



Annual Report 2004



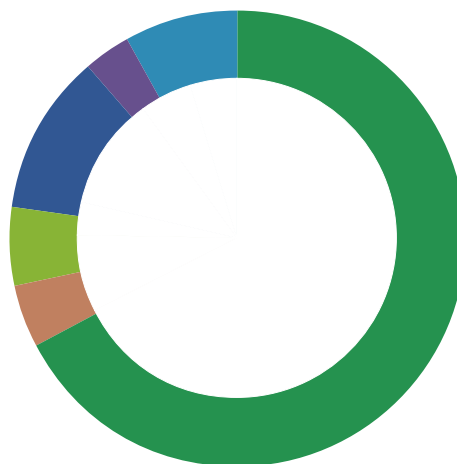
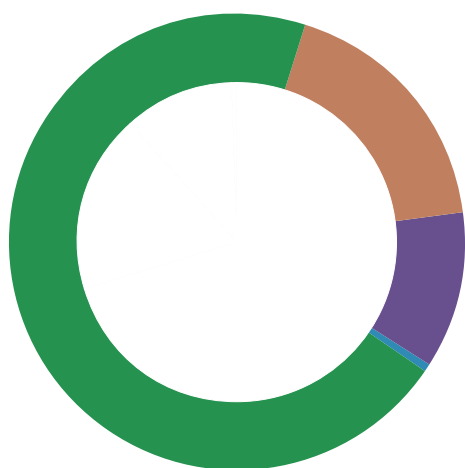


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Financial Highlights

	2004 €m	2003 €m
Turnover	750.2	709.2
Operating profit/(loss)	1.8	(42.9)
Exceptional item	5.3	13.3
Profit/(loss) for the financial year	6.5	(32.0)
Operating profit/(loss) as % of turnover	0.2%	(6.0%)

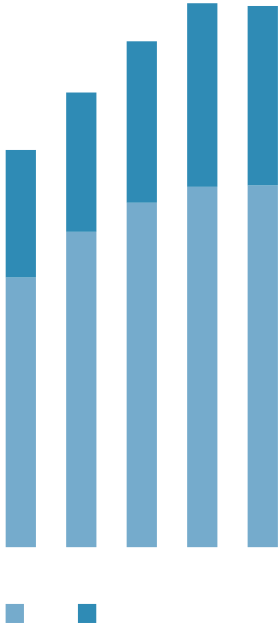


Financial Trends

Turnover €m



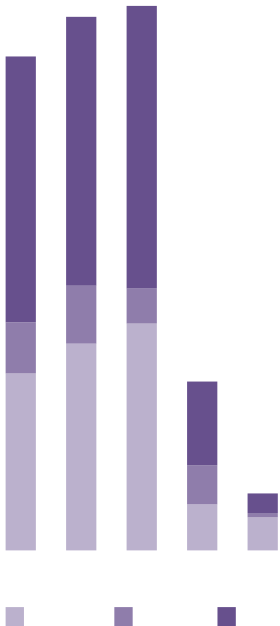
Total Operating Costs €m



Operating Profit/(Loss) €m



Tangible Fixed Assets - Spending €m



Board of Directors and Corporate Information



Margaret McGinley, B.A., LLB.
Chairperson – 2, 3, 4, 5
 Age 45
 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 48
 Appointed 1 November, 2004; fourth term

Mr. Compton has worked in the postal service for the past thirty-two 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. He is also a member of the Projects Committee of Trócaire.



Jerry Condon
Employee Director – 3
 Age 51
 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, 3, 5
 Age 57
 Appointed on 14 July, 2003

Mr. Curtin joined An Post as Chief Executive in July 2003. He is also Chairman of An Post National Lottery Company. Prior to joining An Post, he had a distinguished career at senior management and operational 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
 Age 69, 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.



Paul Kavanagh
Director
 Age 63
 Appointed 27 May, 2002

Mr. Kavanagh has held various senior management positions throughout his career and was Managing Director of Irish Printers. He was also President for Europe, Middle East and Africa for Streams International for eight years. He currently works as a companies' director and is on the Digital Hub Board and on the boards of a number of international companies. He has previously served on other State boards including Aer Lingus, Telecom Eireann and the IDA.



Terry Kelleher,
Dip. Industrial Relations
Employee Director, Age 37
 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 and Public Service 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. Leg. Studies, Cert. Eur. Comm. Law
Director – 1, 4, Age 52
 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 Officer in the Department of Justice and then in the Department of Social & Family Affairs. She is currently an Assistant Secretary in that Department with responsibility for personnel, internal audit, planning and corporate development.



Patrick Davoren
Employee Director – 1, 5
 Age 55
 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 45
 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 a Transport Co-ordinator. An active member of the Communications Workers Union, he served on the National Executive for two years and was Chairman of the Dublin Postal Drivers' Branch from 1996 to 2004.



Cathy Herbert, B.A.
Director
 Age 45
 Appointed 4 February, 2003

Ms. Herbert has worked as a freelance print journalist and as a political journalist for RTE. She also worked for three years as a special advisor to the then Minister for Tourism, Sport and Recreation in the previous Government.



**John Quinlivan, B.Sc. (Mgt. & Law),
 Dip. in Public Admin.**
Director, Age 66
 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 County 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.



Alan Sloane
Postmaster Director – 2
 Age 47
 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 Wyrer, B.Comm., LL.B.
Director – 4, 5
 Age 56
 Appointed 4 February, 2003; second term

In the early part of his career, Mr. Wyrer 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.

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 – Personnel
- 4 – Remuneration
- 5 – Strategy

Chairperson's Statement



Margaret McGinley
Chairperson

Making Progress

A policy of controlled financial management, the cornerstone of the Strategic Recovery Plan, approved by the Board in September 2003, was continued throughout 2004 and contributed to a year end outturn which significantly exceeded earlier expectations. The non-payment of wage increases provided for in Sustaining Progress and strict control of non-pay expenditure were the main factors contributing to an operating profit of €1.8m. The profit for the financial year was €6.5m. This is an encouraging result and a clear indication that we are capable, in An Post, of managing a difficult business well.

The urgent and critical task of stabilising the Company's finances has been achieved ahead of schedule and the immediate liquidity problems, which emerged in 2003, have been overcome. Significant progress has been made and there is now clear evidence that full implementation of the Strategic Recovery Plan can provide An Post with a future in which modest growth and profitability can be secured.

It is, consequently, all the more regrettable that implementation of the changes necessary to achieve a more secure financial future has been disappointingly slow. Clearly, the fundamental operational changes that are required in An Post must be negotiated but the protracted delays in concluding an agreement

have a cost impact on the Company. Changes in the collection and delivery operations, for instance, have the potential to produce annual savings of €30m. These changes, which are designed to create a more efficient operation, must be made if An Post is to have any realistic expectation of coping with the increasingly competitive market in which it provides its services. Our future economic viability and relevance is directly linked to the requirement to conclude agreement on a change programme.

Efficiency

Liberalisation of the postal market is an established EU policy and it is designed to be a gradual and controlled process to allow State postal companies time to prepare for the eventual opening of the whole market to competition. The lowering of thresholds protecting the national postal monopolies continues steadily and from next January the "reserved area" will be reduced to 50 grams and 2.5 times the standard postal tariff. This step – the last on the road to the complete liberalisation scheduled for 2009 – will present a very serious challenge for An Post. From 2006, approximately 52% of An Post revenues will be open to competition. Clearly, we must prepare for this by providing a more efficient, more flexible high-quality service that not only competes in but successfully defends our position in the market.

For An Post, the extent of regulation has also intensified. ComReg, the industry regulator, decides on the issue of price increase, quality of service standards and the extent of the universal service obligation (USO). As the universal service provider, An Post delivers mail throughout the country for a standard tariff of just €0.48. While other industries, both public and private, make regular allowance for inflation and increased costs by increasing their prices, we have seen our tariff fall steadily in real terms over the last decade.

ComReg, however, has made it clear that it is unwilling to consider price increase applications until An Post has addressed the efficiency issues which it highlighted in response to our price increase application. Agreement on the Company's change agenda is absolutely critical



therefore not just in preparing for competition but also for winning price increases – essential for our basic financial viability – and for our capacity to pay wage increases. The payment of all the wage increases provided for in the Sustaining Progress agreement, for instance, would increase our cost base by approximately €60m per annum.

Quality of service is a vital measure of efficiency. Our next day delivery performance in 2004, as measured for An Post by PricewaterhouseCoopers, was 85%. This level of performance is not acceptable and is significantly below the 94% target set by ComReg. The achievement of improved performance in next day delivery is a major issue. A specific improvement programme was undertaken in the latter half of 2004 and is producing solid results. The focus on next day delivery will continue until the required target is achieved.

Currently, An Post and ComReg operate their own independently managed quality monitoring systems. The fact that these two monitors produce diverging results is a source of ongoing confusion to postal users and the general public. We will continue to press for a single, acceptable monitoring system which has the confidence of all the parties concerned.

Parcels business

When the Strategic Recovery Plan was prepared in September 2003, the targets for SDS, the parcels and courier division, were those set out in a separate SDS recovery plan which had been initiated some months earlier. The recovery plan for SDS provided for significant change in that business and included job reductions, the introduction of a new owner/driver model and exiting from unprofitable business.

Chairperson's Statement

continued

Despite these changes, aimed at greater workplace flexibility and lower fixed costs, the plan proved unsuccessful in addressing the fundamental business issues. Losses for 2003 amounted to €12m and it became clear that SDS would fail to meet its target for 2004. The Board sought a comprehensive review of the entire operation in the early part of 2004 and, having considered various options, reluctantly decided to reintegrate the parcels business into the An Post mails business. This decision was made in the best interests of An Post and will ensure that the Company can provide an efficient and profitable parcels service into the future.

The post office network

The Company's network of post offices is a valuable asset which An Post is committed to using to the fullest extent. Progress on the conversion, by the end of 2005, of 50 Company-owned offices was very slow despite agreement, reached in 2002, with the Company's main union, the Communications Workers Union. It is very disappointing that 44 of the 50 offices remain to be converted and it is clear that the completion of the conversion programme by its target date of the end of 2005 is at risk.

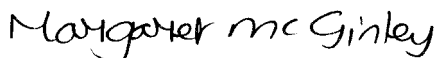
The retail business conducted through the post office network continued to make progress in 2004. The total number of Billpay transactions grew to 17 million and the very successful arrangement with AIB, for personal banking transactions at post offices, continued. A trial of Motor Tax Express, which allows people to renew their vehicle taxation through the post office, was undertaken in Cork in March. We also concluded an agreement with the Department of Justice during the year which will facilitate the payment of all fines for motoring offences through An Post. We are hopeful that this initiative can be repeated in other areas of Government services. Maximising revenue forms an important part of the Strategic Recovery Plan and initiatives such as these increase the value of the post office network.

It is important to note, however, that 70% of the income of the post office network is generated from the provision of services on behalf of the Department of Social and Family Affairs and the National Treasury Management Agency (NTMA). The value of these services, in national economic and social terms, must continue to be recognised. It is disappointing to have to state that we have so far failed to secure a price increase – only the second since 1996 – from the Department of Social and Family Affairs for delivery of social welfare benefit payments and to report that the NTMA is actually seeking a reduction in the level of fees paid to An Post for work associated with the servicing of Government savings products. This work for the NTMA has formed the bedrock of a savings culture, fostered in childhood, which was greatly valued by the State.

Conclusion

I thank my colleagues on the Board of An Post for their commitment and hard work during 2004. I thank also the Minister for Communications, Marine and Natural Resources and his officials for their support and assistance during the year. I must, in particular, thank the management and staff of An Post for their continuing loyalty and work during what are very difficult times for us.

The future will be extremely challenging for An Post. However, having stabilised our financial position in 2004, we should now move forward collectively to secure our future as a competitive, progressive postal operator delivering positive results for our customers and shareholders.



Margaret McGinley
Chairperson

31 March 2005

Management Organisation



Donal Curtin
Chief Executive



Larry Donald
Chief Operating Officer



Derek Kickham
Commercial Director



Patrick Knight
Human Resources Director



Peter Quinn
Interim Finance Director



Brian McCormick
Services Director



Eoin Morgan
Collection and Delivery Director



Liam O'Sullivan
Mail Processing Director

Donal Curtin, B.E. (Elec.)
Chief Executive, Age 57

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

Peter Quinn
B. Comm., F.C.A., MBA.
Interim Finance Director, Age 46

Mr. Quinn joined An Post in August 2004. Prior to this he held senior finance and strategic positions with PJ Carroll and Company plc and Monaghan Mushrooms Limited. He previously worked in practice with KPMG.

Larry Donald, B.A. (Econ.)
Chief Operating Officer, Age 55

Mr. Donald joined An Post in August 2003 and was appointed to his current position in July 2004. Most of his career has been in the ESB where he worked as a senior manager in various positions, including Public Affairs Manager and Company Secretary and Head of Corporate Affairs.

Brian McCormick
B.E. (Mech.), MBA.
Services Director, Age 45

Mr. McCormick joined An Post in May 2002 as Strategy Director and was appointed to his current position in July 2004. Prior to joining An Post, he was a Director of Merrion Corporate Finance. He also worked for CRH.

Derek Kickham, B.E. (Elec.), MI.E.I.
Commercial Director, Age 45

Mr. Kickham joined An Post as Commercial Director in October 2003. He has extensive senior management experience, both in Ireland and abroad, particularly in the utility sectors of energy, fixed and mobile communications. He also has considerable experience in mergers and acquisitions and he has contributed directly to the creation of a number of significant businesses and joint ventures.

Eoin Morgan
Collection and Delivery Director, Age 50

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

Patrick Knight, MSc. (Organisational Behaviour), F.C.I.P.D.
Human Resources Director, Age 50

Mr. Knight joined An Post as Human Resources Director in March 2004. Prior to joining An Post, he was General Manager Human Resources with Waterford Crystal, which he joined in 1986. There, he progressed through a number of senior HR roles in Ireland and the UK. He also previously worked as a Personnel Officer with Bord na Móna plc.

Liam O'Sullivan
Mail Processing Director, Age 38

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

Chief Executive's Review



Donal Curtin
Chief Executive

Results

Although notable progress was made in 2004, the year was, nonetheless, a difficult one for An Post. The achievement of a modest profit, ahead of schedule, was a significant step in the stabilisation of our financial position and ends three successive years of losses. However, damaging service disruption at local and national level and the continuing lack of real progress on the agenda for change was a source of deep concern.

The result for the year has brought to a halt the decline in the Company's trading performance which was a feature of recent years. This is a notable achievement, bearing in mind that agreement has not been reached with all trade unions on a major change and cost reduction programme. The absence of an agreed change programme necessitated an alternative course to contain costs, both pay and non-pay. The steps taken included a decision to plead inability to pay the terms of the Sustaining Progress agreement and a series of other actions aimed at curtailing recruitment, overtime and other operational costs.

Turnover in 2004, at €750.2m was up by €41m – an increase of 5.8% on the previous year. Staff and postmasters' costs, at €502.4m, were only marginally up on 2003, while other costs decreased by €3.5m.

Total operating costs decreased by €2.2m, even after a charge of €20m in respect of the restructuring costs arising from the decision to reintegrate the parcels business back into the mails operation. The outcome for the year is an operating profit of €1.8m. When exceptional income of €5.3m from property disposals and our share of losses in a joint venture and taxation are taken into account, the final outcome is a profit after taxation of €6.5m. This is a very satisfactory outcome when compared with the loss of €32m incurred in 2003 but it must be seen for what it is – a result achieved by the imposition of emergency measures which do not address adequately the fundamental difficulties facing An Post.

Strategic Recovery Plan

The focus of management attention during the year has been on implementing the Strategic Recovery Plan, adopted by the Board in September 2003. A key element of the plan is the need to conclude and implement Change/Productivity Agreements with the unions representing staff in the Company. These negotiations have been ongoing since early last year and the negotiations with the largest union, the Communications Workers Union, have been particularly protracted. The Company's proposals in relation to changes in the collection and delivery of mail have recently been referred to the Labour Court which has established a technical group to examine all the issues and report back to the Court on 6 May 2005. The Company's proposals in relation to mails automation have also been referred to the Labour Court for consideration at the end of April.

Progress has been made on other elements of the Strategic Recovery Plan and we are on target to deliver a 40% reduction in management numbers. As part of this reduction, a revised management structure, critical to the delivery over the coming three years of our business recovery strategy, has been put in place. This will inculcate a sharper focus on the business and facilitate concentration on a high-quality, customer-oriented approach at all times.



Within our retail business, we have seen very satisfactory growth in the bill payment service. Available in all offices, the service has been particularly successful in automated outlets and has grown to the point where An Post is now the country's single biggest provider of this service. Most encouragingly, the service for bill payment has brought thousands of younger customers into increasing contact with their local post office and is helping to change substantially the age profile of our retail customers.

The post office network remains one of the most important assets available to the State. The 1,455 offices comprise the largest single retail network in the country and enjoy high public approval. An Post's excellent technology platform provides an opportunity for future expansion and increased business through the development of a strong financial services portfolio.

It is, however, disappointing to report that we have so far been unsuccessful in negotiating with the Department of Social and Family Affairs an increase in the contract price for the provision of welfare benefits. This vital service – the Company distributes an estimated €6.4 billion in welfare benefits annually through post offices nationwide – and similar financial services work provided for the National Treasury Management Agency are the bedrock on which future growth must be laid.

The disposal of non-core assets was also advanced during 2004. The Strategic Recovery Plan set a profit target of €43m from the disposal of property and other assets by the end of 2008. During the year, the disposal of two subsidiary companies, involved in the electronic top-up business in the UK and Spain, was progressed and,



in March 2005, An Post entered into a conditional agreement for the sale of these two companies for a gross consideration which is expected to be in the order of €80m. This represents a very successful outcome and the cash generated by this transaction will be used to fund the restructuring costs of the change programme.

Sustaining Progress agreement

In the absence of a change programme, the decision to invoke the "inability-to-pay" clauses of the Sustaining Progress agreement was a significant factor contributing to the improvement in the operating result. This decision has resulted in a saving of €20m. The decision not to

pay the terms of Sustaining Progress was not lightly taken but made in the knowledge that it was necessary and justified by the financial position of An Post. The Company had indicated that it would like to pay wage increases but that it would need a clear path to financial and commercial viability established in order to contemplate payment going forward. Viability would be enhanced through the Company's change programmes and by concluding and implementing the necessary change agreements. This would then enable the Company to pursue a tariff increase which, if granted by ComReg, would assist the Company in achieving viability and, critically, position it to compete in an increasingly liberalised and more hostile competitive environment.

Chief Executive's Review

continued

In February 2005, the Labour Court recommended that the Company and the trade unions should initiate the process provided for in the Sustaining Progress agreement to address the Company's plea of inability to pay outstanding increases under the agreement. The Labour Court also recommended that the parties should request the Labour Relations Commission (LRC) to appoint assessors to report on the economic, commercial and employment circumstances of the Company. The group of unions in An Post recently indicated to the LRC that its claim is for all wage increases in the Sustaining Progress agreement, some of which do not become due until later in 2005 and in 2006. In total, these amount to a cumulative increase in pay costs of 13.16% with an ongoing annual cost of approximately €60m. The Company is co-operating fully with the LRC and with the appointment of an assessor in accordance with the Labour Court recommendation.

Industrial Relations

It is inevitable that the future of An Post will be based on operational methods more in line with present day business requirements. However, previous attempts to introduce greater efficiencies through changes in our collection and delivery methods and the deployment of new technology have too often been met with unreasonable opposition and actions which have undermined the Company's business, reputation and capacity to provide secure employment.

I acknowledge that the introduction and acceptance of change is not easy, particularly in a large traditional company like An Post. However, it does not make sense to delay and obstruct the changes that are clearly in the long-term interest of the Company and its staff. Without closer co-operation and a genuine, united effort to meet the challenges ahead, the future – in terms of competition, falling mail volumes and electronic substitution – will be a continuing struggle. It is time for us all in An Post to resolve the industrial relations problems we face, utilising the State's industrial relations machinery where necessary, without any further delays and disruption.

Parcels business

Despite the implementation of a recovery plan in May 2003, the financial performance of SDS, An Post's parcels and courier business, failed to achieve its targets for 2004. Having lost €12m in 2003, and with further losses being incurred in 2004, the Board requested a comprehensive review of the operation in early 2004. This review examined a range of options, including the possible sale of SDS to a major international operator, but, in July, the Board decided that the only viable approach was to reintegrate the SDS operation into the An Post mails business.

Measuring service quality

Providing a national postal service is a core function of An Post and the quality of that service is a vital factor in how we are judged. Our current performance, as measured by the quality of our next day delivery, is not acceptable and must be improved. To this purpose, we have developed a short term improvement plan which has started to produce the required results.

In addition, we have undertaken a major end-to-end audit of the processes involved and, during 2005, we will put in place a major programme to address the changes necessary to enable a higher level of next day delivery. This is being done in the context of ComReg's direction to the Company to achieve a 94% next day delivery target. At present, the fact that ComReg uses its own quality monitor while An Post has a different and separate monitor, which it applies to the same task, is generating confusion. We believe that the objective should be to have just one quality monitor which is acceptable to everyone.

The special arrangements put in place to deal with the Christmas 2004 peak posting period were successful with a total of 95 million items processed and delivered between 1 December and Christmas Eve.



Conclusion

While it is clear that a great deal was achieved during the past year, there is still a lot to be done if the Company is to face the future with the confidence required to deal with the challenges ahead. It is critical that the need for change, throughout the organisation, is fully recognised and that efficiencies are implemented in every aspect of the Company's business as a matter of urgency.

Considerable time has also been spent on the preparation of the case for a vital price increase but ComReg has been reluctant to give serious attention to this without evidence that we are making real progress on operational efficiencies and service quality. In this context, the successful implementation of revised collection and delivery arrangements is crucial.

Our aim now must be to build on the financial stabilisation achieved during 2004 by focussing on the factors – customer orientation and workplace flexibility – that will allow us to survive in the new competitive order that will soon be upon us. Though we still face many difficulties, I believe that it is open for us not merely to survive but to prosper.

Donal Curtin
Chief Executive

31 March 2005

Financial Review

Financial Overview		
	2004 €m	2003 €m
Turnover	750.2	709.2
Operating profit/(loss)	1.8	(42.9)
Profit/(loss) for the financial year	6.5	(32.0)

Operating Profit

The operating profit of €1.8m represents a marked improvement on the loss of €42.9m recorded in the previous year. Control of labour and operating costs is the primary feature of the improvement with the non-payment of wage increases provided for in Sustaining Progress, the social partnership agreement, a significant factor.

Turnover

An Post operates in a mature market and the combined impact of liberalisation and increased competition from electronic alternatives continues to put pressure on mails revenue. With effect from 1 January 2004, the market for all outgoing international mail became fully liberalised and competition in this sector is expected to intensify during 2005.

Core mail volume actually declined in 2004. There was a benefit from additional revenue of €11.8m arising from the European and local election campaigns and from a referendum held during 2004, but there was a decline in the volume of international mail.

Competition has also increased in the parcel and express mail sectors with revenues falling in 2004. Following a detailed review, the Board of An Post decided, in July 2004, to reintegrate the parcels operation with the An Post mails business and this decision is currently being implemented.

While revenues from services offered through post offices increased, there is a discernible momentum towards electronic payment for some counter transaction business and this is putting pressure on business volume and revenues.

Increased revenue from other services reflects growth in subsidiary companies with the electronic top up businesses in the UK and Spain performing particularly strongly.

Costs

Payroll costs, representing 67% of total operating costs, remain the most significant element of the Group cost base. The containment of payroll costs to an increase of €1.3m (0.3%) over the prior year represents significant cost control and contrasts sharply with the growth in labour costs experienced in recent years. The non-payment of wage increases, together with savings arising from a policy of containment of recruitment, restricted the growth in labour costs.

Other operating costs decreased by €3.5m (1.4%) in 2004 as the Company pursued its Strategic Recovery Plan and reduced expenditure wherever possible. Total operating costs decreased by €2.2m. This represents a very real reduction in the underlying level of spend as reintegration and restructuring costs of €20m, arising from the Board's decision in relation to the parcels business, have been charged to the profit and loss account in 2004.

In recent years, the Company has invested heavily in the automation of the mails sorting process in order to improve the efficiency of what is currently a very labour intensive activity. The realisation of these efficiencies is a critical element of the Strategic Recovery Plan, approved by the Board in September 2003. However, during 2004, the Company was unable to achieve these and other savings due to difficulties in reaching agreement on the necessary change programme with the trade union representing the majority of staff.

Financial Review

continued

The goodwill amortisation in 2003 included a provision of €1.5m for impairment, reflecting the Board's view of the underlying carrying value of goodwill at that time. No additional provision is required in 2004 and, consequently, the charge for goodwill amortisation decreased from €4.2m in 2003 to €2.7m in 2004.

Taxation

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

Capital expenditure

Total capital expenditure of €5.7m was in keeping with the Strategic Recovery Plan and, as in 2003, reflects the financial position of the Company and the need to conserve cash resources.

Liquidity

The Group had a net cash inflow in 2004 of €41.4m compared to €21.2m in 2003. This improvement is due principally to the improved operating result. Overdraft facilities, which An Post has in place, were not availed of during the year.

There will be significant demands on the Company's cash resources in the course of the next two years, primarily for severance payments as the restructuring programmes in the Strategic Recovery Plan are undertaken.

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.

Disposal of certain subsidiary companies

Subsequent to the year end, the Board approved the disposal of two subsidiary companies, PostTS UK Limited and An Post Transaction Services S.A. and, on 15 March 2005, An Post entered into a conditional agreement for the sale of these two companies. The gross consideration before expenses is expected to be in the order of €80m and includes repayments of amounts owed to An Post and other Group companies. The cash from these disposals will be used to fund the restructuring costs of the change programme. The sale of these two companies will be recognised in the 2005 financial statements.

Strategic Recovery Plan

In the course of the year, the Company remained focussed on implementation of the Strategic Recovery Plan. While the results for 2004 show an improved financial position, many aspects of the Plan have not yet been implemented and the Company remains, therefore, in a critical financial position. Implementation of the change programme in the Strategic Recovery Plan is essential 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; and

- (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 90 Company post offices, 1,365 sub-post offices and 159 postal agents. In addition, some 4,314 retail premises are licensed to sell postage stamps. To facilitate physical access to the service, approximately 6,300 post boxes are distributed widely throughout the State.

Universal Service Obligation (USO)

continued

Tariffs

The following is a summary of current prices for standard services (priority mail services in the case of international letters) effective from 5 January, 2004:

Letter Prices	Letters up to C5	Large Envelopes	Packages
Domestic Service <100g;	48c	60c	96c
Britain <50g;	60c	€1.10	€1.65
Europe/ Rest of World <50g;	65c	€1.20	€1.80
Registered Post <100g; (Domestic) [†]	€3.90	€3.90	€3.90
Registered Post <50g; (International)	€3.40 fee in addition to priority postage		

[†] The fee payable for the basic registered service covers compensation up to a maximum of €320. Further compensation up to a limit of €1,250 is available for €3 and up to a limit of €1,750 for €4.

Parcel prices weight <0.5kg	Economy service	Priority Service
Domestic	€4.50	€7.50*
Northern Ireland	€6.00	€9.00*
Great Britain	€11.00	€19.00*
EU	n/a	€22.00
Europe – non EU	n/a	€23.00
USA & Canada	€12.00	€22.00*
Rest of World	n/a	€28.00

* These services are regarded by An Post as being outside the USO. The prices are included here for the sake of completeness

Additional information in relation to the above services and other services provided by An Post is available from the Company's Customer Service Centre on 1850 57 58 59 or from the An Post website: 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 standard is as follows:

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

No specific target was set at EU level for domestic mail performance. Under Regulation 12(1), ComReg is obliged to set a quality target for domestic mail, while under Regulation 13(1) ComReg is obliged to set standards for domestic mail which are compatible with those for intra-Community cross-border services. ComReg set a domestic quality of service performance target for 2004 as follows:

Domestic Mail:

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

This target relates to single piece priority mail which accounts for approximately half of the total mail volumes and which excludes all bulk mail sent by business.

Quality of service monitoring is carried out on behalf of An Post by PricewaterhouseCoopers (PwC). The PwC monitoring system is designed to provide an independent assessment of the national delivery performance achieved for all correctly addressed letters, flats and packet mail, posted within Ireland, in time for next day delivery. The overall results of the PwC monitor for 2004 were 85% for D+1 delivery and 98.5% for D+3 delivery. Full details of the results of the PwC monitor for D+1 delivery are set out on page 20.

Monitoring is also carried out on behalf of ComReg by TNS/MRBI. This monitoring system only measures performance in respect of single piece priority mail, which is a subset of letter mail and represents approximately 50% of the total. The annual results

of the TNS/MRBI monitor for 2004 were 72% for D+1 delivery and 96% for D+3 delivery. Full details of the results of this monitor are available from ComReg's website, www.comreg.ie.

The TNS/MRBI monitor was designed in accordance with the CEN European Standard EN 13850, which relates to single piece priority mail. The PwC monitor for 2004 related to both single piece and bulk mail. In 2005, the PwC monitor will cover single piece priority mail and bulk mail separately, in accordance with the CEN European Standard.

Customer Complaints

ComReg's Direction under Regulation 15(2) of the Regulations requires An Post to maintain records of customer complaints taking into account the CEN European standard EN 14012. The table below gives a breakdown of written complaints received from

customers during 2004 in respect of letter post items and is broadly similar to the figures captured in respect of 2003. The total number of written complaints in 2004 continues to represent a minute fraction of the total letter post traffic handled during 2004, i.e. approximately 0.004 of one per cent.

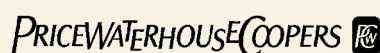
An Post is currently implementing the full provisions of this standard, which when finalised will provide a breakdown covering both letter and parcel items, and will also distinguish between written complaints and those made over the telephone. In 2004, there were 200,779 telephone calls made to An Post's Customer Services Department but most of these were of a routine nature rather than complaints.

ComReg also requires An Post to publish a Code of Practice to deal with Customer Complaints and Redress and the Company is currently working with ComReg to finalise this Code.

Written complaints received from customers	Number
Items lost or damaged	13,144
Items damaged	331
Items arriving late	1,101
Mail collection or delivery:	
<i>Time of delivery</i>	151
<i>Failure to make daily delivery to home or premises</i>	80
<i>Collection times/Collection failures</i>	44
Misdelivery	45
Access to customer service information	52
Underpaid mail	20
Tariffs for single piece mail/discount schemes and conditions	2
Registered items	9,941
Change of address (Redirections)	1,072
Behaviour and competence of postal personnel	24
How complaints are treated	49
Other (not included in above)	730
Swiftpost	1,567
Expres	597
Passport express	141
Total	29,091

Quality of Service

National



Throughout calendar year 2004, PricewaterhouseCoopers undertook an independent and continuous study (the study) of the quality of service of domestic mail delivered in Ireland. This study is designed to provide an independent assessment of the national delivery performance achieved for all correctly addressed letters, flats and packet mail, posted within Ireland, in time for next day delivery. It is based on a statistically valid sample of test mail produced and inducted under PricewaterhouseCoopers' independent control into a representative number of routes. PricewaterhouseCoopers' tests consist of measuring delivery time on an "end-to-end" basis – that is from the point of posting to the point of receipt – and comparing this with agreed delivery standards for the routes concerned.

The methodology of data measurement includes internationally accepted principles of statistical design and sampling and in particular:

- Test letters comply with the normal specifications for domestic mail in Ireland and are designed not to be distinguishable from other such mail being handled by the postal network.
- The statistical design of the study is representative of the mail pattern and of the range of letter sizes, weights, franking 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 mix, volumes and posting locations of the test mail used in the study have been determined in accordance with this design in order to provide the required level of annual statistical precision of the results at a national and route level.

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 (the standard), specifies the methods for measuring the end-to-end transit time for domestic single piece letter mail. During 2004 the study, whilst consistent with prior years and in accordance with its terms of reference, did not fully comply with the standard. The principle areas of divergence from the standard were the following:

- The statistical design of the study was not based on a valid real mail study undertaken within the last three years.
- Bulk mail and single piece mail were monitored in the one study.
- The geographical stratification of routes between urban and rural was not fully in accordance with the standard.

It is intended that other than in relation to the real mail data the study will be fully compliant with the standard and its implementation guide in 2005.

The summary results for next day delivery¹ of letters during 2004 are presented below on a national level and within Dublin and the rest of the country ("Provinces"). The results have been calculated in accordance with table B1 of the standard (calculation based on five day working week) and give a statistically reliable view of the quality of service performance of domestic mail in Ireland for the periods reported, in accordance with the precision limits² given at a 95% confidence level and the design specifications for the measurement system. The total valid sample size for 2004 was 44,747.

	Mar Qtr	Jun Qtr	Sept Qtr	Dec Qtr	Year
Dublin to Dublin	86%	79%	90%	84%	85%
Dublin to Provinces	78%	68%	80%	77%	76%
Provinces to Dublin	84%	83%	90%	82%	85%
Provinces to Provinces	90%	90%	93%	85%	90%
Overall	86%	81%	89%	83%	85%

¹ 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 (i.e. Monday is recorded as next day delivery for items posted on Friday).

² The study is designed to give results at a national level accurate at the 95% statistical confidence level to within +/- 0.7% annually.

Quality of Service

International

The International Post Corporation (IPC) is a co-operative comprising the national postal operators of 23 countries. The members of IPC have implemented the Unipost External Monitoring System (UNEX) which is designed to produce accurate monitoring of delivery times for first-class international mail from the time of posting to receipt by the customer. Results for Europe are published twice a year. The independence and validity of the results are guaranteed by Research International, the external project contractor who is responsible for the quality testing and who is ISO 9001:2000 certified.

The service objective for Europe is to deliver at least 85% of international first-class mail within three working days on a country-to-country basis.

Throughout 2004, the UNEX system monitored about 1 million test letters on 306 country-to-country mail streams covering both urban and rural areas in Europe, and on 430 city-to-city links within North America,

and between North America and Europe. The method of calculation of the quality of service is based on a five day business week (i.e. Saturday and Sunday, and national and regional public holidays in the destination country are excluded).

The test letters reflect different weights and formats and are representative of the characteristics of the mails sent by customers. They either bear stamps or are meter franked, and have either typed or hand written addresses. These letters are posted into mail boxes, taken to post offices or collected from senders' premises. Deliveries cover both business and private premises.

The chart below shows the results for Ireland for 2004 for inbound and outbound international (European) mail delivered within three working days. The accuracy of the results ranges between 1% and 5% with a 95% level of confidence.

Ireland – UNEX Results 2004 – Inbound and Outbound Performance





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Report of the Directors

The directors have pleasure in submitting their twenty first annual report together with the audited financial statements of the Group for the year ended 31 December, 2004, in fulfilment of their obligations under the Companies Acts, 1963 to 2003.

1. The Group and its Principal Activities

The Company operates the national postal service and money transmission services and provides agency services for Government Departments, the National Treasury Management Agency, An Post National Lottery Company and other bodies.

One ordinary share is held by the Minister for Finance and the remainder of the issued share capital is held by the Minister for Communications, Marine and Natural Resources.

Details of the activities carried on by subsidiary, associated and joint venture undertakings, together with the information required by Section 158 of the Companies Act, 1963, are given in note 24 to the financial statements.

2. Results

Details of the results for the year are set out in the consolidated profit and loss account on page 41 and in the related notes to the financial statements. The directors do not propose the payment of a dividend for the year.

3. Development of the Business and Important Events

The information required by Regulation 37 of the European Communities (Companies Group Accounts) Regulations, 1992, is included in the information given on pages 6 to 21. On 15 March, 2005, An Post entered into a conditional agreement for the sale of two subsidiaries, PostTS UK Limited and An Post Transaction Services S.A. Further information in this regard is contained in note 12 to the financial statements.

4. Directors, Secretary and their Interests

The following changes have taken place in the composition of the Board since the date of the previous report of the directors:

- * Mr. Patrick Compton retired 31 October, 2004, re-appointed 1 November, 2004
- * Mr. Jerry Condon retired 31 October, 2004, re-appointed 1 November, 2004
- * Mr. Patrick Davoren retired 31 October, 2004, re-appointed 1 November, 2004
- Mr. Shay Martin retired 31 October, 2004
- * Mr. Thomas Devlin appointed 1 November, 2004
- * Mr. Terry Kelleher appointed 1 November, 2004
- Ms. Evanne Kilmurray retired 16 December, 2004.

** appointed to the Board in accordance with the Workers Participation (State Enterprises) Acts, 1997 to 1993.*

The directors and secretary who held office at 31 December, 2004 had no interests in the shares in, or debentures of, the Company or any Group company.

5. Employees

The Group is an equal opportunities employer. All applications for employment are given full and fair consideration, due regard being given to the aptitude and ability of the individual and the requirements of the position concerned. All persons are treated on equal terms as regards training, career development and promotion.

The Group is committed to the highest standards of safety and health practices in order to meet the requirements of the Safety, Health and Welfare at Work Act, 1989. A safety and health manager co-ordinates the policies outlined in the Group's Safety Statement, which is designed to ensure a safe place and system of work for all Group employees.

6. Prompt Payment of Accounts Act

The policy of An Post is to comply with the provisions of the European Community (Late Payments in Commercial Transactions) Regulations, 2002 and the Prompt Payment of Accounts Act, 1997. The Group's standard terms of credit taken, unless otherwise specified in specific contractual arrangements, are 30 days. Appropriate internal financial controls are in place, including clearly defined roles and responsibilities and monthly reporting and review of payment practices. These procedures provide reasonable but not absolute assurance against material non-compliance with the regulations.

7. Accounting Records

The directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to books of account by engaging accounting personnel with appropriate expertise and by providing adequate resources to the finance function. The books of account of the Company are maintained at the Company's premises at General Post Office, O'Connell Street, Dublin 1.

8. Auditors

In accordance with Section 160(2) of the Companies Act, 1963, the auditors, KPMG, Chartered Accountants, will continue in office.

On behalf of the Board

Margaret McGinley

Chairperson

Donal Curtin

Director

31 March, 2005

Corporate Governance

Corporate Governance

Maintaining high standards of corporate governance continues to be a priority of the directors of An Post. The Department of Finance's Code of Practice for the Governance of State Bodies and the UK Combined Code are the foundations on which their corporate governance policy is based. While the provisions of the Combined Code are of direct relevance only to listed companies, the Board does feel that their application, where possible, assists An Post in its compliance with best corporate governance practice.

In July 2003, the Financial Reporting Council in the UK issued the revised Combined Code on Corporate Governance which superseded and replaced the Combined Code published in 1998. The Board has reviewed the 2003 Combined Code and it is An Post policy to apply all of the relevant main and supporting principles of good governance in the 2003 Combined Code.

The directors are accountable to the shareholders for good corporate governance, and this report addresses how the relevant main and supporting principles of the Code of Best Practice for the Governance of State Bodies and the 2003 Combined Code have been applied within An Post.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to oversee the operation of the Group, to provide leadership to the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board meets on a monthly basis and certain matters are specifically reserved to the Board for its decision.

The specific responsibilities reserved to the Board include: setting Group strategy and approving an annual budget and medium-term projections; reviewing operational and financial performance; approving major capital

expenditure; reviewing the Group's systems of financial control and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the environmental, health and safety performance of the Group; and ensuring that a satisfactory dialogue takes place with shareholders.

The Board has delegated the following responsibilities to management: the development and recommendation of strategic plans for consideration by the Board that reflect the longer-term objectives and priorities established by the Board; implementation of the strategies and policies of the Group as determined by the Board; monitoring of the operating and financial results against plans and budgets; prioritising the allocation of technical and human resources; and developing and implementing risk management systems.

The Roles of the Chairperson and the Chief Executive

The Chairperson leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairperson is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairperson facilitates the effective contribution of all directors and constructive relations between the executive director and the other directors, ensures that directors receive accurate, timely and clear information and manages effective communication with shareholders.

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director

The Board has considered the matter of designating a recognised senior member other than the Chairperson to whom concerns can be conveyed and, in view of the manner of appointment of directors, the shareholding structure and existing Board procedures, has concluded it is not appropriate in the circumstances.

Composition of the Board of Directors

All directors are appointed to the Board by the Minister for Communications, Marine and Natural Resources and their conditions of appointment and fees are set out in writing. Employee directors are elected in accordance with the Worker Participation (State Enterprises) Acts, 1977 to 1993 for a term of four years. The postmaster director is elected in accordance with section 81 of the Postal and Telecommunications Services Act, 1983 for a term of three years. All other directors are appointed for a fixed term, usually five years.

The Board currently comprises seven non-executive directors, the Chief Executive, five employee directors and one postmaster director. The names of the directors together with their biographical details are set out on pages 4 and 5. The positions of Chairperson and Chief Executive are held by different persons. Given its status as a State Company, its shareholding structure and the appointment of the directors by the Minister, the Board believes that the criteria normally used by the board of a listed company in considering the independence of its directors do not apply to the Company. Accordingly, the Board has not evaluated the independence of directors against the criteria set out in the 2003 Combined Code.

Directors have the right to ensure that any concerns they have, which cannot be resolved, about the running of the Group or a proposed action, are recorded in the Board minutes. In addition, upon resignation, a non executive director will be asked to provide a written statement to the Chairperson, for circulation to the Board, if they have any such concerns.

The directors are given access to independent professional advice at the Group's expense, when the directors deem it necessary in order for them to carry out their responsibilities.

Professional Development

On appointment, all new directors take part in an induction programme when they receive information about the Group, the role of the Board and the matters

reserved for its decision, the terms of reference and membership of the principal Board and Board Committees, the Group's corporate governance practices and procedures, including the responsibilities delegated to Group senior management, and the latest financial information about the Group. This will typically be supplemented by meetings with key senior executives. Throughout their period in office, the directors are updated continually on the Group's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Group and the postal industry as a whole by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a director, both in writing and in face-to-face meetings with the Company Secretary. They are also updated on changes to the legal and governance requirements of the Group and upon themselves as directors.

Performance Evaluation

The Board is considering the implementation of a formal process for the annual evaluation of the performance of the Board, its principal Committees, and individual directors in line with the requirements of the 2003 Combined Code and is yet to determine whether such a performance evaluation process is appropriate given the manner of appointment of directors, the shareholding structure and existing Board procedures.

The Company Secretary

The Company Secretary is a full time employee of An Post. The Company Secretary is responsible for advising the Board through the Chairperson on all governance matters. All directors have access to the advice and services of the Company Secretary. The Company's Articles of Association provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Corporate Governance

continued

Information

Regular reports and papers are circulated to the directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the directors from time to time.

The directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives.

Relations with Shareholders

The Board and management maintain an ongoing dialogue with the Company's shareholders on strategic issues.

The Chairperson and the Chief Executive give feedback to the Board on issues raised with them by the shareholders. All directors normally attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

Internal Control

An ongoing process exists for identifying, evaluating and managing the significant risks faced by the Group. This process, which is based on the Combined Code Guidance for directors issued by the Institute of Chartered Accountants in England and Wales (the Turnbull Guidance), is periodically reviewed by the directors and has been in place throughout the accounting period and up to the date the financial statements were approved.

In accordance with the guidance of the Turnbull committee, the directors are responsible for the Group's system of internal control, should set appropriate policies on internal control, should seek regular assurance that will enable them to satisfy themselves that the system is

functioning effectively and should ensure that the system of internal control is effective in managing risks in the manner which it has approved. Such a system is designed to manage rather than eliminate business risks and can provide only reasonable rather than absolute assurance against material misstatement or loss.

The directors have continued to review the effectiveness of the Group's system of financial and non-financial controls during 2004, including operational and compliance controls, risk management and the Group's high-level internal control arrangements. These reviews have included an assessment of internal controls by management, management assurance of the maintenance of controls, reports from the internal auditors and reports from the external auditors on matters identified in the course of its statutory audit work.

The Group views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities. This is done using a simple and flexible framework which provides a consistent and sustained way of implementing the Group's values. These business risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible. The business context determines in each situation the level of acceptable risk and controls.

Management is responsible for the identification and evaluation of significant risks and for the design and implementation of appropriate internal controls. These risks are assessed on an ongoing basis and are derived from a variety of external and internal sources. Management reports regularly to the Board on the key risks inherent in the business and on the way in which these risks are managed. Management also reports to the Board on any significant changes in the Group's business and on any risks associated with such changes. The process used to identify and manage key risks is an integral part of the internal control environment.

The key procedures which the directors have established with a view to providing effective internal control are as follows:

- A clear focus on business objectives as determined by the Board after consideration of the statutory responsibilities and risk profile of the Group's business.
- A defined organisational structure with clear lines of responsibility, delegation of authority and segregation of duties designed to foster a beneficial control environment.
- A risk management process which considers the strategy and development of the business in the context of the annual budget process when financial plans and performance targets are set and reviewed by the Board in light of the Group's overall objectives.
- A reporting and control system which ensures that individual businesses report to the Board on an ongoing basis on their progress in achieving objectives. The system for reporting covers operational and financial performance, occurs on a timely basis and ensures that budgetary variances are examined and addressed promptly.
- An internal audit function which monitors compliance with policies and the effectiveness of internal control within the Group's businesses. The working of the internal audit function is focused on the areas of greatest risk to the Group.
- A Board level committee, the Audit and Security Committee, which approves internal audit plans and deals with significant control issues raised by internal and external auditors.

Attendance at Meetings of the Board, the Remuneration Committee and the Audit and Security Committee

Eleven Board meetings were held during the year ended 31 December 2004 and the attendance record of each director is set out in the following table:

Name	Eligible to attend	Attended
Margaret McGinley	11	11
Patrick Compton	11	9
Jerry Condon	11	11
Donal Curtin	11	11
Patrick Davoren	11	11
Thomas Devlin	2	2
Cathy Herbert	11	10
James Hyland	11	10
Paul Kavanagh	11	10
Terry Kelleher	2	2
Evanne Kilmurray	11	11
Shay Martin	9	7
Alice O'Flynn	11	11
John Quinlivan	11	10
Alan Sloane	11	11
Peter Wyer	11	11

Corporate Governance

continued

Fourteen meetings of the Remuneration Committee were held during the year ended 31 December, 2004 and the attendance record of each director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Margaret McGinley	14	14
Alice O'Flynn	14	13
Peter Wyrer	14	12

Seven meetings of the Audit and Security Committee were held during the year ended 31 December, 2004 and the attendance record of each director, eligible to attend, is set out in the following table:

Name	Eligible to attend	Attended
Patrick Davoren	7	6
James Hyland	5	5
Alice O'Flynn	7	7

Directors' Remuneration

The remuneration of the Chief Executive is determined in accordance with the procedures issued by the Department of Communications, Marine and Natural Resources for determining the remuneration of Chief Executive Officers of Commercial State Bodies under its aegis and is subject to the approval of the Remuneration Committee of the Board of An Post and the Minister for Communications, Marine and Natural Resources. The objective is to maintain the remuneration of the Chief Executive at a level which is attractive to the individual while, at the same time, representing value for money for the Group. A proportion of the Chief Executive's remuneration is performance related and, in this way, is linked to the Group and individual objectives.

Fees for all directors are determined by the Minister for Communications, Marine and Natural Resources with the approval of the Minister for Finance.

Remuneration Committee

The Remuneration Committee is comprised of three non-executive directors. Margaret McGinley acts as Chairperson of the Committee. When necessary, non-Committee members are invited to attend. The Committee's principal responsibilities are:

- to determine, on behalf of the Board, the remuneration and other terms and conditions of employment of the Chief Executive, subject to compliance with Government policy relating thereto;
- to determine, on behalf of the Board, the pay structures and terms and conditions of other senior personnel (as identified by the Chairperson of the Board);
- to be informed of significant developments in industrial relations and to review industrial relations policies to ensure the strategy is consistent with the achievement of the business plan of An Post and, on behalf of the Board, to take decisions on such matters;
- to act, on behalf of the Board, and take all decisions related to pay and pay related matters, as the Chairperson of the Board shall determine;
- to act, on behalf of the Board, and take all significant decisions on matters such as remuneration policy, benefits, staff grading, third party recommendations and related issues.

Audit and Security Committee

The Audit and Security Committee is comprised of two non-executive directors and one employee director. James Hyland was appointed to the Committee, as chairman, on 25 March 2004 and brings to it recent experience in senior finance positions. When necessary, non-Committee members are invited to attend.

Under its terms of reference, the Audit and Security Committee monitors the integrity of the Group's financial statements. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditors. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. As a result of regulatory or similar requirements, it is necessary to employ the Group's external auditors for certain audit related and non-audit services. In order to maintain the independence of the external auditors, the Audit and Security Committee has determined policies as to what audit related and non-audit services can be provided by the Group's external auditors and the approval process related to these services. Under these policies, work of a consultancy nature will not be offered to the external auditors unless there are clear efficiencies and value added benefits to the Group while ensuring that the objectivity and independence of the external auditors is maintained. The Audit and Security Committee monitors the level of fees paid to the external auditors.

The Committee reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

The Committee also assists and, where relevant, makes recommendations to the Board on the discharging of its responsibilities in relation to security.

The Committee meets with management, as well as privately with the external auditors.

In 2004, the Audit and Security Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements prior to Board approval and meeting and reviewing with the external auditors their reports thereon;
- reviewing the appropriateness of the Group's accounting policies
- reviewing the potential impact in the Group's financial statements of significant matters arising during the year;
- reviewing the resources of internal audit, approving the internal audit plans, reviewing internal audit reports and dealing with significant control issues raised by the internal auditors
- reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors
- reviewing the external auditors' plan for the audit of the Group's financial statements, key risks to the business, confirmations of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;
- considering the adequacy of the Group's system of risk identification and assessment;
- reviewing an annual report on the Group's systems of internal control and its effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- reviewing security policies and procedures for the protection of staff and customers and for safeguarding assets and the implementation of and compliance with those policies and procedures.

During the year, the Group introduced procedures ensuring that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action. Reporting channels have been created whereby perceived wrongdoing may be reported via post, telephone and email, anonymously if necessary.

Nomination Committee

As all the authority regarding the appointment of directors is vested with the Minister for Communications, Marine and Natural Resources, with the consent of the Minister for Finance, the matter of constituting a nomination committee is not required to be considered by the Board.

Corporate Governance

continued

Compliance Statement

The directors confirm that the Group has been in compliance with the relevant main and supporting principles of the 2003 Combined Code and Code of Best Practice for the Governance of State Bodies throughout the financial year under review except, as explained above, in relation to the following matters:

- no senior independent director has been identified;
- a formal policy in relation to performance evaluation of Board, Board Committees and directors has yet to be put in place;
- no formal procedures currently exist for non-executive directors to meet with the Chairperson without the executive director present;
- an evaluation of directors' independence against the criteria set out in the 2003 Combined Code has not been carried out;
- non-executive directors do not currently meet to appraise the Chairperson's performance;
- the current procedures ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety were not in place for the full year;
- the division of responsibilities between Chairperson and Chief Executive have yet to be formalised;
- the disclosures made in these financial statements relating to directors' emoluments and pension information are those required under the Irish Companies Acts, 1963 to 2003.

Going Concern

The directors have reviewed the Group's business plan and other relevant information and have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

31 March, 2005

Statement of the Directors on compliance with the European Communities (Postal Services) Regulations 2002 concerning cost accounting systems and with the Regulator's Direction on the Accounting Systems of An Post

Under the European Communities (Postal Services) Regulations, 2002 (the Regulations), the Commission for Communications Regulation, (ComReg), was designated as the national regulatory authority for the postal sector and An Post was designated as a Universal Service provider.

Under those Regulations, the accounting procedures of An Post are required to be conducted in accordance with directions laid down by ComReg and with certain provisions in the Regulations. On 20 September, 2001, ComReg issued a direction to An Post setting out the regulator's detailed requirements in relation to the accounting systems of An Post (the Direction).

The directors acknowledge their responsibility for compliance with the accounting provisions of the Regulations and with the Direction and the following statement describes how An Post applied the relevant provisions of the Regulations and the Direction for the accounting year beginning on 1 January, 2004.

Financial Records and Accounting Systems

The financial records and accounting systems maintained by An Post contain sufficient detail as required by the Direction to enable management to ensure that they comply with the accounting provisions of the Regulations. Separate accounts are maintained for each of the services within the reserved and non-reserved sectors.

Separated Accounts

Segmental profit and loss accounts and statements of net assets are being prepared for submission to ComReg for the year ended 31 December, 2004 within the specified deadline of 19 weeks from the end of the financial year.

Management Accounting Manual

A detailed accounting manual has been prepared showing the range and scope of data to be collected for the purpose of complying with the Regulations and the Direction and the basis on which the data is to be allocated/apportioned between services. The manual was submitted for ComReg's approval in 2003.

The manual reflects the detailed revenue determination and cost allocation and apportionment principles and rules set out in the Regulations and the Direction.

Statement of Compliance

Based on the above steps and actions, the directors believe that An Post has complied with the relevant provisions of the Regulations and with the Direction of ComReg in relation to the Accounting Systems of An Post for the year ended 31 December, 2004.

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

31 March, 2005

Statement of Directors' Responsibilities

Company law in Ireland requires the directors to prepare financial statements for each financial period, in accordance with applicable Irish law and accounting standards, which give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

31 March, 2005

Report of the Independent Auditors to the Members of An Post

We have audited the financial statements on pages 38 to 61.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the annual report. As described on page 34, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the Company's balance sheet is in agreement with the books of account and report to you our opinion as to whether:

- the Company has kept proper books of account;
- the report of the directors is consistent with the financial statements;
- at the balance sheet date, a financial situation existed that may require the Company to hold an extraordinary general meeting on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review, at the request of the directors, whether (1) the voluntary statement on pages 26 to 32 reflects the Group's compliance with the nine provisions of the 2003 Combined Code that the Irish Stock Exchange specifies for review by auditors and (2) the statement on the system of internal control on pages 28 to 29 reflects the Group's compliance with the provision of The Code of Best Practice for the Governance of State Bodies that is specified for review by auditors and we report if those statements do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

Report of the Independent Auditors to the Members of An Post

continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company at 31 December, 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2003 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper returns adequate for our audit have been received from branches of the Company not visited by us. In our opinion, proper books of account have been kept by the Company and the balance sheet of the Company at 31 December, 2004 is in agreement therewith.

In our opinion, the information given in the report of the directors on pages 24 and 25 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 43, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December, 2004 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.



Chartered Accountants

Registered Auditors

1 Stokes Place
St. Stephen's Green
Dublin 2

31 March, 2005

Report of the Independent Auditors to An Post on compliance with the European Communities (Postal Services) Regulations 2002 (the Regulations) concerning cost accounting systems and with the Regulator's Direction

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 33 concerning the Company's compliance, for the year ended 31 December, 2004, with the accounting provisions of the Regulations and with the direction to An Post setting out the Regulator's detailed requirements in relation to the accounting systems of An Post (the Direction), issued on 20 September, 2001 by the postal services regulator, ComReg, in relation to the accounting systems of An Post.

Respective Responsibilities of Directors and Auditors

The directors prepare an annual statement of compliance with the accounting provisions of the Regulation and the Direction for which they are responsible. The objective of our review is to draw attention to non-compliance with the requirements of the accounting provisions of the Regulations and with the Direction.

Basis of Opinion

We carried out our review in accordance with the general principles and guidance of the Auditing Practices Board.

Opinion

Based on enquiry of certain directors and officers of the Company and examination of relevant documents, in our opinion, the directors' statement on page 33 appropriately reflects the Company's compliance, for the year ended 31 December, 2004, with the accounting provisions of the Regulations and with the Direction on the Accounting Systems of An Post, dated 20 September, 2001 issued by ComReg.



Chartered Accountants

1 Stokes Place
St Stephen's Green
Dublin 2

31 March, 2005

Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

1. Basis of Preparation

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board as promulgated by The Institute of Chartered Accountants in Ireland.

2. Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings (except An Post National Lottery Company) made up to the end of the financial year. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to date of disposal. Upon the acquisition of a business, fair values are attributed to the identifiable net assets acquired. Goodwill arising on acquisitions is dealt with as set out below.

If the financial year of a subsidiary undertaking ends at a date more than three months before that of the parent Company, the Group financial statements consolidate interim financial statements prepared by the subsidiary at the end of the parent's financial year.

The sole activity of An Post National Lottery Company is the operation of the National Lottery under licence from the Minister for Finance in accordance with the provisions of the National Lottery Act, 1986 and the surplus generated each year is entirely attributable to the National Lottery Fund which is managed and controlled by the Minister. Accordingly, An Post does not participate in the surplus generated by An Post National Lottery Company and neither is it entitled to exercise any

rights over the assets of that company. On this basis, in accordance with the provisions of Financial Reporting Standard No. 2 'Accounting for Subsidiary Undertakings' and the European Communities (Companies: Group Accounts) Regulations, 1992, the consolidated financial statements do not incorporate the financial statements of An Post National Lottery Company. Separate financial statements of An Post National Lottery Company were published on 10 March, 2005.

Joint venture undertakings (joint ventures) are those undertakings over which the Group exercises control jointly with another party.

Associated undertakings (associates) are those undertakings in which the Group has a participating interest in the equity capital and over which it is able to exercise significant influence.

Joint ventures and associates are accounted for using the gross equity method and equity method respectively. The Group's share of the profits less losses of joint ventures and associates are included in the consolidated profit and loss account. The Group's interests in their net assets or liabilities are included as fixed asset investments in the consolidated balance sheet at an amount representing the Group's share of the fair values of the net assets at acquisition plus the Group's share of post acquisition retained profits or losses.

3. Turnover

Turnover is recognised as services are provided and consist of income from postage, agency services, poundage from remittance services, courier and logistic services, consultancy services, financial services, rents and interest income. Income from agency services is in respect of services performed for Government Departments, the National Treasury Management Agency, An Post National Lottery Company and other bodies.

4. Postage Income

Postage income is recognised in the profit and loss account as sales are made with an adjustment for stamps sold and unused and balances in postage meter machines unused at the year end.

5. Saving Services

The Company operates, on an agency basis and for an agreed remuneration, the Post Office Savings Bank and other savings services for the National Treasury Management Agency, which acts on behalf of the Minister for Finance.

The funds are remitted regularly to the National Treasury Management Agency and the assets and liabilities of such savings services vest in the Minister for Finance and, accordingly, are not included in these financial statements.

6. Grants

Revenue based grants are credited to the profit and loss account to offset the matching expenditure.

Capital grants received and receivable under EU assisted schemes are recognised when received or when their receipt can be foreseen with virtual certainty.

Capital grants are treated as deferred income and amortised to the profit and loss account on a basis consistent with the depreciation policy of the related tangible fixed assets.

7. Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Certain security equipment in sub-post offices and furniture and fittings, together with other minor items, are charged to the profit and loss account in the year in which the expenditure is incurred. All other purchases of tangible fixed assets are capitalised.

Freehold and long leasehold land is not depreciated. Depreciation on other tangible fixed assets is charged to the profit and loss account on a straight line basis so as to write off those assets, adjusted for estimated residual value, over the expected useful life of each category. The remaining useful lives of the assets and their residual values are reviewed on a regular basis.

Depreciation is provided on additions with effect from the first day of the month following commissioning and on disposals up to the end of the month of retirement.

The estimated useful lives are as follows:

	Years
Freehold & long leasehold buildings	20-50
Interest in GPO	50
Motor vehicles	5
Computer & other equipment	4-10

8. Operating Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

9. Goodwill

Goodwill arising on acquisitions, representing the excess of the purchase price over the fair value of the net identifiable assets or liabilities acquired, is capitalised and amortised to the profit and loss account on a straight line basis over its expected useful life of ten years. The carrying value of goodwill is reviewed annually and provision is made for any impairment in value.

Accounting Policies

continued

10. Taxation

Current tax, including Irish corporation tax and foreign tax(es), is provided on the Group's taxable profits, at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries, joint ventures and associates only to the extent that, at the balance sheet date, dividends have been accrued or receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary, joint venture or associate.

11. Pensions

All pension entitlements of staff are funded through either defined benefit or defined contribution superannuation schemes

In accordance with SSAP 24, the regular cost of providing pension benefits under the Group's defined benefit scheme is charged to operating profit over the service lives of the members of the schemes on the basis of a constant percentage of pensionable pay. Variations from regular costs arising from periodic actuarial valuations of the principal schemes are allocated to operating profit over the expected remaining service lives of the members.

Contributions to the defined contribution schemes are charged to operating profit as they fall due.

Retirement gratuities are payable under normal circumstances to postmasters engaged as agents and to certain non-pensionable employees. The costs are dealt with in the profit and loss account so as to spread them over the anticipated years of service with the Group.

12. Foreign Currencies

Transactions denominated in foreign currencies are translated into euro and recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date or at forward purchase contract rates where such contracts exist. All such exchange differences are dealt with in the profit and loss account.

Results of overseas subsidiaries are translated into euro at the average exchange rate for the period. The assets and liabilities of overseas subsidiaries are translated into euro at rates of exchange ruling at the balance sheet date. Translation differences are reported as a movement on reserves.

Consolidated Profit and Loss Account

for the year ended 31 December, 2004

	Notes	2004 €'000	2003 €'000
Turnover – continuing operations	2	750,193	709,209
Operating costs	3	(745,721)	(747,909)
Goodwill amortisation	10	(2,701)	(4,191)
Operating profit/(loss) – continuing operations		1,771	(42,891)
Exceptional item	4	5,298	13,310
Share of losses of joint venture and associate	5	(50)	(113)
Profit/(loss) on ordinary activities before taxation	6	7,019	(29,694)
Tax on profit/(loss) on ordinary activities	7	(503)	(2,355)
Profit/(loss) for the financial year	8/20	6,516	(32,049)
Profit and loss account at beginning of year		99,691	131,740
Profit and loss account at end of year		106,207	99,691

The Group had no recognised gains or losses in the financial year or the preceding financial year other than those dealt with in the consolidated profit and loss account.

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

Consolidated Balance Sheet

at 31 December, 2004

	Notes	2004 €'000	2003 €'000
Fixed Assets			
Intangible assets – goodwill	10	18,393	21,094
Tangible assets	11	229,686	258,908
Financial assets	12	–	(489)
		248,079	279,513
Current Assets			
Debtors	13	82,291	73,348
Cash at bank and in hand	14	89,415	48,017
		171,706	121,365
Creditors: Amounts falling due within one year	15	(153,349)	(159,775)
Net Current Assets/(Liabilities)		18,357	(38,410)
Total Assets less Current Liabilities		266,436	241,103
Creditors: Amounts falling due after more than one year	17	(4,175)	(4,277)
Provisions for Liabilities and Charges	18	(86,938)	(68,019)
Net Assets		175,323	168,807
Capital and Reserves			
Called up share capital	19	68,239	68,239
Capital conversion reserve fund	19	877	877
Profit and loss account		106,207	99,691
Shareholders' Funds – Equity	20	175,323	168,807

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

Company Balance Sheet

at 31 December, 2004

	Notes	2004 €'000	2003 €'000
Fixed Assets			
Tangible assets	11	203,906	230,030
Financial assets	12	13,499	13,499
		217,405	243,529
Current Assets			
Debtors	13	105,553	103,106
Cash at bank and in hand	14	62,916	22,726
		168,469	125,832
Creditors: Amounts falling due within one year	15	(126,546)	(129,482)
Net Current Assets/(Liabilities)		41,923	(3,650)
Total Assets less Current Liabilities		259,328	239,879
Creditors: Amounts falling due after more than one year	17	(3,058)	(3,131)
Provisions for Liabilities and Charges	18	(86,938)	(68,019)
Net Assets		169,332	168,729
Capital and Reserves			
Called up share capital	19	68,239	68,239
Capital conversion reserve fund	19	877	877
Profit and loss account		100,216	99,613
Shareholders' Funds – Equity	20	169,332	168,729

On behalf of the Board

Margaret McGinley
Chairperson

Donal Curtin
Director

Consolidated Cash Flow Statement

for the year ended 31 December, 2004

	Notes	2004 €'000	2003 €'000
Net cash inflow from operating activities (below)		52,258	21,610
Returns on investments and servicing of finance	21	(46)	(104)
Taxation	21	(2,860)	2,468
Capital expenditure	21	(6,116)	(15,223)
Financing	21	-	12,698
Acquisition of subsidiary undertakings	21	(1,838)	(254)
Cash inflow before use of liquid resources		41,398	21,195
Management of liquid resources	21	(46,750)	27,986
(Decrease)/increase in cash in the year		(5,352)	49,181

Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	2004 €'000	2003 €'000
Operating profit/(loss)	1,771	(42,891)
Depreciation	33,861	37,113
Loss/(profit) on sale of tangible fixed assets other than land and buildings	34	(26)
Movement in provisions for liabilities and charges	18,919	(15,151)
Capital grants amortised	(102)	(102)
Goodwill amortised	2,701	4,191
Interest payable	46	104
(Increase)/decrease in operating debtors	(8,241)	5,561
Increase in operating creditors	3,269	32,811
Net cash inflow from operating activities	52,258	21,610

Reconciliation of net cash flow to movement in net funds

	Notes	2004 €'000	2003 €'000
(Decrease)/increase in cash in the year	22	(5,352)	49,181
Cash inflow/(outflow) from change in liquid resources	22	46,750	(27,986)
Change in net funds resulting from cash flows	22	41,398	21,195
Net funds at beginning of year	22	48,017	26,822
Net funds at end of year	22	89,415	48,017

Notes to the Financial Statements

for the year ended 31 December, 2004

1. Status of Company

The Company is a limited liability company, incorporated under the Companies Acts, 1963 to 1983. Under the Postal and Telecommunications Services Act, 1983, the Company is entitled to omit the word 'Limited' from its name.

2. Turnover

	2004	2003
	€'000	€'000

The analysis of turnover is as follows:

Republic of Ireland

Postage: Letters and parcels	517,251	505,829
Postage: Elections and referendum	11,857	-
Post offices: Agency, remittance and other services	135,078	127,214
Other services	42,190	38,257
Interest income	3,429	3,022
	<hr/>	<hr/>
	709,805	674,322

United Kingdom and Other European

Other services	40,388	34,887
	<hr/>	<hr/>
	750,193	709,209

In the opinion of the directors, fuller compliance with the disclosure requirements of SSAP 25 'Segmental Reporting' would be seriously prejudicial to the Group's interests.

3. Operating Costs

	2004	2003
	€'000	€'000

Staff and postmasters' costs (note 9)	502,449	501,141
<i>Other costs</i>		
Distribution	58,779	56,482
Accommodation	25,149	23,903
Operational	84,877	85,718
Administration	40,606	43,552
Depreciation	33,861	37,113
	<hr/>	<hr/>
	745,721	747,909

During the year, the Company announced the integration of its parcels and courier services into its mails business. The planned integration is to be complete in the early part of 2005 and the estimated costs of this restructuring, amounting to €20 million and principally comprising severance costs, are included in operating costs above.

4. Exceptional Item

	2004	2003
	€'000	€'000

Profit on disposal of land and buildings	5,298	13,310
	<hr/>	<hr/>

During the year, the Group made a number of disposals of land and buildings. Capital gains tax arising on these disposals amounted to €373,000. Proceeds outstanding at 31 December, 2004 of €3.0m in relation to the disposals are included in debtors due within one year. The 2003 exceptional item also arises from disposal of land and buildings.

Notes to the Financial Statements

continued

5. Joint Venture and Associate

	2004 €'000	2003 €'000
Share of joint venture's loss before tax (note 24)	(50)	(113)
Share of associate's result before tax	-	-
	<u>(50)</u>	<u>(113)</u>

6. Profit/(Loss) on Ordinary Activities Before Taxation

	2004 €'000	2003 €'000
The profit/(loss) on ordinary activities before taxation is stated after charging:		
Directors' emoluments		
Fees	204	193
Other emoluments	253	273
Pension contributions	60	48
Auditors' remuneration	318	285
Operating lease rentals		
Rental of buildings	7,892	6,822
Other	3,729	4,179
Interest payable on bank facilities repayable within one year and similar charges	46	104
and after crediting:		
Capital grants amortised	102	102
	<u>102</u>	<u>102</u>

The amounts shown above as directors emoluments include only the amounts paid to the directors in the execution of their duties as directors and therefore do not include the salaries of the employee and postmaster directors.

The remuneration package of Mr. Donal Curtin, who was appointed Chief Executive on 14 July, 2003, which is included in the amounts shown above as directors' emoluments, was as follows:

Director's fee	13	5
Basic salary	241	113
Non-pensionable performance related bonus	-	-
Taxable benefits, including the use of a company car	12	5
	<u>266</u>	<u>123</u>
Pension contributions	60	28
	<u>326</u>	<u>151</u>

The remuneration package of the former Chief Executive, who retired on 13 July, 2003, which is included in the amounts shown above was as follows:

Director's fee	-	7
Basic salary	-	148
Non-pensionable performance related bonus	-	-
Taxable benefits, including the use of a company car	-	7
	<u>-</u>	<u>162</u>
Pension contributions	-	20
	<u>-</u>	<u>182</u>

7. Tax on Profit/(Loss) on Ordinary Activities

	2004 €'000	2003 €'000
Current tax		
Ireland – Capital gains tax	373	2,355
Share of joint venture and associate tax charge	-	-
UK – Corporation tax	257	-
	630	2,355
UK – Deferred tax asset recognised	(127)	-
	503	2,355

The current tax charge is lower than the standard rate of corporation tax in Ireland.

The differences are explained below:

Profit/(loss) on ordinary activities before tax	7,019	(29,694)
Current tax of 12.5% (2003: 12.5%)	877	(3,712)
<i>Effects of:</i>		
Expenses not deductible	550	779
Capital allowances in excess of depreciation	(408)	22
Manufacturing corporation tax relief	(29)	(28)
Income taxed at higher rates	409	422
Adjustment to tax charge in prior periods	182	-
Utilisation of tax losses	(729)	(21)
Tax losses not utilised	459	6,146
Profit on asset sales	(671)	(1,664)
Capital gains tax payable	373	2,355
Reversal of timing differences	(383)	(1,944)
Current tax charge	630	2,355

A deferred tax asset of €127,000 has been recognised in respect of PostTS UK. Limited, a subsidiary of An Post, at 31 December, 2004. This asset arises in respect of tax losses forward offset by timing differences and is included in debtors (note 13).

Given the uncertainty over the existence of future taxable profits a further potential deferred tax asset of €10,876,000 (2003: €8,224,000) has not been recognised in the consolidated balance sheet at 31 December, 2003. This deferred tax asset not recognised comprises timing differences on business restructuring, €6,583,000 (2003: €5,016,000) tax losses forward not utilised, €7,974,000 (2003: €7,515,000), offset by timing differences of €3,681,000 (2003: €4,307,000).

8. Profit/(Loss) for the Financial Year

	2004 €'000	2003 €'000
Profit/(loss) after tax in the holding company	603	(32,094)
Profit after tax in subsidiary undertakings	5,963	158
Share of results after tax in joint venture and associate	(50)	(113)
	6,516	(32,049)

A separate profit and loss account for An Post has not been prepared because the conditions laid down in Section 3(2) of the Companies (Amendment) Act, 1986 have been satisfied.

Notes to the Financial Statements

continued

9. Staff Numbers and Costs

	2004	2003
The average number of persons working in the Group during the year was as follows		
Headquarters	578	632
Savings/Remittance services	313	333
Inspection	46	48
Postmen/postwomen	4,600	4,701
Postal sorters	1,297	1,248
Post office clerks	1,110	1,135
Other grades	804	810
Temporary	1,015	937
Total An Post employees	9,763	9,844
Subsidiary companies	600	600
Total Group employees	10,363	10,444
Postmasters: Engaged as agents	1,391	1,501
	2004	2003
	€'000	€'000

The aggregate payroll costs of these persons were as follows

Wages, salaries and postmasters' costs	433,735	430,327
Social welfare costs	26,438	26,875
Other pension costs	42,276	43,939
	502,449	501,141

10. Intangible Fixed Assets – Goodwill

GROUP

	Total €'000
Cost	
At 31 December, 2003 and 2004	28,267
Amortisation	
At 31 December, 2003	7,173
Charged during the year	2,701
At 31 December, 2004	9,874
Net Book Value	
At 31 December, 2004	18,393
At 31 December, 2003	21,094

Additional consideration is payable on acquisitions made in previous years as a result of certain performance targets being achieved as provided for under the terms of acquisition. Consideration outstanding at 31 December, 2004 of €211,000 (2003: €2,079,000) has been included in creditors falling due within one year of the balance sheet date.

11. Tangible Fixed Assets

GROUP

	Freehold & long leasehold land & buildings €'000	Interest in GPO €'000	Motor vehicles €'000	Computer & other equipment €'000	Total €'000
Cost					
At 31 December, 2003	177,728	26,180	37,470	225,434	466,812
Additions	3,108	-	68	2,549	5,725
Disposals	(1,526)	-	(2,165)	(5,693)	(9,384)
Exchange differences	-	-	(1)	(17)	(18)
At 31 December, 2004	179,310	26,180	35,372	222,273	463,135
Accumulated Depreciation					
At 31 December, 2003	28,412	6,913	25,769	146,810	207,904
Charged during year	3,678	634	4,522	25,027	33,861
Eliminated on disposal	(804)	-	(1,901)	(5,606)	(8,311)
Exchange differences	-	-	1	(6)	(5)
At 31 December, 2004	31,286	7,547	28,391	166,225	233,449
Net Book Value					
At 31 December, 2004	148,024	18,633	6,981	56,048	229,686
At 31 December, 2003	149,316	19,267	11,701	78,624	258,908
COMPANY					
Cost					
At 31 December, 2003	157,715	26,180	37,143	203,391	424,429
Additions	2,980	-	21	926	3,927
Disposals	(1,517)	-	(1,937)	(5,308)	(8,762)
At 31 December, 2004	159,178	26,180	35,227	199,009	419,594
Accumulated Depreciation					
At 31 December, 2003	24,274	6,913	25,741	137,471	194,399
Charged during year	3,290	634	4,440	20,831	29,195
Eliminated on disposal	(804)	-	(1,794)	(5,308)	(7,906)
At 31 December, 2004	26,760	7,547	28,387	152,994	215,688
Net Book Value					
At 31 December, 2004	132,418	18,633	6,840	46,015	203,906
At 31 December, 2003	133,441	19,267	11,402	65,920	230,030

Group and Company

The depreciable element of freehold & long leasehold land & buildings amounts to:
Group €153,276,000 (2003: €151,505,000), Company €136,464,000 (2003: €135,156,000).

Notes to the Financial Statements

continued

12 Financial Fixed Assets

	Group		Company	
	2004 €	2003 €	2004 €	2003 €
Shares in subsidiary undertakings, at cost	102	102	13,498,718	13,498,718
Interest in joint venture and associated undertakings	163	(489,000)	163	163
	265	(488,898)	13,498,881	13,498,881

The movements on financial fixed assets were as follows:

Interest in joint venture and associated undertakings

At beginning of year	(489,000)	(375,990)	163	163
Share of result after tax in joint venture	(50,140)	(113,010)	-	-
Write off of interest in joint venture	539,303	-	-	-
At end of year	163	(489,000)	163	163

On 16 March, 2004 the directors of the joint venture undertaking, Wizard Direct Stationery Company Limited, agreed that the company should cease trading on 26 March, 2004.

On 15 March 2005, An Post entered into a conditional agreement for the sale of two subsidiaries, PostTS UK Limited and An Post Transaction Services S.A. The gross consideration before expenses is expected to be in the order of €80m and includes repayment of amounts owed to An Post and other group companies of €16m. The sale will be recognised in the 2005 financial statements. The directors are currently not in a position to reliably estimate the expected profit or any tax charge arising on disposal of these subsidiaries. The consolidated profit and loss account for the year ended 31 December, 2004 includes profit after tax of €3.7m in respect of these companies. Amounts included in the consolidated balance sheet at 31 December, 2004 in respect of these companies amounted to:

	€'000
Intangible fixed assets – goodwill	4,171
Fixed assets	6,475
Other assets and liabilities	4,500
	15,146

Other than as noted above, in the opinion of the directors, the value of the shares, none of which is listed, is not less than their carrying amount.

13. Debtors

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Amounts falling due within one year				
Trade debtors	45,491	41,093	25,973	25,435
Amounts owed by subsidiary undertaking not consolidated	681	915	681	915
Amounts owed by other subsidiary undertakings	-	-	12,670	16,503
Amounts owed by associated undertaking	189	220	189	220
Amounts owed by joint venture	-	18	-	15
Other debtors	1,333	2,582	336	970
Deferred tax asset	127	-	-	-
Prepayments and accrued income	34,470	28,026	30,285	24,872
	82,291	72,854	70,134	68,930
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	-	-	35,419	33,682
Amounts owed by joint venture	-	494	-	494
	82,291	73,348	105,553	103,106

14. Cash at Bank and In Hand

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Cash at bank	48,032	35,218	21,537	9,927
Cash in hand	161,177	203,743	161,173	203,743
	209,209	238,961	182,710	213,670
Term deposits	139,856	93,106	139,856	93,106
Less Amounts held in trust	(259,650)	(284,050)	(259,650)	(284,050)
	89,415	48,017	62,916	22,726

15. Creditors: Amounts falling due within one year

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Trade creditors	54,375	68,449	31,730	45,721
Amounts owed to subsidiary undertakings	-	-	4,866	2,750
Other creditors	4,140	5,155	3,814	4,345
Taxation and social welfare (note 16)	10,114	13,126	9,911	12,347
Accruals	67,218	55,597	58,752	46,900
Deferred income - capital grants (note 17)	102	102	73	73
Deferred postage income	17,400	17,346	17,400	17,346
	153,349	159,775	126,546	129,482

Notes to the Financial Statements

continued

16. Taxation and Social Welfare

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Corporation tax	257	-	-	-
Capital gains tax	(132)	2,355	(132)	2,273
Income tax deducted under PAYE	6,388	7,518	6,105	7,226
Pay related social insurance	4,126	4,532	3,931	4,318
Value added tax	(842)	(1,706)	(308)	(1,768)
Professional services withholding tax	317	427	315	298
	10,114	13,126	9,911	12,347

17. Creditors: Amounts falling due after more than one year

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Deferred income – capital grants	4,175	4,277	3,058	3,131
The movements on grants were as follows:				
At beginning of year	4,379	4,062	3,204	2,858
Received during year	-	419	-	419
Amortised to profit and loss account	(102)	(102)	(73)	(73)
At end of year	4,277	4,379	3,131	3,204
Transferred to creditors amounts falling due within one year	(102)	(102)	(73)	(73)
	4,175	4,277	3,058	3,131

18. Provisions for Liabilities and Charges

GROUP AND COMPANY

	2004 €000	2003 €000
Pensions and similar obligations (note 23)	15,776	14,772
Business restructuring	71,162	53,247
	86,938	68,019

The movements during the year were as follows:

	Pensions and similar obligations €'000	Business restructuring €'000	Total €'000
At beginning of year	14,772	53,247	68,019
Charge for year	2,006	20,000	22,006
Utilised during year	(1,002)	(2,085)	(3,087)
At end of year	15,776	71,162	86,938

The provision for business restructuring at 31 December, 2004 includes €32,116,000 (2003: €34,201,000) in relation to business restructuring redundancy costs, €20,000,000 (2003: nil) in relation to the integration of parcels and courier services (note 3) and €19,046,000 (2003: €19,046,000) in relation to the introduction of an Employee Share Ownership Plan (ESOP). The integration of parcels and courier services is to be completed in the early part of 2005. Other restructuring is anticipated to be completed by 31 December, 2008.

19. Share Capital

GROUP AND COMPANY	2004 €'000	2003 €'000
Authorised:		
80,000,000 Ordinary Shares of €1.25 each	100,000	100,000
Allotted, called up and fully paid:		
At beginning of year 54,590,946 Ordinary Shares of €1.25 each (2003: 44,433,042 Ordinary Shares of €1.269738 each)	68,239	56,418
Transfer to capital conversion reserve fund	-	(877)
Issued during year	-	12,698
At end of year: 54,590,946 Ordinary Shares of €1.25 each	68,239	68,239

On 14 January, 2003 pursuant to Section 26 of the Economic and Monetary Union Act, 1998 the Company's shares were renormalised from €1.269738 to €1.25 per share and an amount of €877,000 was transferred to a capital conversion reserve fund.

On 12 May, 2003 the Company issued 10,157,904 ordinary shares at €1.25 each for cash consideration of €12,698,000. The shares were issued pursuant to Section 31 of the Postal and Telecommunications Service Act 1983.

20. Reconciliation of Shareholders' Funds

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Shareholders' funds at beginning of year	168,807	188,158	168,729	188,125
Share capital issued during year	-	12,698	-	12,698
Profit/(loss) for the financial year	6,516	(32,049)	603	(32,094)
Shareholders' funds at end of year	175,323	168,807	169,332	168,729

The entire shareholders' funds comprise equity interests.

21. Gross Cash Flows

	2004 €'000	2003 €'000
Returns on investments and servicing of finance		
Interest paid	(46)	(104)
Taxation		
Tax (paid)/refunded	(2,860)	2,468
Capital expenditure		
Purchase of tangible fixed assets	(11,340)	(31,053)
Disposal of tangible fixed assets	5,224	15,411
Grants received	-	419
	(6,116)	(15,223)
Financing		
Share capital issued	-	12,698
Acquisition of subsidiary undertakings	(1,838)	(254)
Management of liquid resources (note a)		
(Increase)/decrease in term deposits	(46,750)	27,986

Note a: Liquid resources comprise term deposits with a maturity notice period of more than one day.

Notes to the Financial Statements

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22 Analysis of Net Funds

	At beginning of year €'000	Cash flows €'000	At end of year €'000
Cash at bank and in hand	238,961	(29,752)	209,209
Amounts held in trust	(284,050)	24,400	(259,650)
		(5,352)	
Term deposits	93,106	46,750	139,856
Total	48,017	41,398	89,415

23 Pensions and Similar Obligations

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) below are those required by that standard. FRS 17 (Retirement Benefits) will not be mandatory for the Group until the year ended 31 December 2005. Prior to this, phased transitional disclosures are required by the standard and, to the extent not given in (a) are set out below in (b).

(a) Pension commitments

Pension entitlements of staff are met by payments to externally funded defined benefit or defined contribution superannuation schemes which are vested in independent trustees, appointed by the Company, for the sole benefit of employees and their dependants.

The pension costs of the defined benefit schemes are assessed in accordance with the advice of an independent professionally qualified actuary. The most recent actuarial valuations were carried out at 1 January, 2002 using the attained age method. The valuations showed that the market value of the assets of the schemes was €1,619,000,000 which was sufficient to cover more than 100% of the accrued liabilities, based on current pensionable remuneration, and 100% of the accrued liabilities allowing for expected future increases in pensionable remuneration. The principal actuarial assumption was that, over the long term, the annual rate of return on investments would be 1.5% higher than the annual increase in pensionable remuneration. Contributions to the schemes were at a rate of 14.3% (2003:14.3%) of pensionable remuneration. The actuarial valuations are not available for public inspection but the results of the valuations have been advised to the members of the schemes.

The defined contribution scheme was established for certain employees of An Post's subsidiary undertakings. Employer contributions to this scheme during the year were at rates varying between 5% and 9% of pensionable remuneration.

Retirement gratuities

Retirement gratuities are payable under normal circumstances to postmasters engaged as agents and to certain non-pensionable employees. The cost of providing these benefits is unfunded, but provision is made for the estimated capital cost to the Group of such arrangements based on independent actuarial advice (see note 18). The most recent actuarial valuation was at 1 January, 1997. The principal actuarial assumption was that the annual compound rate of return applied would be 1.5% higher than the annual compound rate of general remuneration growth. The actuarial report is not available for public inspection.

23. Pensions and Similar Obligations *continued*

Amounts in financial statements

The total pension and retirement gratuity cost for the year ended 31 December 2004 was €42,276,000 (2003: €43,939,000) analysed as follows:

	2004 €'000	2003 €'000
Defined benefit scheme	39,723	41,663
Defined contribution scheme	547	502
Retirement gratuity funds	2,006	1,774
	42,276	43,939

An amount of €5,121,000 is included in prepayments (2003: €143,000) representing the difference between the amounts paid directly by the Group on behalf of the defined benefit schemes and the amounts recognised as cost.

An amount of €34,000 is included in accruals (2003: €43,000) representing contributions payable to the defined contribution scheme at 31 December, 2004.

An amount of €15,776,000 (2003: €14,772,000) is included in Provisions for Liabilities and Charges in respect of retirement gratuities payable to postmasters engaged as agents and to certain non-pensionable employees.

(b) FRS 17 Retirement benefits

The valuations of the defined benefit schemes used for the purpose of FRS 17 have been based on the most recent actuarial valuations as identified above and updated by the independent actuaries to 31 December, 2004 to take account of the requirements of FRS 17 in order to assess the liabilities at the balance sheet date. Scheme assets are stated at their market value at the balance sheet date.

The financial assumptions used to calculate the retirement benefit liabilities under FRS 17 were as follows:

	2004 Projected Unit	2003 Projected Unit	2002 Projected Unit
Valuation method			
Discount rate	4.85%	5.25%	5.50%
Inflation rate	2.00%	2.00%	2.00%
Increase to pensions in payment	4.00%	4.00%	4.00%
Pensionable salary increases	4.00%	4.00%	4.00%

Notes to the Financial Statements

continued

23. Pensions and Similar Obligations *continued*

	2004	2003	2002
The long term expected rates of return were:			
Equities	7.30%	7.75%	7.75%
Bonds	3.80%	4.75%	4.75%
Other	4.30%	5.75%	5.75%

The market value of the assets of the superannuation pension schemes at 31 December, 2004, 2003 and 2002 were:

	2004 €'000	2003 €'000	2002 €'000
Equities	1,039,000	957,000	812,000
Bonds	430,000	414,000	422,000
Other	177,000	101,000	109,000
Total market value of pension schemes' assets	1,646,000	1,472,000	1,343,000
Present value of pensions schemes' liabilities	(1,932,000)	(1,652,000)	(1,425,000)
Net deficit in pension schemes	(286,000)	(180,000)	(82,000)
Deferred tax asset	36,000	23,000	10,000
Net pension liability	(250,000)	(157,000)	(72,000)

The following shows the impact if FRS 17 had been fully adopted in the financial statements

	2004 €'000	2003 €'000	2002 €'000
Net assets			
Net assets excluding pension liability	175,323	168,807	188,158
Net pension liability	(250,000)	(157,000)	(72,000)
Net (liabilities)/assets including pension liability	(74,677)	11,807	116,158
Reserves			
Profit and loss reserve excluding pension liability	106,207	99,691	131,740
Net pension liability	(250,000)	(157,000)	(72,000)
Profit and loss (deficit)/reserve including pension liability	(143,793)	(57,309)	59,740

23. Pensions and Similar Obligations *continued*

Had FRS 17 been reflected in the primary financial statements, the following are the amounts that would have been included in the profit and loss account and the statement of total recognised gains and losses:

	2004 €'000	2003 €'000	2002 €'000
Current service cost	(45,000)	(45,000)	(35,000)
Past service cost	-	-	-
Total operating cost	(45,000)	(45,000)	(35,000)

	2004 €'000	2003 €'000	2002 €'000
Interest on scheme liabilities	(87,000)	(78,000)	(80,000)
Expected return on scheme assets	97,000	89,000	115,000
Other finance income	10,000	11,000	35,000

Analysis of the amount that would have been recognised in statement of total recognised gains and losses is as follows:

	2004 €'000	2003 €'000	2002 €'000
Actual return less expected return on scheme assets	85,000	45,000	(394,000)
Experience gains and losses	(65,000)	(79,000)	242,000
Changes in assumptions	(130,000)	(72,000)	(63,000)
Actuarial loss recognised in statement of total recognised gains and losses	(110,000)	(106,000)	(215,000)

Analysis of the movement in the (deficit)/surplus during the year would have been as follows:

	2004 €'000	2003 €'000	2002 €'000
(Deficit)/surplus at beginning of year	(180,000)	(82,000)	95,000
Current service cost	(45,000)	(45,000)	(35,000)
Contributions	39,000	42,000	38,000
Past service costs	-	-	-
Other finance income	10,000	11,000	35,000
Actuarial loss in statement of recognised gains and losses	(110,000)	(106,000)	(215,000)
Deficit at end of year	(286,000)	(180,000)	(82,000)

History of actuarial gains and losses

	2004 €'000	2003 €'000	2002 €'000
Differences between expected and actual return on assets	85,000	45,000	(394,000)
Expressed as a percentage of scheme assets	5%	3%	(29%)
Experience gains and losses on scheme liabilities	(65,000)	(79,000)	242,000
Expressed as a percentage of scheme liabilities	(3%)	(5%)	17%
Total actuarial gains and losses	(110,000)	(106,000)	(215,000)
Expressed as a percentage of scheme liabilities	(6%)	(6%)	(15%)

Notes to the Financial Statements

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24. Subsidiary and Associated Undertakings

<i>Name</i>	<i>Nature of Business</i>	<i>% Holding</i>	<i>Registered Office</i>
<i>Subsidiary undertakings held directly by the Company</i>			
An Post National Lottery Company	Operation of the National Lottery	80%	General Post Office, O'Connell Street, Dublin 1.
Arcade Property Company Limited	Property development and letting	100%	General Post Office, O'Connell Street, Dublin 1.
Post Consult International Limited	Computer software services	100%	General Post Office, O'Connell Street, Dublin 1.
Precision Marketing Information Limited	Provision of marketing data and database services	100%	General Post Office, O'Connell Street, Dublin 1.
Prince's Street Property Company Limited	Property development and letting	100%	General Post Office, O'Connell Street, Dublin 1.
Printpost Limited	High volume printing	100%	General Post Office, O'Connell Street, Dublin 1.
Post.Trust Limited	Digital certification and security services	100%	General Post Office, O'Connell Street, Dublin 1.
JMC Van Trans Limited	Courier and distribution	100%	General Post Office, O'Connell Street, Dublin 1.
Transpost Limited	Courier and distribution	100%	General Post Office, O'Connell Street, Dublin 1.
Waldermar Limited	Courier and distribution	100%	General Post Office, O'Connell Street, Dublin 1.
Kompass Ireland Publishers Limited	Business directory publishers	100%	General Post Office, O'Connell Street, Dublin 1.
An Post Billpost Processing Services Limited	Bill payment processing	100%	General Post Office, O'Connell Street, Dublin 1.
An Post BV	Holding company	100%	Locatellekade 1, Parnassustoren, 1076AZ Amsterdam, The Netherlands
An Post GeoDirectory Limited	Database services	100%	General Post Office, O'Connell Street, Dublin 1.

24. Subsidiary and Associated Undertakings *continued*

<i>Name</i>	<i>Nature of Business</i>	<i>% Holding</i>	<i>Registered Office</i>
<i>Subsidiary undertakings held indirectly through a subsidiary undertaking</i>			
An Post Direct Limited	Financial services	100%	General Post Office, O'Connell Street, Dublin 1.
An Post Direct Management Services Limited	Dormant	100%	General Post Office, O'Connell Street, Dublin 1.
An Post (NI) Limited	Holding company	100%	Stokes House, College Square East, Belfast.
PostTS UK. Limited	Electronic top up	100%	Southmere Court, Electra Way, Crewe, UK.
An Post Transaction Services S.A.	Electronic top up	100%	Luis Buenel, 2 Ciudad de la Imagen, 28223 Pozuelo de Alarcon, Madrid, Spain.
Air Business Limited	Distribution	100%	4, The Merlin Centre, Acrewood Way, St. Albans, Herts, UK.
<i>Associated undertaking held directly by the Company</i>			
The Prize Bond Company Limited	Administration of the Prize Bond Scheme	50%	General Post Office, O'Connell Street, Dublin 1.
<i>Joint Venture</i>			
Wizard Direct Stationery Company Limited	Dormant	50%	General Post Office O'Connell Street, Dublin 1.

PostTS UK. Limited and Air Business Limited are incorporated in and operate in England & Wales. An Post (NI) Limited is incorporated in and operates in Northern Ireland. An Post BV is incorporated in and operates in the Netherlands. An Post Transaction Services S.A. is incorporated in and operates in Spain.

All other undertakings are incorporated in and operate in the Republic of Ireland. All shareholdings consist of ordinary share capital.

An Post National Lottery Company carries on the business of operating the National Lottery under licence from the Minister for Finance in accordance with the provisions of the National Lottery Act, 1986. 20% of the issued share capital is held by the Minister for Finance.

The Prize Bond Company Limited carries on the business of administering the Prize Bond Scheme under contract from the National Treasury Management Agency.

Notes to the Financial Statements

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24. Subsidiary and Associated Undertakings *continued*

The following subsidiaries will avail of the filing exemption available under Section 17 of the Companies (Amendment) Act, 1986, whereby they will annex the financial statements of An Post to their annual returns:

Post Consult International Limited; Printpost Limited; Post.Trust Limited; JMC Van Trans Limited; Transpost Limited; Waldemar Limited; Precision Marketing Information Limited; Prince's Street Property Company Limited; An Post Billpost Processing Services Limited; An Post GeoDirectory Limited and Kompass Ireland Publishers Limited.

25. Lease Commitments

	2004			2003		
	Land & buildings €'000	Other €'000	Total €'000	Land & buildings €'000	Other €'000	Total €'000
Annual commitments under non-cancellable operating leases were as follows:						
Group						
Expiring within one year	733	821	1,554	955	499	1,454
Expiring after one year and before five years	1,071	2,066	3,137	1,141	2,767	3,908
Expiring after five years	5,305	97	5,402	4,687	306	4,993
	7,109	2,984	10,093	6,783	3,572	10,355
Company						
Expiring within one year	496	805	1,301	570	488	1,058
Expiring after one year and before five years	608	1,861	2,469	664	2,553	3,217
Expiring after five years	4,801	97	4,898	4,400	306	4,706
	5,905	2,763	8,668	5,634	3,347	8,981

Lease commitments of the Company include commitments to subsidiary undertakings.

There were no material finance lease commitments either at 31 December, 2004 or which were due to commence after that date.

26. Capital Commitments

Future capital expenditure approved by the directors but not provided for in the financial statements was as follows:

	Group		Company	
	2004 €'000	2003 €'000	2004 €'000	2003 €'000
Contracted for	2,263	1,538	2,263	1,538
Authorised but not contracted for	491	1,324	491	1,324
	2,754	2,862	2,754	2,862

27. Related Party Disclosures and Controlling Party

Transactions with related undertakings

An Post National Lottery Company

The Group provides An Post National Lottery Company, an undertaking not consolidated, with management and delivery services. Such services are carried out on an arm's length basis or, where appropriate, in accordance with the terms of the licence granted by the Minister for Finance to operate the National Lottery. The Company also provides agency services to An Post National Lottery Company whereby the Company makes sales and pays prizes on behalf of An Post National Lottery Company in accordance with the standard terms and conditions and remuneration structure common to all of An Post National Lottery Company's agents. Group turnover for the year includes €6,334,000 (2003: €5,939,000) in respect of services provided to An Post National Lottery Company. These amounts are inclusive of a management fee of €2,998,000 (2003: €2,993,000) payable to the Company in accordance with the terms of the licence to operate the National Lottery.

The costs of staff working in An Post National Lottery Company are recharged from An Post at cost and amounted to €4,725,000 for the year ended 31 December, 2004 (2003: €4,662,000).

The amount owed by An Post National Lottery Company to the Company was €681,000 at 31 December, 2004 (2003: €915,000).

An Post has agreed to guarantee the performance by An Post National Lottery Company of its obligations under the licence for the holding of the National Lottery granted by the Minister for Finance. An Post has provided the guarantee, the maximum liability of which amounts to €10 million, for the duration of the seven year licence to 31 December, 2008.

The Prize Bond Company Limited

Under the terms of a contract with The Prize Bond Company Limited, the Company carries out certain aspects of the administration of the Prize Bond Scheme. Fees earned by the Company in respect of such services amounted to €1,685,000 for the year ended 31 December, 2004 (2003: €1,707,000). The amount owed by The Prize Bond Company Limited to the Company was €189,000 at 31 December, 2004 (2003: €220,000).

Controlling party

The Group was controlled throughout the year by the Minister for Communications, Marine and Natural Resources who holds the entire issued share capital of An Post except for one ordinary share which is held by the Minister for Finance.

Transactions with Government departments and other State bodies

The Group provides, in the ordinary course of business, postage, agency, remittance and courier services to various Government departments and other State bodies.

28. Contingencies

GROUP AND COMPANY

There were no contingent liabilities or guarantees at 31 December, 2004 in respect of which material losses are expected.

29. Board Approval

The financial statements were approved by the Board of Directors on 31 March, 2005.

Five Year Financial Summary

CONSOLIDATED PROFIT & LOSS ACCOUNT

	2004 €'000	2003 €'000	2002 €'000	2001 €'000	2000 €'000
Turnover	750,193	709,209	683,716	624,924	572,908
Operating costs	(748,422)	(752,100)	(701,112)	(631,611)	(563,128)
Operating profit/(loss)	1,771	(42,891)	(17,396)	(6,687)	9,780
Exceptional items	5,298	13,310	(52,500)	-	34,560
Share of results of joint venture and associate	(50)	(113)	(376)	-	-
Profit/(loss) before taxation	7,019	(29,694)	(70,272)	(6,687)	44,340

CONSOLIDATED BALANCE SHEET

	2004 €'000	2003 €'000	2002 €'000	2001 €'000	2000 €'000
Fixed assets	248,079	279,513	301,305	248,241	207,165
Net current assets/(liabilities)	18,357	(38,410)	(25,606)	48,788	93,447
Other liabilities	(91,113)	(72,296)	(87,541)	(38,609)	(37,025)
	175,323	168,807	188,158	258,420	263,587
Capital and reserves	175,323	168,807	188,158	258,627	263,969
Minority interests - equity	-	-	-	(207)	(382)
	175,323	168,807	188,158	258,420	263,587

RATIOS

	2004	2003	2002	2001	2000
Operating profit/(loss) as % of turnover	0.24%	(6.05%)	(2.5%)	(1.07%)	1.71%
Operating profit/(loss) as % of average shareholders' funds	1.03%	(24.03%)	(7.79%)	(2.56%)	4.11%
Staff and postmasters' costs as % of operating costs	67.13%	67.00%	68.59%	69.75%	68.89%
Current assets as % of current liabilities	111.97%	75.96%	83.03%	131.04%	163.14%

Operational Statistics

MAIL

	2004	2003	2002	2001	2000
Traffic index (1999 = 100) (note 1)	115.2	115.5	115.1	113.0	107.8
Tariff index (1999 = 100) (note 2)	114.3	108.6	103.4	100.0	100.0
Tariff index adjusted for inflation (1999 = 100) (note 2)	93.3	90.6	89.2	90.3	94.7
Letter Post items delivered (millions)	757.2	742.3	790.6	779.8	733.6
Letter Post items per capita	187.4	186.6	201.8	203.1	193.7

Note 1: This index excludes traffic from Elections, Referenda, Flotations and Foreign Administrations in each year.

Note 2: This index reflects changes to published tariffs for all weight steps and it covers all services. It is adjusted for inflation by dividing by the Consumer Price Index.

SYSTEMSIZE

	2004	2003	2002	2001	2000
No. of delivery points (millions)	1.765	1.685	1.598	1.482	1.410
Post office network:					
Company post offices	90	92	96	96	97
Sub-post offices	1,365	1,417	1,584	1,687	1,817
Postal agencies	159	149	86	-	-
	1,614	1,658	1,766	1,783	1,914
Other company premises	62	62	58	54	52
No. of motor vehicles	2,908	3,011	2,917	2,901	2,643

PERSONNEL (Staff numbers at 31 December)

	2004	2003	2002	2001	2000
Headquarters	567	588	675	626	611
Savings/Remittance services	299	327	340	357	351
Inspection	45	47	49	51	63
Postmen/postwomen	4,520	4,680	4,722	4,427	4,486
Postal sorters	1,313	1,281	1,215	1,104	1,137
Post office clerks	1,094	1,126	1,145	1,136	1,204
Other grades	790	817	803	744	734
Temporary	1,019	1,010	864	1,085	635
Total An Post staff	9,647	9,876	9,813	9,530	9,221
Total An Post staff (FTE) ¹	9,164	9,411	9,416	n/a	n/a
Casual staff (FTE) ²	358	386	349	n/a	n/a
Overtime hours (FTE) ³	1,918	2,121	2,813	n/a	n/a
Grand Total (FTE)	11,440	11,918	12,578	n/a	n/a
Subsidiary companies	577	622	577	309	235
Postmasters Engaged as agents	1,365	1,417	1,584	1,687	1,751

1 FTE = Full time equivalent

2 Weekly average

3 Overtime hours converted to basic hours in FTE

n/a Data not available pre-2002

Operational Statistics

continued

	2004 €m	2003 €m	2002 €m	2001 €m	2000 €m
VALUE OF SAVINGS SERVICES FUNDS <i>at 31 December (Note 1)</i>	5,311	5,004	4,794	4,806	4,998
COUNTERS: Business Value					
Postal Services					
Sales of postage stamps (note 2)	137	132	121	113	109
Remittance Services					
Postal money orders issued	496	564	619	666	575
Post Office Savings Services					
Savings bank deposits	812	792	746	624	401
Savings bank withdrawals	645	621	590	498	354
Savings certificates issued	417	347	217	211	208
Savings certificates repaid	881	757	611	648	579
Instalment savings issued	72	67	63	68	61
Instalment savings repaid	131	134	147	136	105
Savings bonds issued	505	469	263	233	243
Savings bonds repaid	329	360	332	461	533
Pensions, Allowances and Social Welfare Benefits					
Child benefits paid	1,101	1,101	1,016	707	488
Unemployment benefits paid	1,069	1,042	990	847	814
Old age pensions paid	1,195	1,140	1,083	983	888
Widows/orphans pensions paid	815	766	726	652	589
Other allowances	2,228	2,167	2,060	1,828	1,751
Other					
Miscellaneous	2,969	2,316	1,679	1,275	1,091
	2004 000's	2003 000's	2002 000's	2001 000's	2000 000's
BILLPAY VOLUMES	23,329	21,238	17,533	13,730	12,232
TV LICENCE SALES	1,241	1,176	1,167	1,097	1,057

Note 1: The assets and liabilities of the Savings Services vest in the Minister for Finance and, accordingly, are not included in the financial statements of the Company.

Note 2: This figure represents only sales of stamps for cash across the counter. The balance of mails service income is made up of postage meter machines and other bulk payment arrangements.



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