

**Statement on Behalf of the Minister for
Communications, Marine and Natural Resources at
the AGM of An Post on 29th April, 2004**

Chairperson

The Minister notes the Company's financial outturn for 2003, resulting in operational losses of €42.9m and a loss before taxation of €29.7m. As the Chairperson mentioned in her report, this is the worst financial performance in the history of the company. The company has now been loss making for three years in a row with further losses forecast for 2004.

The scale of the loss illustrates the fundamental issues facing An Post, the urgent need to address the unsustainable cost structure of the company, increase revenues and return the company to profitability.

While the Minister recognises the importance of raising new revenues, clearly the main priority in terms of restructuring and turning around the Company would be the existing cost base.

The Postal sector is currently facing many challenges such as globalisation, liberalisation and electronic substitution. Furthermore, as the postal business is a volume based business and, with volumes falling by 6% between 2002 and 2003, it is clear that real change needs to be implemented.

In this respect, the Minister would encourage all stakeholders to work together, in a partnership approach, to turn around the Company and as we are all aware, time is not on the side of An Post.

It is now crucial that a successful outcome is reached from the current talks taking place under the auspices of the Labour Relations Commission. The Minister anticipates that with the cooperation of all parties, a clear road-map for the future of the Company will be forthcoming. All stakeholders within the Company must then take ownership of the road-map and pro-actively drive its implementation.

The importance of ongoing dialogue between the Company and the Department is an area which the Minister sees as vital and must be maintained in to the future. The next eighteen months are going to be tough for An Post, however, with the dedication of all stakeholders to implement agreed changes, the Minister is confident that the company can be turned round.

In conclusion, the Minister has asked me to express his appreciation for the work undertaken during the course of a difficult year and to pass on his good wishes for the challenges facing the Company in the coming year.

AGM (17)

An Post AGM, Thursday 29 April, 2004

Statement on behalf of the Minister for Finance by
Mr. Paul Byrne, Department of Finance

Chairperson, on behalf of the Minister for Finance, I support the motion that the reports and accounts for the Year ended 31 December, 2003, be approved and adopted.

The Minister would agree with the comments just made on behalf of the Minister for Communications, Marine & Natural Resources, particularly those comments in relation to the need for real change. That statement covered the crucial industrial relations area so I will not go over that ground again save to say that the Minister for Finance very much shares the view expressed that the crisis facing An Post is linked to time and that time is not on the company's side.

In three years, An Post has had operating losses of €67m, or €105m if we include exceptional items. This cannot be allowed to continue.

In recent years, the company has witnessed massive capital investment and financial provision for transformation and business restructuring: but margins at the company have been deteriorating since 1997. An Post has been seeking reductions in headcount for some years: yet the numbers keep on rising. The Chairperson has noted that the new equipment can deliver as promised when used effectively, and she cites the Christmas period as an example: the company is not benefiting sufficiently from the huge capital investment made. That is a matter of concern; securing the return on this investment must be a priority.

The shareholder is fully aware of the challenges facing all concerned at An Post. These challenges are great: not only must it deal with problems of its recent past in terms of its cost base, but the future holds greater competition and a difficult environment for An Post's core business. The postal sector is changing fast, and there is no escaping that An Post must do likewise.

The Minister retains every confidence in the ability and the commitment of the Board, of the management, and of the employees to meet their respective responsibilities to confront the challenges and adopt the real changes essential to turn this company around. The company needs to be more efficient if it is to be sustainable. That means a radical change in cost base and delivery of dramatically improved performance. The Board, management and staff must work together to return the company quickly to sustainable operating profit.

In closing, the Minister has asked me to convey his best wishes to the Board, management and staff. And he has asked me to extend his appreciation for the efforts of all concerned.

Thank you Chairperson.

End

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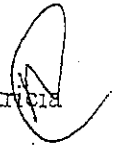
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POST

Ms. Patricia Cronin
Department of Communications, Marine & Natural Resources
Leeson Lane
Dublin 2

20 April 2004

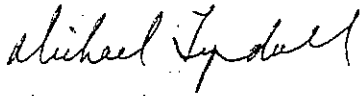
An Post Annual Report 2003

Dear Patricia 

I enclose the finalised version of the Chairperson's Report to the Minister for Communications, Marine and Natural Resources. As with the earlier draft version, the Report is in three parts and comprises

1. The Chairperson's Statement
2. The Chief Executive's Review
3. A Financial Review.

Yours sincerely



Michael Tyndall
Company Secretary

(21)

An Post Annual Report 2003
Chairperson's Report
to
the Minister for Communications, Marine and Natural Resources

The Report is in three parts and comprises

- 1) The Chairperson's Statement
- 2) The Chief Executive's Review
- 3) A Financial Review

20 April 2004

Chairperson's Statement

The year under review has been the most difficult in the history of An Post. With the national economy slowing and mail patterns changing, our postal and distribution business could not avoid some negative impact. While turnover grew by €25.5m, costs increased by €51.0m. As a result, the operating loss increased from €17.4m in 2002 to €42.9m in 2003. This is the highest operating loss recorded by An Post since it was established as a State-owned commercial company in 1984. Serious problems emerged during the year when it became clear that the Company would not meet its original budget forecast to stem the losses in 2003 and return to profitability in 2004.

Under the direction of the new Chief Executive, Donal Curtin, a Strategic Recovery Plan was prepared and this set out the scale of the problems in An Post and prescribed the actions necessary to restore the Company to financial stability and move to modest profitability. The Recovery Plan was approved by the Board in September 2003 and subsequently submitted to the Minister for Communications, Marine and Natural Resources. The detail of the plan was communicated extensively to the staff and to the trade union representatives.

The measures in the Recovery Plan are predicated on the Company implementing a programme for radical change in the way in which it conducts its business. This programme focusses on the introduction of new arrangements for collection and delivery, a significant reduction, through voluntary measures, in staff numbers and on achieving savings from the investment in automation.

In 2003, a continuing inability to control costs, compounded by a decline in revenue growth and a delay in achieving an expected increase in domestic postal tariffs, resulted in a third successive year of losses. It is evident to everyone that these losses, both operational and pre-tax, are unsustainable. These results clearly show the magnitude of the problems facing the Company and demonstrate the need for urgent action to implement change throughout the organisation.

The basic analysis of the problems facing An Post and the means by which a viable future can be secured for the Company have been endorsed by the Board which supports the thrust and detail of the Recovery Plan. The Board sees, as its primary function, the overseeing of the implementation of the level and degree of change set out in the Plan. The importance of the Recovery Plan to the future well-being of An Post cannot be overstated. Within it are the essential measures that will underpin the future prosperity of the Company. Supporting the efforts of management to reduce costs and transform An Post into an efficient, modern postal company is the fundamental objective of the Board.

While talks with the major trade union on new collection and delivery arrangements have been delayed, other aspects of the Plan are already producing significant advances. One of the main objectives is to reduce costs and some progress in this area has been achieved already. Expenditure is under tighter control and efforts to enhance revenues are continuing. Permission from the Commission for Communications Regulation (ComReg)

– the body which regulates aspects of the postal business – for a domestic price increase was secured last August and a further increase in the price of services, which are outside the scope of the Universal Service Obligation, was introduced with effect from 5 January, 2004. By international comparisons, our current domestic tariff is still relatively low, especially as it relates to the size of our market and its uniquely dispersed population features. We are giving attention to the development of a portfolio of practical new products which will meet the growing and changing demands of an increasingly sophisticated consumer. New products will form part of continuing measures to boost revenues in 2004. It is also our intention to seek approval from ComReg for a further increase in the domestic postal tariff later this year.

Acting, as it must, to encourage efficiency and a cost-effective service for customers, ComReg has made it clear that it will not consent to further price increases unless An Post has achieved efficiencies in its operations and meets the quality of service standards that it has stipulated. We have several imperatives. One is to convince ComReg of the need and justification for a level of tariffs which compensate us adequately for our Universal Service Obligation. We are undermined in this task by our continuing failure to meet quality of service targets. Our overall quality of service in 2003, as measured for us by PricewaterhouseCoopers, was 87% next-day delivery. This was below our own stated target of 92% and even further below the target of 94% set by ComReg.

Regulation and liberalisation are now a fact of life for European postal companies. Since 10 February, 1999, when the first EU Postal Directive took effect in Ireland, the letters business has been changed from a near monopoly to a public service company, with 45% of its revenues now open to competition.

In December 2002, the Irish Government transposed a new Postal Directive into Irish law. With effect from 1 January, 2003, the category of mail reserved to An Post was reduced from 350 grams and a price multiple of five times the price of a standard letter to 100 grams and three times the price of a standard letter. With effect from 1 January, 2004, all outgoing international mail became fully liberalised. The category of mail reserved to An Post will fall to 50 grams and a price multiple of 2.5 times the price of a standard letter with effect from 1 January, 2006. Full market liberalisation may follow in 2009. We need to be ready for these developments which will expose an even greater proportion of our mail revenues to the full effect of competition.

In Ireland, the extent of regulation has intensified. ComReg now decides on quality of service standards, price and the extent of the USO; all issues that are of vital importance to An Post. Postal regulation is now an inescapable reality for the Company. So too is competition. International competitors are already operating in Ireland, particularly in the parcel and courier business. As liberalisation of the market takes effect, these international competitors are now turning their attention to our letters business and, in a few years, An Post expects to be in full competition with aggressive, highly competitive European operators.

In recent years, An Post has transformed its postal infrastructure by investing over €100m in its national automation project. The opening of the Cork Mail Centre in June 2003 marked the final phase of this project. Earlier expansions at the Dublin and Portlaoise Mail Centres and the opening of the Athlone Centre have equipped An Post with the capability to provide a high quality service with scope for significant downstream developments for the enhancement of its products.

The Company is now equipped with the most modern infrastructure possible and the staff are well-trained and experienced in its use. While there have been delays in exploiting the full potential of the equipment, we know from our experience over the recent Christmas period that, when used effectively, the equipment can provide the high-quality integrated service originally envisaged. The challenge now is to move to achieve optimum usage on an ongoing basis and, from there, to secure the savings and the quality of service which the technology is designed to deliver.

The post offices retail operation had a satisfactory year, mainly as a result of continuing network adjustment through the development of postal agencies, a 21% increase in Billpay volumes, and stronger than expected inflows to the Post Office Savings Bank and the other main savings products.

SDS, the parcel and courier operation, experienced a particularly difficult year. A delay in implementing much needed restructuring contributed to continuing losses. Revenues were well below budget due partly to a squeeze on margins as a result of increased competition from firms unencumbered by our high level of fixed costs. Our decision to exit unprofitable business was a further contributing factor to the decline in revenues.

The lack of progress in the discussions with our largest trade union, on new collection and delivery arrangements, has been particularly worrying. The delay in the conduct of these negotiations will have an adverse impact on the achievement of the savings targeted in 2004. These savings were based on the successful conclusion of the talks by the end of January 2004. In the light of this and a claim from the trade unions that the Company should pay the wage increase under the first phase of Sustaining Progress, the Company had no option but to inform all its trade unions in January 2004 that it would be availing, reluctantly, of the inability to pay clauses of the current Social Partnership Agreement. By any objective standard, this is a serious step for a State company to take, but it is the appropriate one for An Post at this time. The Company wants to pay the wage increases in the Sustaining Progress agreement but it can only do so where it has a clear path towards achieving financial stability, a key element of which would be provided by a successful outcome to the change negotiations.

On a positive note, An Post was one of the main sponsors of the Special Olympics World Summer Games in 2003. The event saw the involvement of hundreds of An Post staff as volunteers over a period of three weeks and the experience of the Games was a hugely uplifting one for participants, volunteers and visitors alike.

I want to express my gratitude to my colleagues on the Board of An Post for their commitment and hard work during 2003. I also want to thank the Minister for Communications, Marine and Natural Resources and his officials for their support and assistance during the year. I thank also the management and staff of An Post for their continuing loyalty and work during these difficult times.

Now is a time of great change for all State companies and the coming years will be extremely challenging for An Post. In particular, the perilous financial position of the Company must be addressed by the implementation of the Recovery Plan. In addition, the Company must prepare for competition which will intensify as a result of increasing liberalisation of the postal market. We have no alternative but to adapt to the new demands of a new era. It is imperative that all the stakeholders in An Post work together for that purpose.

Margaret McGinley
Chairperson
25 March, 2004

Chief Executive's Review

That An Post remains on a financial knife-edge is evident from its figures. The result for 2003 is an operating loss of €42.9m. This is an increase of €25.5m over 2002 and is the third successive year of operating deficits. The accumulated operating losses since 2001 are now €67m and are simply not sustainable. The past year was particularly tough. Overall, turnover increased from €684m to €709m, but costs rose from €701m to €752m. Payroll costs totalled €501m, an increase of 4.5% over the previous year. Our loss before tax was reduced to €29.7m from €70.3m in 2002 because of the effects of the exceptional items in both years. In 2002, we had an exceptional charge of €52.5m for business restructuring and in 2003 we had an exceptional profit of €13.3m on disposal of land and buildings.

This third successive year of worsening operating losses is in line with the revised forecasts prepared in September. Further losses are forecast for 2004. Our letters business had a hard time in 2003 because of slower growth in volumes and a failure to harvest savings from productivity agreements. At SDS, our parcel and courier business, serious problems persist despite reducing staff numbers by 114 during the year and introducing an owner/driver operation, in a bid to transform our business model. This revised model gives us greater flexibility on costs and, in particular, reduces the unusually high fixed element of the cost base in that business.

The overwhelming imperative for An Post is to reduce its overall cost base and achieve revenue growth in line with projections. We must become more efficient in every aspect of our business. The need for change is urgent and cannot be further delayed.

The fundamental elements of our objectives are straightforward. An Post has a rapidly narrowing window in which to modernise and achieve significant savings if it is to stabilise its finances. We have already indicated that we are planning for breakeven in 2005 and for a return to an acceptable level of profit in 2006. These are not easy targets and the scale of the task and its achievement will require total focus and determination from management at all levels in the Company.

The magnitude of the problems at An Post became clear shortly after I joined the Company, as Chief Executive, in July 2003. A thorough review of the Company's financial position was initiated and, following this, a comprehensive Strategic Recovery Plan was prepared to address the worsening situation. The Recovery Plan sets out in detail the measures that are necessary if we are to stem the current level of losses, achieve financial stability and restore to modest profitability an important public service company that provides a valuable strategic service.

The Recovery Plan was approved by the Board of An Post in September 2003 and was then presented to our shareholder, the Minister for Communications, Marine and Natural Resources. Details of the plan were communicated widely to our staff and the trade unions. The Recovery Plan sets out the short, medium and longer term targets, with an emphasis on the urgent requirement to reduce costs, increase our overall efficiency and

thereby improve our financial performance. We must also secure regulatory approval for further price increases and accelerate the introduction of new products that have the potential to offset the industry-wide trend in revenue decline in traditional core product areas. These measures are essential in order to achieve increases in An Post revenues.

The Recovery Plan analyses the position of An Post in the current international postal environment where the combination of market liberalisation and domestic regulation are triggering an increasing level of competition in the letters market. The background realities that are beginning to impact are the international slowdown in mail volumes and the expansion of e-mail and other forms of electronic substitution.

During the late 1990s, growth in domestic mail volumes masked the extent of the underlying problems in An Post. The growing volumes were matched by higher staffing levels and escalating wage costs. Today, the costs are retained but the rate of volume growth is shrinking. Worldwide, and particularly in Europe, there is now increasing uncertainty. Having effected enormous market consolidation, the major operators in Europe anticipate falling volumes because of greater use of technology and are now seeking to enhance their margins.

An Post is currently designated as a Universal Service Provider and has a statutory obligation to provide on every working day, and not less than five days a week, as a minimum, one clearance and one delivery to the home or premises of every natural or legal person in the State.

The Universal Service Obligation has, in recent years, become very onerous. In particular, the requirement to meet exacting delivery standards in a country with a highly dispersed population imposes a major cost burden on the Company. The cost of rural deliveries is rising annually while domestic pricing policy is increasingly linked to our efficiencies and our capacity to provide a high quality of service to customers.

For An Post to succeed into the future, the culture of the organisation must change radically. Our challenges are to sharpen our customer service, to develop our commercial capacity and to be flexible in the way we work.

The new organisation structure, implemented in October 2003, has seen the abolition of separate business divisions. Performance, delivery and accountability have been placed at the centre of management's objectives. Through reduction and redeployment, a 40% cut in management numbers will be achieved by the end of 2005. The reduced management numbers will result in streamlined activities that will lower costs and focus resources on our core business. A new centralised HR structure will help generate a culture of excellence. Staff training, education and development programmes will be a key priority.

Current costs are significantly above sustainable levels and are at the root of the Company's financial difficulties. The urgent need to achieve targeted reductions in the main operational areas cannot be overstated. IT activities are being rationalised and we

have targeted a reduction of 1,450 in the overall numbers employed by An Post by the end of 2006. This is a critical and unavoidable part of the Recovery Plan.

A striking imbalance exists between our costs and revenues. Any analysis of our situation would conclude that an exceptionally high proportion of our cost base is made up of fixed costs that allow the Company very little flexibility in a situation of fluctuating market conditions. In addition, the market is being liberalised and customers are adapting to new technology at a rapidly increasing rate. As a service provider, An Post must not resist the adoption of change but seize the opportunities it affords to defend and grow our business in the face of competition and customer choice.

We have identified a number of projects that will provide the savings required. Amongst these, plans to convert 50 Company post offices to sub-post office status by the end of 2005 will be accelerated. In addition, we plan to proceed with the conversion of 440 sub-post offices to postal agencies in the same time-frame. These changes in the structure of our retail network will ensure that our customers, throughout the country, will continue to benefit from the provision of services at local level.

While pursuing reductions in costs in all our operations, we have, since mid-2003, curtailed all discretionary spending. At the same time, we recognise, and have stated in the Recovery Plan, that An Post must take all necessary steps to enhance its revenues. It is important that strategically significant new revenue streams are developed in the Irish market if the Company is to continue to be able to provide the level and quality of service that is required in modern Ireland. In our retail and mails operations we are developing new and innovative services which will meet the needs of our customers today and into the future.

The sale of surplus property and other assets will provide in the order of €10m cash in 2004 and an average of €13m a year between 2005 and 2008. While such a measure is essential in the current circumstances of An Post, it is clearly an expedient pending the return to acceptable financial performance by the Company.

The Recovery Plan aims to refocus management resources on our core business. Non-core subsidiaries will be sold following a full review of their activities in light of contributions to profits, internal synergies and the generation of meaningful and sustainable new revenue streams.

A profit target of €43m has been set for asset and property disposals in the period 2003 to 2008. No further investment will be made in overseas activities that are not essential for the maintenance of our core business and the issue of a strategic alliance has been postponed indefinitely. The essential objective will be closer integration of our activities to ensure that plans are implemented, that management and structural duplication is eliminated and that cost savings are realised.

In 2004, we will also present proposals to the National Treasury Management Agency and to the Government to accelerate revenues from savings products and to build on

the strong position that An Post enjoys in the financial services market in Ireland. Discussions with financial services organisations on new product development and other initiatives will be geared to increasing contributions by €6m by 2008. A successful outcome from these measures will help reduce our vulnerability and dependence on traditional mails revenue streams.

The shocking reality is that, even when targeted savings have been achieved, revenue levels will not be adequate for financial stability in the medium and long term. We must implement significant revenue-enhancing measures which will inevitably include a further domestic price increase application later this year. The approval of ComReg for new pricing proposals is required and we will be putting forward a robust submission in support of our need for a further increase in domestic postal tariffs. Despite increases in the last eighteen months, standard postal tariffs in An Post compare favourably with those in other European Union countries even before factoring in the increased unit delivery costs associated with this country's relatively low rural population density.

We are also committed to engaging with Government on the appropriate model for the future provision of Social Welfare payment services, which are a cornerstone of the An Post post office network. We recognise the importance of a widely-distributed and accessible post office network and value our traditional role as a trusted intermediary between the Government and the people of Ireland. As in all other aspects of life, change in this area is inevitable. We are committed to working closely with Government to identify and develop further opportunities for the Company to contribute to the shareholder's overall policy objectives in this area, while continuing to contribute towards the maintenance of our extensive post office network.

The Recovery Plan embodies a portfolio of significant management challenges. Cost reduction is top of the agenda and savings, averaging in excess of €40m per annum, have been identified. Unless these specifically targeted cost reductions are achieved, the Company will continue to incur insupportable losses and will steadily become incapable of rescue without even more dramatic surgery being required.

A significant component of targeted savings will derive from the introduction of new arrangements for the collection and delivery of mails. Substantial changes in outmoded work practices will be introduced in an effort to achieve acceptable levels of efficiency in this key operation. In addition, the savings arising from the €100m investment in automation must be realised.

The time-frame for the conclusion of this change programme has been subject to some delay because the major trade union in the Company withdrew from discussions in December 2003. The failure in recent months to conclude change agreements within the envisaged time-scales has impacted negatively on many of the assumptions in the Recovery Plan. In the absence of agreements on change in the way we do our business, we are poorly placed to withstand adverse market developments and the onset of competition. It is essential that everyone involved with the Company recognises the dangers. Without change, the future well-being of An Post is in serious peril.

On a positive note, we have made some progress during 2003. The final stage of our national mails automation project was completed with the opening in June of the Cork Mails Centre. Four major hubs, equipped with the most modern sorting equipment, are now ready to deliver an improved quality of service as well as new service and product features to our customers and to provide An Post with significant financial savings.

There is a critical imperative for an acceptance of the need to move to the maximum possible deployment of technology. By way of example, we used the new Mail Centres to manage, very successfully, the 2003 Christmas mail volumes. Overall, the performance was satisfactory and is visible testament to what can be achieved. Threats of industrial action and unofficial industrial action which disrupt services are not the basis upon which a strong company can be built. They merely accelerate the decline and create market opportunity and customer demand for alternative solutions. Neither are they in keeping with a national policy of social partnership.

An Post has the capacity to recover from its current financial crisis. We have a loyal, highly respected staff and our infrastructure is the most modern available. Our brand is one of the most recognised and trusted in the country and is a key asset. However, we recognise that we have challenges in this area also.

We must develop our brand associations and expand our product portfolio into areas where we can be successful. The Recovery Plan provides the way forward to a prosperous and successful future. But we must implement a change programme which is founded on the understanding that productivity agreements must produce real productivity and cost savings. Changed working practices will equip An Post to test itself against the demands for better service and to meet competition.

As a service industry, the customer must be our focus. Regrettably, as an organisation, we have some distance to travel before we attain an acceptable standard in our understanding of customer relations. Serving and satisfying the customer must be the priority and will be the foundation of the Company's relevance in the future. We can only transform our relationships if we place the customer at the centre of our thinking. If we fail in this area, it will not be long before the customer goes elsewhere.

With the rapid onset of globalisation, liberalisation and regulation, it is clear that An Post has limited time in which to get its affairs in order. There is ample evidence that change is coming at an accelerated pace. As a peripheral nation on the edge of an enlarging EU, our geographic location will not provide any protection from the inescapable impact of global change. The sooner we accept these facts and acknowledge that the world does not owe us a living, the sooner we can start to rebuild and renew this Company for the work it does best.

An Post has a long and proud tradition of serving the people of Ireland. The opportunity is there for the Company to continue this tradition into the future in a new and invigorated manner. We have the means at our disposal to create the future that An Post

deserves and that the people of Ireland expect. It is vital, however, that all the stakeholders in An Post recognise the realities of our current position and work together to face and overcome the challenges that threaten our very existence.

Donal Curtin
Chief Executive

25 March, 2004

Financial Review

Financial Overview

	2003	2002
	€'000	€'000
Turnover	709.2	683.7
Operating loss	(42.9)	(17.4)
Loss for the financial year	(32.0)	(70.5)

Operating loss

During 2003, the operating loss in An Post increased by €25.5m to €42.9m. This deterioration in the operating result was driven by the fact that the overall Group turnover rose by 3.7% while operating costs, including goodwill amortisation, rose by 7.3%.

Turnover

The low level of growth in the revenues of An Post in 2003 reflects the maturity of the main business, the impact of increasing competition arising from the liberalisation of the postal market and the growth in electronic alternatives to the traditional services of An Post.

In December 2002, the Government transposed a new postal directive into Irish law and, with effect from 1 January, 2003, the category of mail reserved to An Post was reduced from 350 grams and a price multiple of five times the price of a standard letter to 100 grams and three times the price of a standard letter.

The mails business is the main source of revenue for An Post and its rate of growth has been in decline in recent years. The core mails revenue growth has declined from annual growth rates of between 8% and 9% per annum in the late 1990s to just 3.1% in 2003. A further decline in the rate of growth is anticipated in 2004.

Revenues from international mail also fell during the year reflecting declining international mail volumes. With effect from 1 January 2004, all outgoing international mail became fully liberalised and competition will therefore intensify further in this market during 2004.

Competition has also increased in the parcel and express mail sectors. Revenues in SDS fell by 10.2% during 2003, reflecting both this increased level of competition and a decision to exit unprofitable services following a restructuring of the business which was undertaken during the year.

Revenues from services offered through post offices increased during the year. However, competition from alternative payment channels continued to impact on some key elements of the business.

The revenue from other services includes the revenues from subsidiary companies and reflects the full year impact of subsidiaries acquired during 2002.

Costs

Payroll costs remain the most significant element of the Group cost base, representing 67% of total operating costs. The €21.6m (4.5%) increase in payroll costs during the year was driven primarily by the final two phases of the pay awards under the Programme for Prosperity and Fairness.

In recent years, the Company has invested heavily in the automation of the mails sorting process in order to improve the efficiency of what has traditionally been a labour intensive activity. In 2003, the automation capital programme was completed. Despite this investment, the Company did not achieve the savings anticipated during 2003 due to difficulties in reaching agreement on the change process with the trade union representing the staff in this area.

Other operating costs increased by €27.2m (12.4%) over 2002. This increase was substantially driven by the full year impact of costs in subsidiary companies acquired during 2002.

Goodwill amortisation increased from €2.0m to €4.2m principally as a result of a provision of €1.5m for impairment of goodwill, reflecting the Board's view of the underlying carrying value of goodwill.

Exceptional items

In 2003, an exceptional profit of €13.3m was achieved on disposal of land and buildings while, in 2002, there was an exceptional charge of €52.5m for business restructuring.

Taxation

The taxation charge arose from capital gains tax payable on the disposal of land and buildings.

Loss for the financial year

The loss for the financial year fell from €70.5m in 2002 to €32.0m in 2003, notwithstanding the increase of €25.5m in the operating loss. This improvement over 2002 was due principally to the positive year-on-year movement of €65.8m in the exceptional items. The increase in taxation had a negative effect of €2.3m on the loss for the financial year.

Capital expenditure

Total capital expenditure of €21.7m was significantly lower than the 2002 level of €70.7m. This reflects the completion of some key capital projects and the fact that, given the financial position of the Company during 2003, capital expenditure was significantly curtailed in order to conserve cash resources.

Liquidity

The Group had a net cash inflow during the year of €21.2m. However, this inflow was driven by an improvement in the working capital position of the Company during the last

quarter, the receipt of cash of €15.4m from the disposal of tangible fixed assets, the receipt of €12.7m in respect of additional share capital and the curtailment of the capital programme, as opposed to cash generated from trading.

An Post has in place overdraft facilities which were availed of on a short term basis as required during the year.

The treasury function of the Company operates under a Board approved policy which is low risk and non-speculative. The primary objective of the treasury function is to ensure the availability of funds for trading activities while optimising the return on available cash resources.

Strategic Recovery Plan

In response to the significant deterioration in the financial outlook for the Company, a new Strategic Recovery Plan was prepared and approved by the Board in September 2003. The Plan sets out in detail the means by which the Company can return to breakeven during 2005 and achieve an acceptable level of profit in 2006.



For File

- Accounts -

From: Patricia Cronin
Sent: 02 March 2004 10:28
To: Ciara Bates; Breege O'Sullivan
Subject: FW: An Post 2003 Accounts

-----Original Message-----

From: Stephen O'Connor
Sent: 01 March 2004 20:08
To: Eamonn Molloy; Patricia Cronin
Cc: Brendan Tuohy
Subject: An Post 2003 Accounts

Eamonn

As requested I reviewed the An Post 2003 Unaudited Results Pack.

The pack is a 20 page old-style An Post document, 5 pages of summary numbers and 15 pages of not very helpfull commentary.

The new style reporting format ("Financial & Operating Review") provides far better management information, analysis, key performance indicators etc. This was introduced in January 2004.

2003 Results - Highlights

Operating Performance

Final operating loss was €43m for the year, nearly a factor of three times worse than the budgeted losses for the year of €15m

The final result is a little better than pre-christmas estimates of c.€45m because of not paying the sustaining progress 3% pay award in November and December.

The 2003 budget, (particularly Letterpost sales) is so discredited at this stage as to have limited usefulness. Revenue target was missed by €25m, and costs actually rose on the lower revenue levels by €3m, demonstrating the fixed, uncontrollable nature of the cost base in APG.

X | Letterpost and SDS are the reasons for the crisis at APG. Post TS is basically a break even operation, and the subsidiaries report a small profit. However with the myriad of SLA's and inter-company transactions and balances, any assessment of performance of each division comes with a caveat.

Ends

Rgds

Stephen



28

28

18/6/04

An Post Briefing Note

Change Management

The key issue for An Post is to deliver the Strategic Plan agreed by the Board last September. This will involve agreeing and implementing significant change management programmes particularly in the Letterpost and the Post Office Divisions. Significant restructuring is crucial if the company is to return to profitability by 2005. The growth in the An Post cost base is unsustainable.

Tackling the Unsustainable Cost Structure

Staff costs increased by €52m between 2000 and 2001 which represents a 13% increase and by €40m between 2001 and 2002, an increase of 9%. Between 2002 and 2003 staff costs increased by €21.6m which represents an increase of 4.5%.

Securing Union Buy in

Negotiations are currently underway with the trade unions on the agreement and implementation of a recovery strategy. Critical negotiations are with the CWU, the largest Union in An Post.

Automation

An Post has spent heavily on automation of mail centres. The payback from this investment is not immediately apparent.

Quality of Service

At the same time as substantial price increases are being imposed on An Post customers, there are significant concerns about quality of service and significant differences between Comreg and An Post in this area. The Comreg information for 2003 shows a next day delivery rate of 71%.

Postal Volumes

There are indications that postal volumes are slowing in the Irish market and over estimation of volumes was one of the main reasons why An Post substantially missed its financial targets in 2003. Letterpost items delivered in 2002 were 791m compared to 742m in 2003, which indicates a decrease of 6%.

ge O'Sullivan

Briefing file

(30)

Thanks

Bus

13/5/04

From: Patricia Cronin
Sent: 10 May 2004 12:05
To: Sean Coughlan; Breege O'Sullivan; Ciara Bates
Subject: FW: 2004 Estimates

Pl see the attached. The Minister's appearance is on the 19th. The LRC talks are scheduled to finish on the 14th. So we may need to update.

Patricia

-----Original Message-----

From: Patricia Cronin
Sent: 10 May 2004 12:04
To: Jim Lynskey
Subject: 2004 Estimates

Jim

Pl find attached briefing on postal matters. There is no actual postal subhead. However the ongoing IR issues make this matter topical. We will update the information nearer the date of the Minister's appearance, if required.



Steering Briefing for
2004 Est...

Regards

Patricia

U.I.

11/3/06
30

2004 Estimates Briefing on Postal

Postal Sector

An Post Financial Outturn

2003	Operational losses €42.9m	Net losses	€29.7m
2002	Losses of €17.4m		
2004	Forecast operational losses €30.6m	Net losses	€16.3m
2002-2004 Losses of €100m approx			

Pricing / Quality of Service

In 2003, An Post secured a significant increase in the standard tariff from 41c to 48c. In addition, An Post increased the price of international mail from 1 January this year. There are indications that An Post intends to seek a further increase in the standard tariff this year. This would be a matter for Comreg who determine pricing applications in this area.

Price increases have taken place against a backdrop of concerns about the quality of the mail service. This is an issue which has been brought to the attention of the An Post Chairperson and the Minister has requested, in light of substantial price increases obtained, that the company focus on improving quality of service.

6/5/04

(3)

For File
- Briefing

Steering Group on Sustaining Progress Agreement on 10 May.

Postal Sector

Financial Outturn

2003 Operational losses €42.9m Net losses €29.7m
Bulk of the losses in letterpost and SDS. Bulk of costs payroll (70%)

2002 Losses of €17.4m

2004 Forecast operational losses €30.6m Net losses €16.3m

2002-2004 Losses of €100m approx

30/3/04
~~32~~
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Briefing Note for Order of Business
Industrial Action at An Post

What is the financial condition of the Company?

- Between 2002 and 2004, it is now forecast the Company will lose over 90million euros. An Post, which began this decade with slim profits, but a cash balance of over 170 million euros has a net cash balance of almost zero. It is currently being forced into sales of assets to avoid going into overdraft to pay day-to-day bills. Unless the

Company is turned around in the next 18 months it faces insolvency.

10/2/04
3

Briefing Note

An Post bears a statutory obligation to be financially self-sufficient and to conduct its affairs in such a manner as to minimise costs to its customers. Given the Company's present financial position, management was obliged to identify necessary means by which the financial position of the post office network could be secured whilst enhancing and preserving the standard of services offered to its customers.

Two major initiatives are underway in the restructuring of the post office network. The first is the conversion of non-automated sub-post offices to postal agencies offering a limited range of services, namely social welfare payments and purchase of stamps.

This programme, which has been agreed with the Irish Postmasters Union, is ongoing.

The second initiative is the conversion of the least busy branch offices as sub-offices. This designation, will not, in any way, affect the quality and range of services that these automated offices currently provide. This programme has also commenced and is being implemented on a phased basis.

An Post Briefing Note

819 6/1/04
40
34

Background

Four critical but inter-related issues are facing the Board, management and unions of An Post.

Key Issues

B. Price Increases

An Post secured a significant increase in the standard tariff this year from 41c to 48c.

Substantial price increases were imposed from 5 January in a number of areas including publications service, publicity post, passport express etc. The headline increase is 31% in the publications area.

In addition, with the full liberalisation of the outbound international postal market, An Post has increased the price of international postal rates, i.e. priority mail to the UK has increased from 50c to 60c and increase of 22%

Question

Are An Post customers taking the hit for the dire financial state of the company?

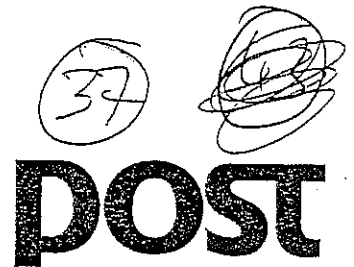
An Post
Financial Accounts for the month ending 31 May 2004

42
36

Postal Division
28th June, 2004.

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Patricia Cronin
Department of Communications, Marine
and Natural Resources
Leeson Lane
Dublin 2

For File
- An Post Accounts -

21st June, 2004

Dear Patricia,

In advance of our forthcoming meeting I enclose four copies of the Financial and Operating Review for the five months ended 31st May, 2004 together with four copies of the summary report for the same period.

Yours sincerely

Ciaran McGivern

Ciaran McGivern

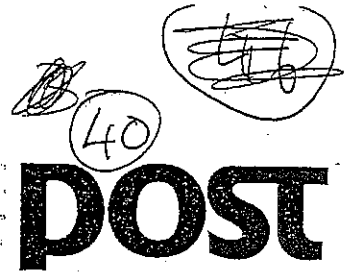
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Ciara Bates
Department of Communications, Marine
and Natural Resources
Leeson Lane
Dublin 2

28th May, 2004

Dear Ciara

I enclose four copies of the Financial and Operating Review for the four months ended 30th April, 2004 together with four copies of the summary report for the same period.

Yours sincerely

Ciaran McGivern

41

An Post
Financial Accounts for the month ending 30th April 2004

Postal Division
1st June, 2004.

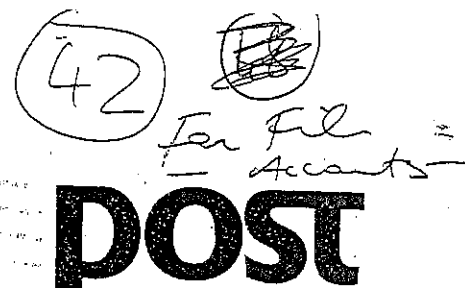
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Ms. Patricia Cronin
Department of Communications, Marine
and Natural Resources
Leeson Lane
Dublin 2

26th April, 2004

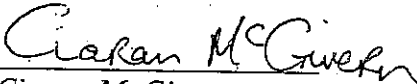
Dear Patricia

Financial and Operating Review – April 2004

In advance of our monthly meeting at 11.30am on Friday 30th April, I attach four copies of our report of the financial and operating review for April, 2004 which encompasses the financial results for the first quarter.

I also enclose four copies of the summary financial and operating review for the same period which focuses on the key areas suggested in your monthly reporting template.

Yours sincerely


Ciaran McGivern

For File
- Accounts -

65

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An Post
Financial Accounts for the month ending 31st March 2004

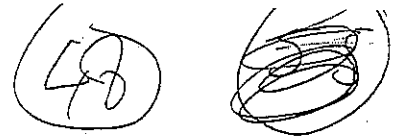
Postal Division
27th April, 2004.

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Patricia Cronin
Department of Communications, Marine
and Natural Resources
Leeson Lane
Dublin 2

29th March, 2004

Dear Patricia

I refer to my letter of 26th March which enclosed the detailed Financial and Operating Review for the two months ended 29th February, 2004.

I now enclose four copies of the summary report for the same period. The summary report focuses on the key areas set out in your suggested monthly reporting template, namely the financial results overall summary and by area, the IR situation, the key projects and quality of service.

Yours sincerely


Ciaran McGivern

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POST

Patricia Cronin
Department of Communications, Marine
and Natural Resources
Leeson Lane
Dublin 2

26th March, 2004

Dear Patricia

Year End Report 2003 and Report for February 2004

In advance of our monthly meeting I attach four copies of our report of the financial and operating review for the month ended 29 February, 2004.

Yours sincerely

Ciaran McGivern

Ciaran McGivern

50

An Post
Financial Accounts for the month ending 29th February 2004

Postal Division
31st March, 2004.

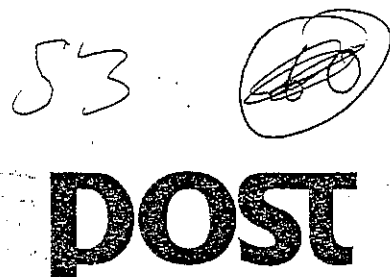
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Patricia Cronin
Department of Communications, Marine
and Natural Resources
Leeson Lane
Dublin 2

26th February, 2003

Dear Patricia

Year End Report 2003 and Report for January 2004

In advance of our monthly meeting I attach four copies of our report on the unaudited financial results for the year ended 31 December 2003 and of the financial and operating review for the month ended 31 January 2004.

The report for the year ended 31 December 2003 is the last financial report to present the results in the old business unit structure.

As discussed previously, with effect from 1 January 2004 the financial reports reflect the new organisation structure. All of the financial reporting will be based on the directorate structure within the company. The report itself begins with the Chief Executive's Summary and then the reports for the individual directorates follow, with the detailed financial schedules at the back.

Yours sincerely

A handwritten signature in cursive script that reads "Ciaran McGivern".

Ciaran McGivern

5B

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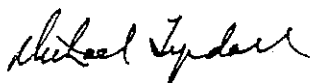
Ms. Patrick Cronin
Department of Communications, Marine & Natural Resources
Leeson Lane
Dublin 2

5 February 2004

Dear Patricia,

I refer to your letter of 3 February 2004 in connection with the submission of draft unaudited accounts for 2003. These will be considered by the Board of An Post at its next meeting on 26 February 2004 and, subject to the approval of the Board, I expect to be able to submit the accounts to you immediately thereafter.

Yours sincerely



Michael Tyndall
Company Secretary

An Post
Financial Accounts for the month ending 31st January 2004

54 ~~54~~
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Postal Division
8th March, 2004.

62 (68)

An Post Regulatory Accounts Summary - Year ended 31 December 2002.

	Domestic		International Outbound		International Inbound		Total	
	Turnover	Profit %	Turnover	Profit %	Turnover	Profit %	Turnover	Profit %
Letter Post:								
Reserved	243.2	(8.7) -3.6%	44.9	(5.9) (13.2%)	32.3	(9.4) (29.2%)	320.4	(24.0) (7.5%)
Non Reserved	36.9	2.5 6.8%	26.3	8.1 30.7%	18.3	(3.8) (20.8%)	81.5	6.8 8.3%
Letter Post USO	280.1	(6.2) -2.2%	71.2	2.2 3.0%	50.6	(13.2) -26.0%	401.9	(17.2) (4.3%)
SDS USO							13.9	0.7 5.1%
Total USO							415.8	(16.5) (4.0%)
Non USO							105.3	(3.0) (2.8%)
Regulatory Accounts (Letterpost and SDS):							521.1	(19.5) (3.7%)
Post TS							125.2	(1.2) (1.0%)
Other Consolidated Activities							37.4	(49.8) (133.2%)
Total An Post Group before Taxation							683.7	(70.5) (10.3%)

Notes:

- The summary above has been extracted from the An Post Regulatory Accounts for 2002 which were submitted to ComReg on 22 May 2003.
- The 2002 Regulatory Accounts have been reconciled to the Published Financial statements for 2002 for An Post.
- Reserved Items: Postal items less than 350g and / or price less than 5 times domestic public tariff.
- Non-reserved Items: Postal items between 350g -- 2kg, parcels up to 20kg or price greater than 5 times domestic public tariff.
- Obligatory services (USO) include the following:
 - the clearance, sorting, transport and distribution of Postal items up to 2 kgs
 - the clearance, sorting, transport and distribution of Postal packages up to 20 kgs
 - services for registered items and
 - services for insured items.