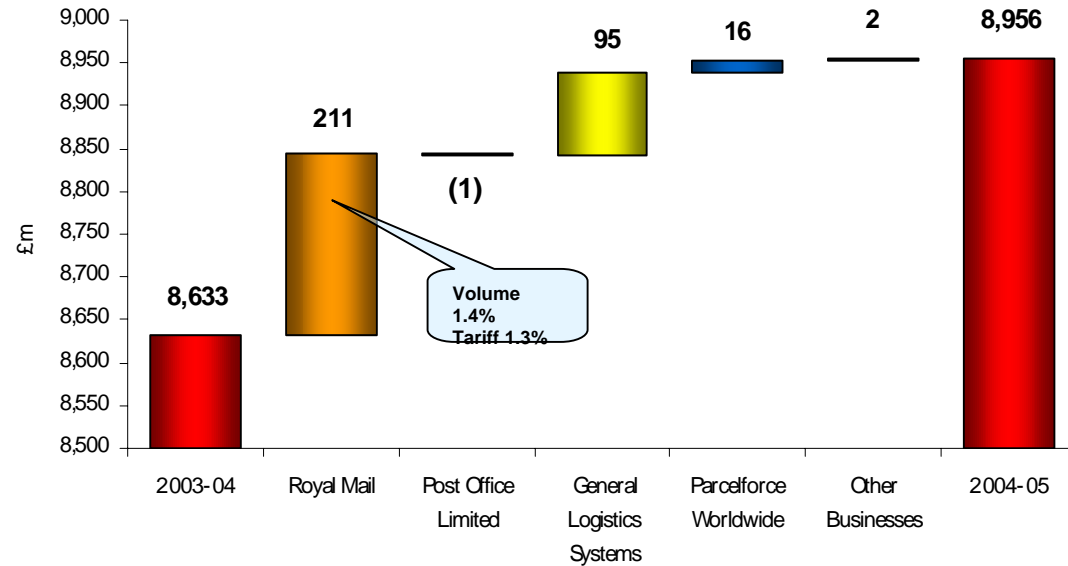
Discussions with Shareholder to restructure balance sheet (including POL) by Autumn 2005

Royal Mail Group – income year on year

Income by business unit - %



Income growth by business unit - £m



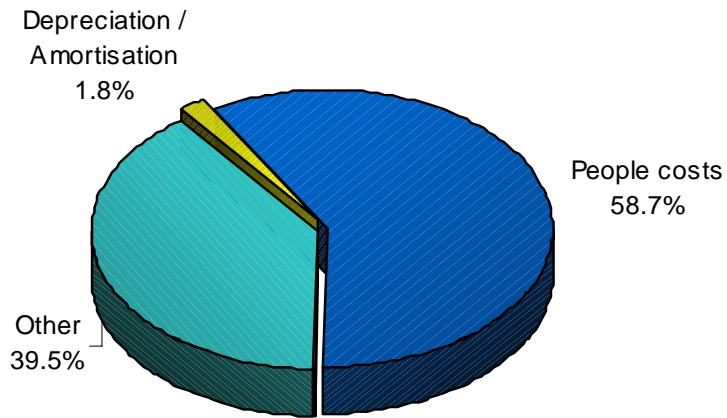
↑ 3.2%
↓ 0.1%
↑ 11.6%
↑ 5.7%
↑ 50.0%
↑ 3.7%

Decrease in Benefits Agency income	(117)
Increase in new income (banking, travel etc.)	116
Net reduction	(1)

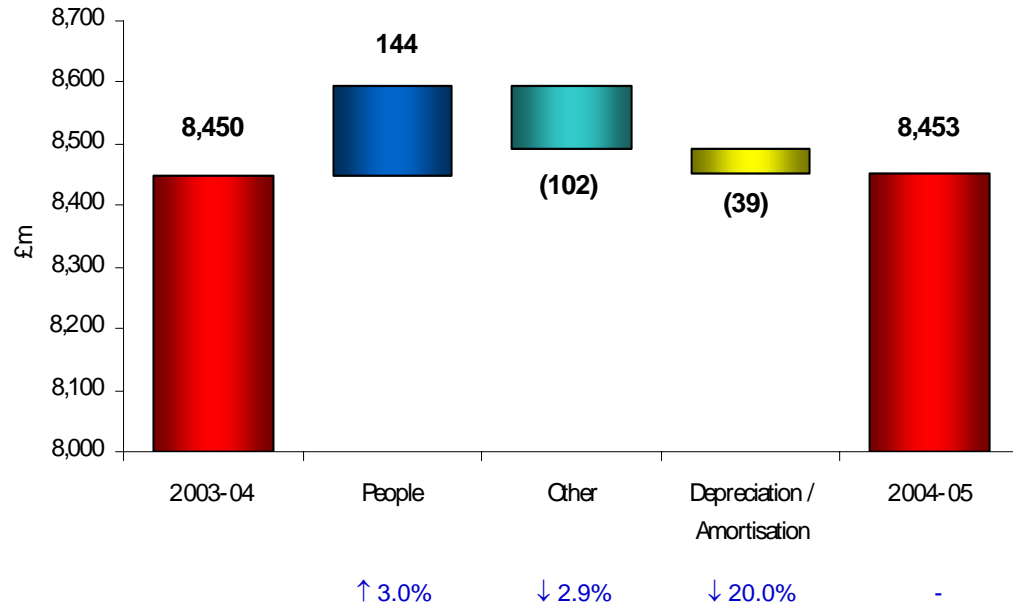
Royal Mail Group – costs year on year

(excluding pension deficit and exceptionals)

Cost by type - %



Cost growth by type - £m



Royal Mail Group

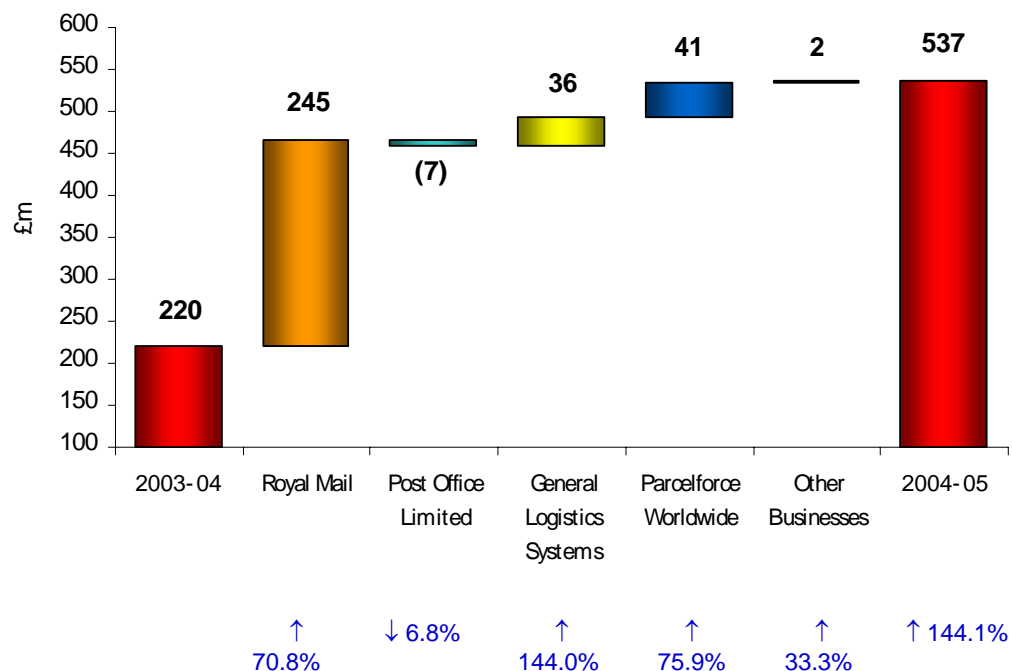
Profit from operations by business unit

Business unit performance - £m

Profit/(loss) from operations

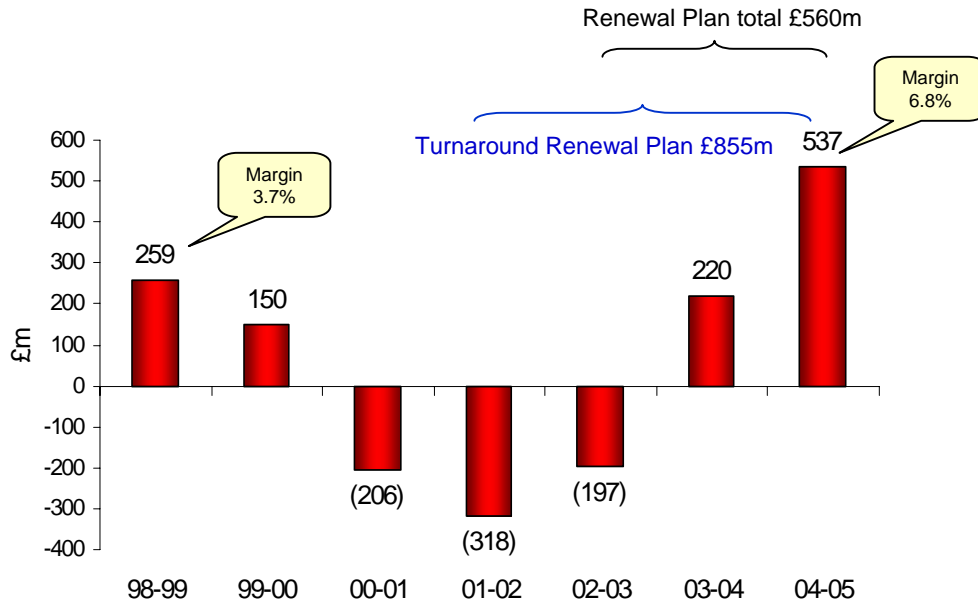
	2004-05	2003-04
	£m	£m
Royal Mail	591	346
Post Office Limited	(110)	(103)
General Logistics Systems	61	25
Parcelforce Worldwide	(13)	(54)
Other Businesses	8	6
Group	537	220

Growth by business unit - £m

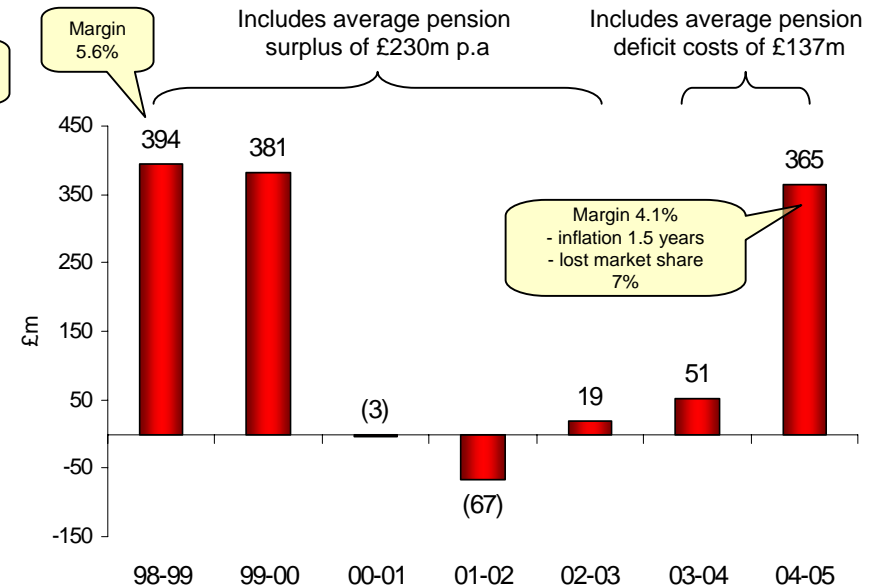


Renewal Plan - results

Profit/(loss) from operations trend



Operating profit before exceptionals



Profit before tax						
608	(171)	81	(1,124)	(611)	105	207

Write off Horizon System £571m

Renewal Plan restructuring £1,119m

Renewal Plan restructuring £697m

Allan Leighton Chairman



Real progress, real challenges

- Renewal Plan has delivered a real achievement against our priorities, benefiting customers, our people and our shareholder
 - Improving customer service
 - Making Royal Mail a Great Place to Work
 - Return to profitability
 - Cash generative
- The future remains challenging
- Competition will drive changes even greater than those already delivered
- To deliver a truly customer driven company - this is only the beginning
- Future ability to invest is crucial
- Government Review of impact of market liberalisation on Royal Mail
- An appropriate commercial capital and funding structure for both Post Office Ltd and the Group (pension deficit)
- Realignment of Letters prices to reflect true costs and appropriate price control allowing Royal Mail to compete on a level playing field