



Annual Report 2005



An Post is Ireland's national postal operator. Its network covers not just distribution but logistics and financial services and it provides a wide range of services for both business and personal customers.

For further information on An Post, visit our web site at

www.anpost.ie

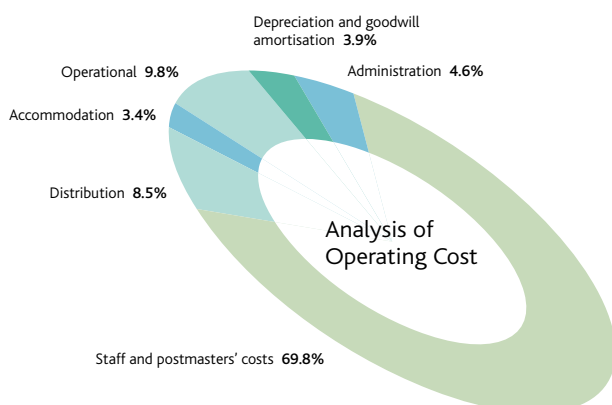
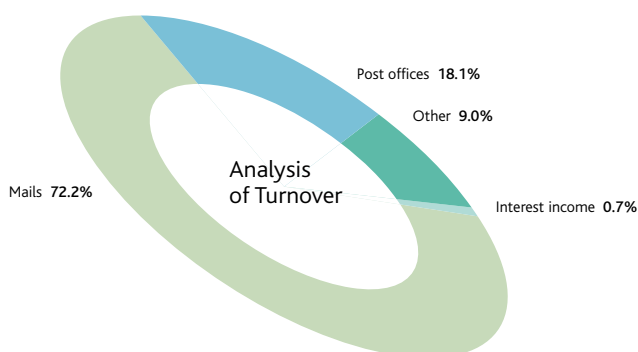
The An Post Annual Report 2005 is also available in Irish.

CONTENTS

- 2 Financial Highlights
- 3 Financial Trends
- 12 Board of Directors and Corporate Information
- 14 Chairperson's Statement
- 16 Chief Executive's Review
- 19 Management Organisation
- 20 Financial Review
- 22 Universal Service Obligation
- 25 Quality of Service
- 26 Stamp Issues and Philatelic Publications
- 27 Index to the Financial Statements

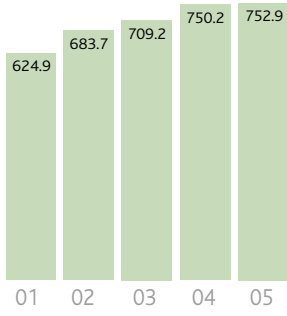
Financial Highlights

	2005	2004 (restated for FRS17)	2004 (as reported under SSAP24)
	€m	€m	€m
Turnover	752.9	750.2	750.2
Operating profit/(loss)	16.2	(3.0)	1.8
Exceptional items	19.3	5.3	5.3
Profit for the financial year	40.7	11.1	6.5
Operating profit/(loss) as % of turnover	2.2%	(0.4%)	0.2%

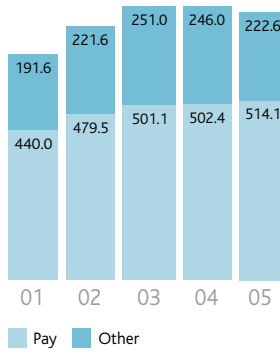


Financial Trends

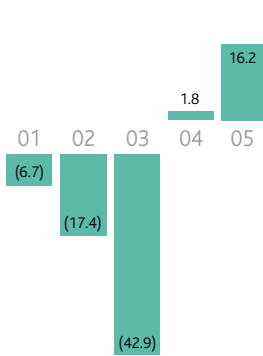
Turnover €m



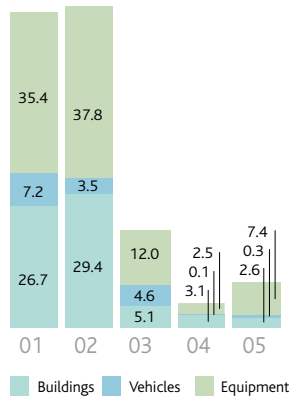
Total Operating Costs €m



Operating Profit/(Loss) €m



Tangible Fixed Assets - Spending €m



Note: 2004 and prior years are as previously reported under SSAP 24 – Accounting for Pension Costs.



NEW REVENUE STREAMS

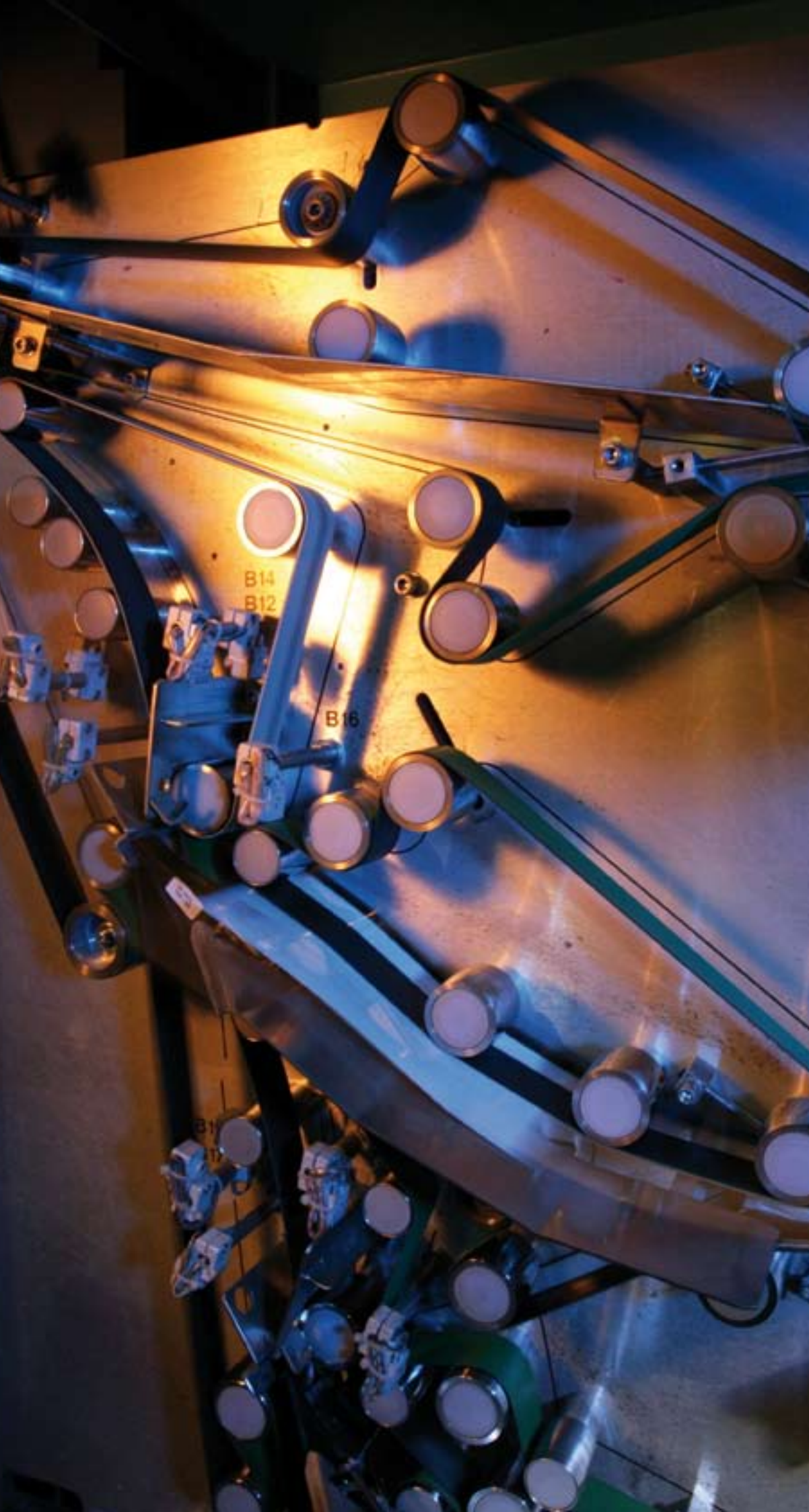
PLANS ARE IN PLACE TO
PROVIDE A WIDER RANGE
OF FINANCIAL SERVICES
AND PRODUCTS THROUGH
THE POST OFFICE NETWORK
IN CONJUNCTION WITH
AN ESTABLISHED FINANCIAL
INSTITUTION.

OUTLOOK

CONTINUING FOCUS ON
CHANGE AND EFFICIENCY
WITH A HEIGHTENED
EMPHASIS ON MEETING
EVOLVING CUSTOMER NEEDS.

15 J. GRO





B14
B12

B16

B1

SECURITY

WE HAVE ESTABLISHED
A MAJOR SECURITY
IMPROVEMENT PROJECT
TO IMPROVE THE SAFETY OF
OUR CUSTOMERS AND STAFF.

TRANSFORMATION

WE ARE IMPLEMENTING A
MAJOR CHANGE PROGRAMME
IN OUR MAIL COLLECTION
AND DELIVERY PROCESSES.



Board of Directors

Margaret McGinley, B.A., LL.B.

*Chairperson – 2,3,4,5,6
Age 46*

*Appointed 4 February, 2003
second term*

Ms. McGinley was appointed as Chairperson in February 2003, having previously served as a director of An Post for five years. She is a partner in McGinley & Co. Solicitors, Milford and Letterkenny, Co. Donegal.

Patrick Compton

*Employee Director – 2
Age 49*

*Appointed 1 November, 2004
fourth term*

Mr. Compton has worked in the postal service for the past thirty-three years and his current position is that of Partnership Co-ordinator, based in Roscommon. He was a member of the National Executive of the Communications Workers Union for twenty two years and its president in 1986. He is active in community development in his local area and he is a member of Arigna Leader Board and Roscommon County Development Board.

Jerry Condon

*Employee Director – 4
Age 52*

*Appointed 1 November, 2004
third term*

Mr. Condon commenced work in 1971 with the Department of Posts and Telegraphs and has worked as a Post Office Clerk for his entire career. He has been an active member of the Communications Workers Union throughout his career and he served on the National Executive of that union for thirteen years.

Donal Curtin, B.E. (Elec.)

*Director – 2,4,6
Age 58*

Appointed 14 July, 2003

Appointed Chief Executive in July 2003, Mr. Curtin is also Chairman of An Post National Lottery Company. Before joining An Post, he had a distinguished career both at operational and senior management level in the ESB where he held the position of Commercial Director as well as several high level posts in its subsidiary – ESB International.



James Hyland, B.Comm., F.C.A., F.C.I.S., M.C.I.Arb., M.E.W.I.

Director – 1,3

Age 70

Appointed 11 December, 2003

Mr. Hyland is a former Deputy Chief Executive of Golden Vale Group and a former Group Chief Executive of Youghal Carpets plc. He is currently Managing Director of James Hyland & Company, Forensic Accountants, and Managing Partner of Hyland Johnson Murray, Chartered Accountants. He is also Chairman or director of several companies including An Post National Lottery Company.

Terry Kelleher, Dip. Industrial Relations

Employee Director

Age 38

Appointed 1 November, 2004

Mr. Kelleher started his career in An Post in 1987 when he joined the Company as a Clerical Assistant. He is currently employed as a Clerical Officer in the Savings Repayments section in the GPO. An active member and trustee of the Civil, Public and Services Union, he has served both as branch secretary in An Post and on the Union's National Executive.

Alice O'Flynn, B.A., M.Sc., Dip. Legal Studies, Cert. Eur.Comm.Law

Director – 1,5

Age 53

*Appointed 27 May, 2002
second term*

Ms. O'Flynn has spent most of her working career in the civil service, working first as an Executive and Higher Executive Officer in the Department of Justice and then in the Department of Social and Family Affairs. She is currently an Assistant Secretary in that Department with responsibility for human resources, pensions and carers policy, corporate development and internal audit.

John Quinlivan, B.Sc. (Mgt. & Law), M.Sc. (Spatial Planning), Dip. in Public Admin.

Director – 3

Age 67

Appointed 9 May, 2003

Mr. Quinlivan has had a lengthy career in local government, serving in senior positions in nine counties, including fifteen years as Louth Country Manager. He served for five years as a member of the National Roads Authority and he also served as a member of the Local Government Management Services Board and the Local Government Computer Services Board and An Comhairle.

Patrick Davoren

Employee Director – 1,6

Age 56

*Appointed 1 November, 2004
fourth term*

Mr. Davoren commenced work in 1965 with the Department of Posts and Telegraphs and has worked as a Post Office Clerk for his entire career. He has been an active member of the Communications Workers Union throughout his career. He was a local branch treasurer for twenty years and he served on the National Executive of the union for two years.

Thomas Devlin

Employee Director

Age 46

Appointed 1 November, 2004

Mr. Devlin began his career in the Post Office in 1976 when he joined the Department of Posts and Telegraphs as a Junior Postman working as a messenger in the Minister's Office. He is currently employed as an Inspector of Postmen at the Sandyford Parcel Depot. An active member of the Communications Workers Union, he served on the National Executive for two years and was Chairman of the SDS Drivers' Branch from 1996 to 2004.

Louise English, B. Comm., F.C.A.

Director – 3

Age 43

Appointed 1 June, 2005

An accountant by profession, Ms. English began her career with Craig Gardner/Price Waterhouse and then joined IBI Corporate Finance, a leading provider of corporate finance advice. She held a number of positions there, including Director of Business Development. A member of the Institute of Directors, she has served on the Boards of a number of public and private Irish companies including Bord na Móna plc and Sherry Fitzgerald plc. She is currently a non-executive director of St. Vincent's Healthcare Group Ltd and other private companies.



Alan Sloane

Postmaster Director – 2

Age 48

*Appointed 1 January, 2004
second term*

Mr. Sloane has worked in the family grocery and post office business since 1976. He was appointed postmaster of Loch Gowna post office, Co. Cavan in 1979. He is also Managing Director of J.A.S. Limited, a security counter and furniture manufacturing business, which he established in 1985.

Peter Wyer, B. Comm., LL.B.

Director – 5,6

Age 57

*Appointed 4 February, 2003
second term*

In the early part of his career, Mr. Wyer worked for some time in merchant banking but he has spent most of his career in sales. He joined Arch Motors Limited in Galway in 1976 and he is currently Sales Director and Company Secretary of that company. He is also a director of a number of other related companies.

Corporate Information

Secretary

Michael Tyndall

Registered Office

General Post Office
O'Connell Street
Dublin 1

Auditors

KPMG
Chartered Accountants

Bankers

Bank of Ireland

Solicitors

Matheson Ormsby Prentice

Key to Board Committees

- 1 – Audit and Security
- 2 – Finance
- 3 – Financial Services
- 4 – Personnel
- 5 – Remuneration
- 6 – Strategy

Chairperson's Statement



Margaret McGinley
Chairperson

Financial Stability

The key strategic objective for An Post over the past three years has been to return the Company to financial stability. In 2004, significant strides were made towards achieving this objective and, in 2005, further progress has been made, resulting in a pre-tax profit of €40.9m as well as a cash balance of €185m at year-end.

Taking account of the challenging environment within the postal industry, the result is satisfactory. The transformation of the Company's finances has been achieved as a consequence of the concerted efforts of the Board, management and staff within the Company. However, while the result is a positive one, there is no room for any complacency. The consolidation of the success of the past two years will only be realised through the full implementation of major change programmes and the continuous pursuit of ongoing change and efficiencies to ensure that our cost structure becomes increasingly more competitive and our service remains relevant to all customers, both business and personal.

An Post's cash position at the end of 2005 is a particular source of satisfaction to the Board. The ongoing rationalisation of the Company's property portfolio and of its subsidiary companies in 2004 and 2005 is largely responsible for this positive outcome. It must however be noted that a significant portion of these monies will be

required to fund severance and early retirement packages provided for in the various change programmes that have been agreed with the trade unions representing staff in An Post.

Industrial Relations

The protracted nature of the negotiations with trade unions, on change programmes that are essential to the modernisation of the Company, was a dominant feature of the year. This created difficulties, both internally and externally, although disruption to customers was kept to a minimum. By the end of the year, however, the reality is that agreement had been reached on major change programmes with all the trade unions in An Post. The challenge now is to ensure that we move forward in a spirit of co-operation in relation to the implementation of the programmes, in the interest of the Company. This will be assisted by the process, under the direction of Mr. Peter Cassells, for reviewing the operation of procedures for meaningful consultation and information sharing across An Post with a view to promoting a partnership for change within the Company.

Postal Tariffs

Difficulties were also encountered with the Company's efforts to secure increases in the tariffs charged for those postal services which come within the remit of the postal regulator, ComReg. It was not until December 2005 that a decision was issued by ComReg on An Post's application for an increase in rates and that decision did not meet the Company's needs. The Board has decided to seek a Judicial Review of the ComReg decision.

Changing Times and Markets

The main markets in which An Post operates, mails and transaction services, continue to be vulnerable to electronic substitution. The post office network is faced with the reality that fewer and fewer new pensioners and other welfare recipients are choosing to receive their payments across post office counters. The mails business is, likewise, experiencing declines in core mail volumes, particularly where business to business mail is concerned.

An obvious response to these developments is for An Post to explore business sectors where the competencies possessed by the Company can be used to good effect. One of these areas is financial services and the Board is very satisfied with progress made in 2005 with our proposed entry into this market. This progress has resulted in An Post entering into exclusive joint venture discussions with international financial services provider, Fortis.

Quality Issues

The performance for next day delivery of letters in 2005, as measured for An Post by PricewaterhouseCoopers, was 83.5%, significantly below ComReg's target of 94%. In recognition of the need to improve service quality, the Board, during 2005, commissioned PA Consulting Group to conduct an end-to-end audit of quality of service. Arising from the audit recommendations, an Improvement Programme is currently being implemented.

Major Initiatives

Given the extent of the change to be implemented throughout the Company over the next couple of years, the Board has adopted a rigorous project management approach to the control and execution of each major change programme. Using well defined project management techniques, an Executive Programme Board has the task of ensuring that efficiencies agreed in the various programmes are fully realised in accordance with the timelines set out.

In response to heightened public policy requirements concerning security awareness throughout society and to provide additional security for postmasters and counter staff, An Post launched a major Security Improvement Project during 2005, covering areas such as security at post offices and procedures for cash handling and distribution. The programme will involve significant capital expenditure of the order of €15m, and ongoing annual costs of €12m. The implementation of the security improvements is a priority project and the intention is to have the programme completed by the end of 2006.

Shaping our Future

While financial stability has been restored to An Post, the Board is conscious that the Company must establish a long term, sustainable future. This will be no easy task

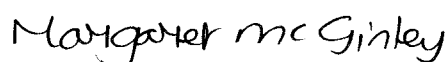
given that An Post must increasingly operate in markets that are populated by competitors working in both the traditional and electronic sectors. To that end, the Board approved, in December 2005, a work programme for the formulation of a new Strategic Plan – one that will likely combine a continuing focus on change and efficiency with a heightened emphasis on meeting evolving customer needs.

The past number of years has demonstrated just how difficult it can be for an organisation like An Post to embrace major and unprecedented change. I am convinced that, in the long term, continuous change can only take place if the Company has the active support of all stakeholders. I look forward, therefore, to engaging in a new and positive partnership with all the Company's stakeholders with the objective of maintaining the financial viability and societal relevance of An Post long into the future.

Conclusion

I would like to thank my colleagues on the Board for the dedicated and committed way they discharged their duties during 2005. Thanks also to the Minister for Communications, Marine and Natural Resources and his officials for their assistance and support throughout the year.

As I alluded to earlier, 2005 was, in many ways, a difficult year for An Post and I would like to thank the management and staff for their loyalty and hard work. Finally, on behalf of the Board, I would like to pay tribute to Donal Curtin, Chief Executive, for the leadership and drive he has demonstrated in bringing the Company from the crisis in 2003 to the much improved financial position of today. Mr Curtin has decided to leave An Post when his contract expires this summer and I want to express to him the sincere thanks and best wishes of the Board.



Margaret McGinley

Chairperson

23 March, 2006

Chief Executive's Review



Donal Curtin
Chief Executive

Financial Results

The financial performance of An Post in 2005 is a source of some satisfaction to all of us who work in the Company. The achievement of both budgeted revenue and expenditure has resulted in a pre-tax profit of €40.9m. When the 2005 performance is combined with that of 2004, the reality that the finances of An Post have returned to some stability becomes apparent. The achievement of this position was at the core of the Strategic Recovery Plan which the Board approved in autumn 2003.

While the modest profit levels of the past two years are a source of pride, the reality is that An Post operates in a low margin industry and any unexpected negative variance in either revenue or expenditure can quickly cause the Company to revert to a loss making situation. To guard against this, it is imperative that there is no relenting on the cost controls exercised within the Company over the past two years. Furthermore, we must continue to maximise revenue from existing products and services and be prepared to react quickly to emerging market opportunities.

Turnover in 2005 is reported at €752.9m, an increase of €2.7m over the figure for 2004. This small increase must be seen in the context of the disposal of two subsidiary companies in March 2005 – a disposal which effectively reduced turnover in 2005 by €21.3m when compared to

2004. There are two other important points to note about the reported income. Firstly, the budget was achieved despite the fact that an expected increase in postal rates did not materialise. Secondly, against the backdrop of a buoyant economy, the level of increase in income adds further weight to the stark reality that An Post is operating mainly in markets that are growing at a slower rate than overall economic growth.

Overall operating costs at €734.4m were kept within budget despite the payment to staff of the full pay provisions of the Sustaining Progress Agreement. This result was achieved by exercising stringent controls on all costs, both pay and non-pay. The ability of An Post to contain its non-pay expenditure at current levels is, however, constrained and, in future, control of payroll costs must become the main stay of the Company's cost control initiatives.

An Post's cash performance in 2005 is a source of particular satisfaction. The year-end cash position is very positive and, importantly, is sufficient to fund the severance and early retirement schemes that will operate over the next couple of years as the implementation of the change programmes reduces the number of staff required for postal operations. An Post's cash position received a major boost during 2005 through the sale of two subsidiary companies – PostTS UK Limited and An Post Transaction Services S.A. – which together realised a profit on disposal of €59.3m.

Competition and Regulation

Throughout 2005, An Post prepared for the further reduction, from January 2006, in the size of the postal market reserved to the Company. This reduction in the reserved area, means that 58% of our mails business is now open to competition. Inevitably, in such a situation, it will become increasingly costly for An Post to meet its obligations as the Universal Service Provider and these difficulties will intensify in the years to come.

As part of its preparation for the reduction in the reserved area, An Post applied to ComReg for an increase in postal rates. This application was motivated by the need to generate sufficient revenues to enable An Post meet its objectives, including the provision of universal services to postal users. Despite ongoing interaction with ComReg throughout 2005, a decision on An Post's application

was only issued in December and that decision did not meet the Company's needs. In the absence of an appeals mechanism, the Board came to the conclusion that its only recourse was to seek a Judicial Review of ComReg's decision.

An Post's retail network comprises some 1,400 post offices located across the country. It is the largest retail network in Ireland. These outlets provide a wide range of transaction services to people at local level and are seen by communities as an important part of the social infrastructure. While transaction numbers have been growing in many of the services we provide, the fact is that 2005 saw a further decline of 4% in the volume of business transacted on behalf of the Department of Social and Family Affairs in respect of welfare payments. This clearly demonstrates the importance of developing new streams of income for the post office network going forward. It is in this context that the Company has taken the initiative in seeking to join forces with an established financial institution to create a joint venture to provide a range of financial services and products through the post office network. We welcome the support we have received from the Government in pursuing this initiative and, at the time of writing, have commenced negotiations with Fortis, a major Dutch/Belgian financial institution, on an exclusive basis with a view to forming a joint venture company.

Change Agreements

The implementation of major change is never easy and it is particularly difficult for an organisation like An Post which has traditionally operated in a rather sheltered environment and must now operate in an increasingly competitive one. For much of 2005, the Company was engaged in protracted negotiations with all the unions which represent staff in An Post, but particularly with the Communications Workers Union (CWU), on a range of change programmes.

With the assistance of all the industrial relations institutions of the State – the Labour Relations Commission, the Labour Court and the National Implementation Body – progress was gradually made and this eventually culminated in the achievement of an agreement with the CWU on the most important of the change programmes, that which relates to the collection and delivery of mail.

With this agreement now in place, the way is clear for a radical re-engineering of our mail collection and delivery processes, the most labour intensive parts of the business. While a detailed implementation plan has been formulated, this programme will require the support and full co-operation of the staff whose roles are encompassed within the programme. It is my sincere hope that this support will be forthcoming and that we can all work together to position An Post for the challenges that lie ahead.

Change programmes were also finalised during 2005 with two other unions; the Association of Higher Civil and Public Servants (AHCPs) and the Public Service Executive Union (PSEU). With the assistance of the Labour Court, agreement was reached with all unions on the payment of wage increases provided for under the provisions of Sustaining Progress – Social Partnership Agreement 2003-2005.

Continuous change in response to an evolving marketplace will inevitably be a fact of life for An Post into the future. Without a doubt, that change will best be made where it emanates from a positive relationship between the Company and the unions which represent An Post staff. To that end and subsequent to agreement being reached with the CWU on the major change programme, the process for introducing new mechanisms for information sharing and partnership within An Post was reactivated. I expect that, under the expert facilitation of Mr. Peter Cassells, this process will lead to a more constructive approach to the implementation of necessary change in the years ahead.

Quality of Service

The performance for the next day delivery of letters in 2005, as independently measured for An Post by PricewaterhouseCoopers, was 83.5% – significantly less than the target of 94% which ComReg believes An Post should be achieving. This disappointing level of next day delivery was due mainly to the ongoing industrial relations issues extant in the Company during 2005 and, to a lesser extent, to some temporary operational difficulties caused by the completion of outward mails concentration, a major operational change which is discussed below.

For all postal administrations, the level of next day delivery remains one of the key performance measures and all of us at An Post know that nothing less than significant improvement in this area will satisfy our customers and other stakeholders. Accordingly, during 2005, PA Consulting Group was commissioned to undertake an independent end-to-end audit, with a view to identifying how the Company can provide a consistent and acceptable level of next day delivery. The recommendations from this audit are currently being implemented and these, combined with the implementation of agreed work practice changes, will deliver better quality in 2006 and in the years ahead.

Other Significant Developments

The security of postmasters and their staff, An Post counter staff and staff involved in the transportation of cash came sharply into focus in 2004/2005 with considerable media coverage of armed robberies, some of which occurred at post offices. As part of a co-ordinated response involving Government, the Gardaí and companies involved in cash handling, An Post established a major Security Improvement Project with the objective of improving security at post offices and during the transportation of cash around the country. This project represents a major investment on the part of An Post but it is an investment that the Company must make to ensure the security of its staff, its contractors and their staff as well as the monies we move.

During 2005, we achieved a major operational milestone with the completion of outward mails concentration. This means that every mail item posted in Ireland is now processed at one of An Post's automated Mail Centres which are strategically located in Dublin, Cork, Portlaoise and Athlone. The completion of mails concentration facilitated the achievement of savings arising from the fact that initial sorting of mail is no longer carried out manually at numerous other locations around the country.

Also successfully completed during 2005 was the re-integration of our parcels business into the mainstream mails processing and distribution network. This followed the Board's decision to stem crippling losses at the former SDS division and to concentrate on a unified mails business. The completion of parcels integration allowed An Post to focus once more on advertising and promoting its parcel delivery services, serving Ireland and countries throughout the world.

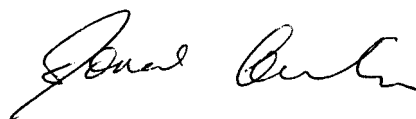
Given the number and scope of major programmes and projects underway within An Post, an Executive Programme Board was established to oversee and monitor this diverse activity. This Programme Board will be responsible for ensuring that all programmes utilise proven project management techniques and will, where appropriate, be involved in verifying that the agreed change has taken place in advance of change allowances being paid to staff.

Facing the Future

Despite An Post's return to financial stability, many challenges lie ahead for the Company if it is to remain relevant to its customers, both business and personal. Electronic substitution of many of An Post's core service products will remain a threat to the business. In response, An Post must continue to focus on efficiency and embrace the changes that are inevitable.

An Post must also seek new market opportunities, the Company's proposed entry to the financial services market being a case in point. Likewise, An Post's renewed focus during 2005 on the parcels market is a recognition that, while core mail volumes are in decline, there are growing market segments where the Company possesses the competencies to succeed.

It is axiomatic to say that An Post must become more customer focused. In the changed market place of today, we must ensure that the products and services we offer remain relevant to the lives and businesses of all our customers. This will, perhaps, be the single biggest change that An Post will need to make. Already, there are signs that it can make this change – for example customer impact is now a key element of all of the major change programmes underway in An Post. Ultimately, of course, it will be An Post's customers who will decide if the Company remains relevant to them and, in truth, that is the way it should be.



Donal Curtin
Chief Executive

23 March, 2006

Management Organisation

Donal Curtin, B.E. (Elec.)
Chief Executive, Age 58

Appointed Chief Executive in July 2003, Mr. Curtin is a member of the Board of An Post and Chairman of An Post National Lottery Company. Before joining the Post Office, he had a distinguished career both at operational and senior management level in the ESB where he held the position of Commercial Director as well as several high level posts in its subsidiary – ESB International.

Larry Donald, B.A. (Econ.)
Chief Operating Officer, Age 56

Mr. Donald joined An Post in August 2003 and was appointed Chief Operating Officer in July 2004. The greater part of his career was spent in the ESB where he held various senior positions, including Public Affairs Manager and Company Secretary and Head of Corporate Affairs.

Derek Kickham, B.E. (Elec.), M.I.E.I.
Commercial Director, Age 46

In October 2003, Mr. Kickham joined An Post as Commercial Director. His management experience, both in Ireland and abroad, is extensive with particular strength in the utility sectors of energy, fixed and mobile communications. With expertise also in the field of mergers and acquisitions, he has been involved in the creation of a number of significant businesses and joint ventures.

Patrick Knight, M.Sc. (Organisational Behaviour), F.C.I.P.D.
Human Resources Director, Age 51

In March 2004, Mr. Knight joined An Post as Human Resources Director. Before joining the Company, he had been General Manager Human Resources at Waterford Crystal, which he joined in 1986. There, he progressed through various senior HR roles both in Ireland and the UK. Previous experience also includes work as a Personnel Officer with Bord na Móna plc.



Peter Quinn, B. Comm., F.C.A., M.B.A.
Interim Finance Director, Age 47

Mr. Quinn joined An Post in August 2004. Previous work experience includes senior finance and strategic positions with PJ Carroll and Company plc and Monaghan Mushrooms Limited. Earlier in his career he worked in practice with KPMG.

Brian McCormick, B.E. (Mech.), M.B.A.
Services Director, Age 46

Mr. McCormick joined the Post Office in May 2002 as Strategy Director and was appointed to his current position of Services Director in October 2003. Prior experience includes CRH plc and Merrion Corporate Finance where he was a Director.

Eoin Morgan
Collection and Delivery Director, Age 51

Mr. Morgan began work in the Post Office when he entered the Department of Posts and Telegraphs in 1971 as a Post Office Clerk. During his career he has gained wide experience in all aspects of the Post Office's operations, occupying senior positions across the Company before his appointment as Collection and Delivery Director in July 2004.

Liam O'Sullivan
Mail Processing Director, Age 39

Joining An Post in 1985 as a Post Office Clerk, Mr. O'Sullivan has gained broad experience across the whole range of Post Office business during his career. He held various administrative and managerial positions in the Company before being appointed Mail Processing Director in July 2004.

Financial Review

Financial Overview

	2005	2004 (restated for FRS17)
	€m	€m
Turnover	752.9	750.2
Operating profit/(loss)	16.2	(3.0)
Profit for the financial year	40.7	11.1

The operating profit of €16.2m represents an improved performance over 2004. Continued control of labour and operating costs has again proved to be the main factor in this improved trading performance.

The profit for the financial year of €40.7m reflects the impact of exceptional items; the sale of subsidiary companies, which contributed €59.3m to profits, and additional business restructuring costs of €40m.

The 2005 financial statements have been prepared to comply with the requirements of FRS 17 Retirement Benefits and the results for the previous financial year have been restated accordingly. The impact of this change in accounting treatment is dealt with in note 25 to the financial statements.

Turnover

Excluding the impact of the subsidiary companies sold during the year, turnover has increased by 3.3% over 2004. This increase arose mainly from increased revenues on international mails. Notwithstanding this, the impact of liberalisation and increased competition from electronic alternatives continues to put pressure on mails revenues. With effect from the 1 January, 2006, the reserved area was reduced to 50 grams and 2.5 times the standard postal tariff and this measure opened approximately 58% of An Post mails revenues to competition from that date.

Revenues from services offered through post offices remained static during 2005. This reflects ongoing competitive pressures being experienced in this market and, in particular, the erosion of counter transaction business caused by the continued move towards electronic payments methods.

Operating Costs

Total operating costs decreased by €16.5m. In the context of wage increases of €38m paid under Sustaining Progress, this is a significant achievement even allowing for the fact that costs in 2004 included €20m for the restructuring and reintegration of the parcels business and the fact that costs in 2005 are €18.9m less than 2004 as a consequence of the disposal of subsidiary companies.

There is, therefore, a further real reduction in the underlying level of expenditure in addition to that achieved in 2004. Reducing the Company's cost base remains a critical objective and the recent agreement on the required change programme provides the means to achieve ongoing reduction in the cost base.

Disposal of certain subsidiary companies

In March 2005, the Board approved the disposal of two subsidiary companies, Post TS UK Limited and An Post Transactions Services S.A., for a consideration of €82.7m net of transaction costs. As outlined in note 4 to the financial statements, the profit realised on this transaction, excluding amounts held in escrow, amounts to €59.3m.

Restructuring Provisions

Agreement has been reached with the CWU for the implementation of work practice changes in the core mails business. This will result in costs being incurred as persons exit employment under severance and voluntary early retirement arrangements. An additional exceptional charge of €40m for business restructuring costs has been made in 2005 to reflect this.

Taxation

The small tax charge reflects tax payable on trading profits in the UK.

Capital Expenditure

Total capital expenditure in 2005 amounted to €10.3m. While this level of expenditure was higher than 2004, it is still significantly below that of earlier years, reflecting a Strategic Recovery Plan objective to maximise value in assets prior to their replacement.



Liquidity

The Group had a net cash inflow from operations during the year of €40.9m mainly as a result of the improved trading performance. Overall, the total cash inflow for the year was €107.7m due chiefly to the inflow of funds from the sale of the subsidiary companies. While the improved trading and subsidiary company disposals have resulted in increased cash holdings at 31 December, 2005, there will be significant demands on these cash resources in the short term, primarily to finance the severance payments which will arise as the various change programmes are implemented.

An Post has in place overdraft facilities which were not availed of during the year. The treasury function of the Company operates under a policy approved by the Board. That policy is both low-risk and non-speculative in nature and the primary objective of the treasury function is to ensure the availability of funds for trading activities whilst optimising the return on available cash resources.

Strategic Recovery Plan

While the results for 2005 show a continuation of the trend from 2004, implementation of the Strategic Recovery Plan remains the critical objective for the Company. Agreement on the change programme contained in the Plan has provided the basis for the implementation of changes to work practices which will, in turn, generate the savings necessary for the long term future of An Post.

Universal Service Obligation (USO)

Following a Direction under the European Communities (Postal Services) Regulations, 2002 (S.I.616 of 2002) issued on 23 May, 2003 by the Commission for Communications Regulation (ComReg), An Post is required to publish in its Annual Report information relating to the universal service including information on the number of complaints and the manner in which they have been handled.

Requirements of the USO

Under Regulation 4 (2) (a) of the European Communities (Postal Services) Regulations, 2002 (S.I.616 of 2002) "the Regulations", An Post is designated as a universal service provider with the obligation to provide a universal postal service.

Under Regulation 4 (3) (a), a universal service provider shall guarantee, on every working day and not less than 5 days a week, save in circumstances or geographical conditions deemed exceptional by ComReg, as a minimum:

- (i) one clearance, and
- (ii) one delivery to the home or premises of every natural or legal person or, by way of derogation, under conditions at the discretion of ComReg, one delivery to appropriate installations.

Under Regulation 4 (4) universal service shall include the following minimum facilities:

- (a) the clearance, sorting, transport and distribution of postal items up to 2 kgs;
- (b) the clearance, sorting, transport and distribution of postal packages up to 20 kgs;
- (c) services for registered items;
- (d) services for insured items within the State and to and from all countries which, as signatories to the Convention of the Universal Postal Union, declare their willingness to admit such items whether reciprocally or in one direction only.

Under Regulation 4(6) the universal services shall cover both national and cross-border services.

Under Regulation 5, a universal service provider shall meet the following requirements with respect to the provision of the universal service:

- (a) the service shall guarantee compliance with the essential requirements;
- (b) an identical service shall be offered to users under comparable conditions;
- (c) the service shall be made available without any form of discrimination whatsoever, especially without discrimination arising from political, religious or ideological considerations;
- (d) the service shall not be interrupted or stopped except in cases of *force majeure*; and
- (e) the service shall evolve in response to the technical, economic and social environment and to the needs of users.

Access to Universal Services

An Post provides access to its services through its network of 88 Company post offices, 1,321 sub-post offices and 161 postal agents. In addition, some 4,538 retail premises are licensed to sell postage stamps. To facilitate physical access to the service, approximately 5,000 post boxes are distributed widely throughout the State.

Tariffs

The following is a summary of the prices effective from 20 February, 2006 for a number of core services.

Ireland & NI	Letters (up to C5)	Large Envelopes (<100g)	Packets (<100g)	Parcels (<0.5kg)
Standard Post <50g	48c	90c ¹	€2.00 ¹	€6.00
Standard Post <100g	60c 50c (Ceadúnas) 55c (Meter)	90c	€2.00	€6.00
Registered Post*	€4.50	€4.50	€4.50	€9.50

¹ From 20 March, 2006.

* The fee payable for the basic registered service covers compensation up to a maximum of €320. Further compensation up to a limit of €1,500 is available for €4 and up to a limit of €2,000 for €5 based on declared value at time of posting.

Elsewhere	<50g	<50g	<50g	<0.5kg
Standard Post	75c	€1.40	€2.50	€17.00 UK €24.00 Europe €20.00 ROW
Registered Post*	€4.75	€5.40	€6.50	€21.00 UK €28.00 Europe €24.00 ROW

* Availability of service dependent on postal administration in destination country. Compensation up to €320 in UK; €150 in Europe; €100 for parcels and €35 for letters outside Europe.

Additional information in relation to services provided by An Post is available from An Post Customer Services on CallSave 1850 57 58 59 or from www.anpost.ie.

Quality of Service

The quality performance standard for the delivery of intra-Community cross-border mail was set by the European Commission and was transposed into Irish law under Regulation 12(2) of the Regulations and its Schedule. The quality standard for postal items of the fastest standard category is as follows:

D+3: 85% of items D+5: 97% of items,
where D refers to the day of posting.

The Regulations require ComReg to set a quality of service standard for the domestic universal service, and the standard set for domestic mail must be compatible with those for intra-Community cross-border services. ComReg has set a quality of service target for domestic single-piece priority mail as follows:

D+1: 94% D+3: 99.5%.

Quality of service monitoring is carried out on behalf of An Post by PricewaterhouseCoopers (PwC). The PwC monitor provides an independent assessment of the national delivery performance achieved for all single-piece correctly addressed letters, large envelopes and packet mail, posted within Ireland, in time for next day delivery. The NSAI have confirmed that the 2005 PwC monitor was carried out in accordance with the relevant European Standard I.S. EN 13850:2002 utilising a statistical design based on the 1998 real mail study and updated information from An Post's Management Information Systems. The overall results of the PwC monitor for 2005 were 83.5% for D+1 delivery and 98.7% for D+3 delivery. Full details of the results of the PwC monitor are set out on page 25.

Monitoring is also carried out on behalf of ComReg by TNS/MRBI. Full details of the results of this monitor are available from ComReg's website, www.comreg.ie.

Customer Complaints

In 2005, there were 276,464 telephone calls made to An Post Customer Services. Most of these were routine or general enquiries rather than complaints.

An Post is required to maintain records of customer complaints taking into account the relevant European standard I.S.: EN 14012:2003. The table below provides a breakdown of written complaints received from customers during 2005 in respect of An Post letter and parcel post items (please note that previous years have only reported letter post complaints). The total number of written complaints in 2005 continues to represent a minute fraction of the total mail traffic handled during 2005, i.e. approximately 0.005%.

Universal Service Obligation (USO) continued

Written complaints received from customers	
Items lost or damaged	17,890
Items damaged	848
Items arriving late	1,828
Mail collection or delivery:	
Time of delivery	242
Failure to make daily delivery to home or premises	109
Collection times/Collection failures	194
Misdelivery	1
Access to customer service information	85
Underpaid mail	30
Tariffs for single piece mail/ discount schemes and conditions	6
Registered items	11,558
Change of address (Redirections)	16
Behaviour and competence of postal personnel	52
How complaints are treated	23
Swiftpost	1,784
Exprès	725
Passport express	55
Other (not included in above)	1,062
Total	36,478

The European Standard is currently undergoing revision and when this has been completed, An Post intends to review its customer service procedures in light of the revised standard.

ComReg requires An Post to publish a Code of Practice to deal with customer complaints and the Company continues to work with ComReg to finalise this Code.

Quality of Letter Post Service – National



The European and Irish Standard, I.S. EN 13850:2002 Postal Services – Quality of Service – Measurement of the Transit Time of End-To-End Services for Single Piece Priority Mail and First Class Mail and associated standards (the standard) specifies the methods for measuring the end-to-end transit time for domestic single piece letter mail. For the period 1 January, 2005 to 31 December, 2005 PricewaterhouseCoopers undertook an independent and continuous study of the quality of service of domestic single piece mail delivered in Ireland. This study is operated in accordance with the standard and is designed to provide an independent assessment of the national delivery performance achieved for all correctly addressed letters, large envelopes and packet mail, posted within Ireland in time for next day delivery. The study is representative of the mail pattern and of the range of letter sizes, weights, payment methods, and varied mailing practices of both business and private customers, based on information provided by An Post as reflecting the real patterns and characteristics of domestic mail in Ireland.

The National Standards Authority of Ireland (NSAI) conducted an independent audit of the study and has issued a Certificate of Conformity, indicating that the study was conducted in accordance with I.S. EN 13850:2002 throughout 2005. The NSAI certificate

notes that the study uses a statistical design based on a 1998 real mail study updated from An Post management information systems. The standard requires that a real mail study be carried out at least once every three years. A programme of real mail studies is currently being conducted by An Post, the results of which will be available during 2006. It should also be noted that the statistical profile (including allowed variances) was not fully achieved in 2005 in relation to certain characteristics, e.g. weekend postings. However, these variances do not affect the validity of the results shown over.

The summary results for next day delivery of letters during 2005 are presented below on a national level and within Dublin and the rest of the country ("Provinces"). Next day delivery is recorded as delivery on the next working day after the last time of posting applicable to the induction method and location for that particular item of mail. The results have been calculated in accordance with the standard and give a statistically reliable view of the quality of service performance of domestic mail in Ireland for the period of the study in accordance with the required precision limits and the design specifications for the measurement system. The study is designed to give results at a national level accurate at the 95% statistical confidence level to within +/-0.5% annually. The total valid sample size for 2005 was 43,557.

	Mar Qtr	Jun Qtr	Sept Qtr	Dec Qtr	Year
Dublin to Dublin	89.5%	87.0%	83.5%	76.8%	84.0%
Dublin to Provinces	82.3%	80.9%	76.4%	66.1%	76.1%
Provinces to Dublin	90.2%	86.1%	84.3%	71.5%	83.2%
Provinces to Provinces	91.1%	90.5%	87.4%	79.2%	86.9%
Overall	88.2%	86.4%	83.8%	74.7%	83.5%

Index to the Financial Statements

- 28 Report of the Directors
- 31 Corporate Governance
- 38 Statement of the Directors on the Accounting Systems
- 39 Statement of Directors' Responsibilities
- 40 Report of the Independent Auditor
- 42 Report of the Independent Auditor on the Accounting Systems
- 43 Accounting Policies
- 46 Consolidated Profit and Loss Account
- 47 Consolidated Statement of Total Recognised Gains and Losses
- 48 Consolidated Balance Sheet
- 49 Company Balance Sheet
- 50 Consolidated Cash Flow Statement
- 51 Notes to the Financial Statements
- 69 Five Year Financial Summary
- 70 Operational Statistics

